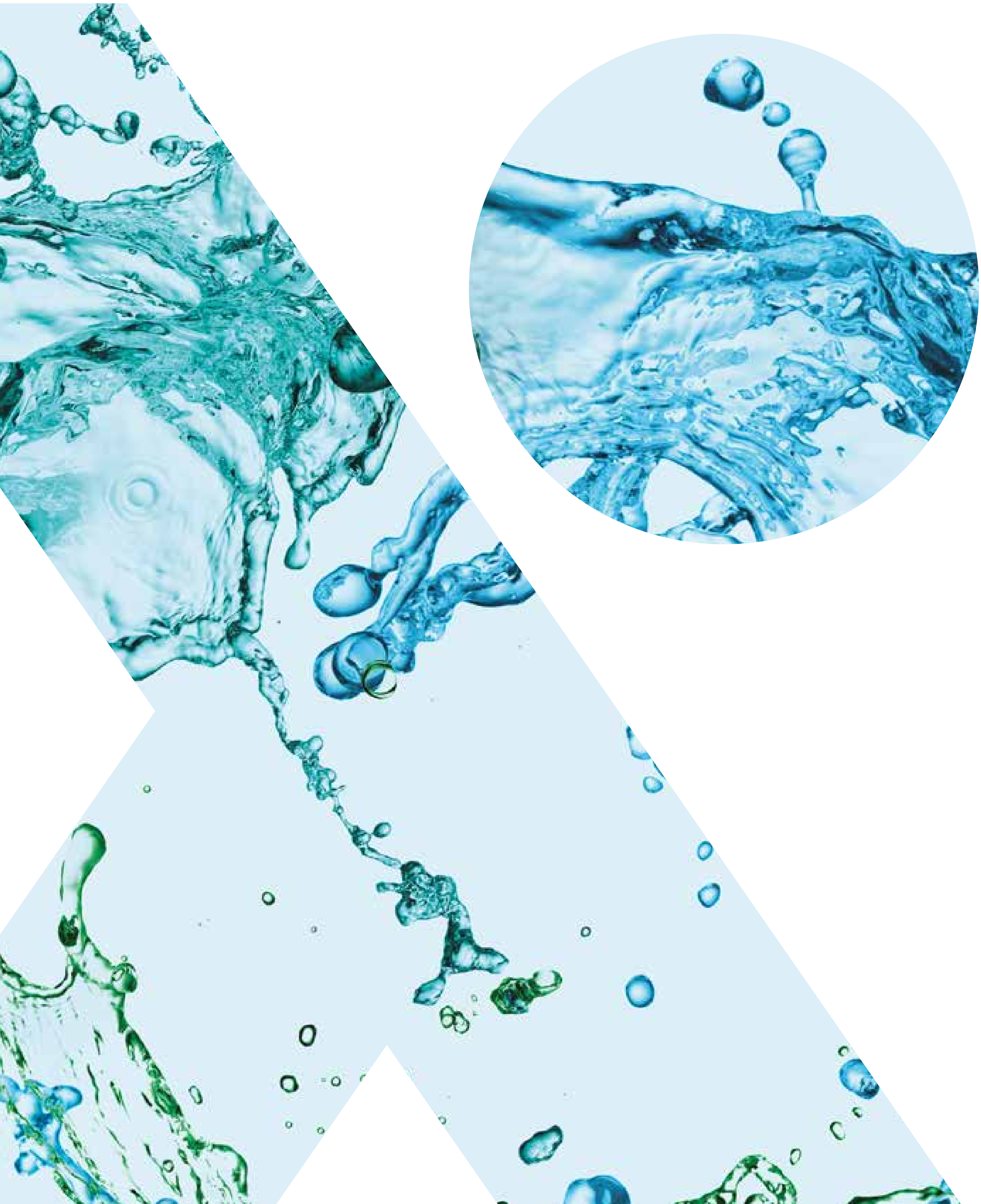
Annual report for the year ended
31 December 2019

XEROS TECHNOLOGY GROUP



Xeros Technology Group plc

Our inventions deliver much needed sustainability in water intensive processes both in industry and the home.

www.xerostech.com

Highlights

Group highlights

- Licensing model implemented and operating from a reduced cost base
- Acceleration of licensing agreements
- First joint development agreement in micro-plastic filtration
- Whilst some delays from Covid-19 pandemic, demand for Xeros' products to endure
- Adjusted EBITDA* loss reduced by 24% to £14.4m (2018: £19.0m)
- Net cash outflow from operations reduced by 36% to £14.1m (2018: £22.1m)
- Additional £6m raised in May 2020

* Adjusted EBITDA is defined as loss on ordinary activities before interest tax, share-based payment expense, exceptional costs, depreciation and amortisation.

- **Apparel**
  First licensing agreement signed in this market with leading garment finishing equipment company in South Asia, Ramsons Garment Finishing Equipments Limited.
- **Commercial laundry**
  First XOrb/XDrum commercial washing machine units produced by market leading Jiangsu SeaLion Equipment Company in China. License agreement signed with IFB Industries in India.
- **Domestic laundry**
  First licensing agreement for this market signed with IFB Industries in India.
- **Filtration of micro-plastics**
  First joint development agreement signed with one of the world's leading commercial laundry solution providers.

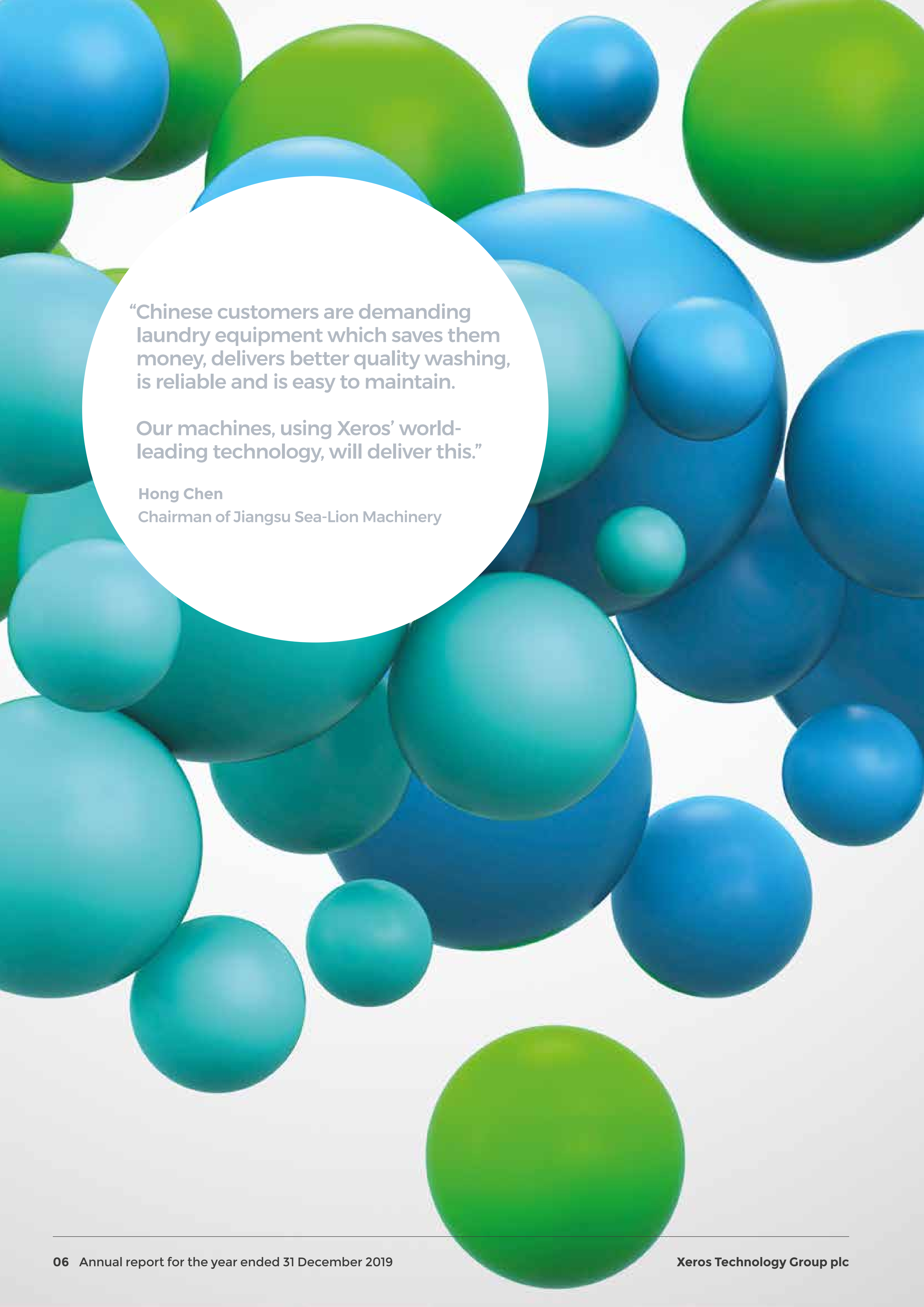
Our products help achieve multiple UN Sustainable Development Goals including 6. CLEAN WATER, 13. CLIMATE ACTION and 14. LIFE BELOW WATER

OUR PURPOSE

XEROS TECHNOLOGIES

"Ramsons focus is to develop innovative, sustainable equipment used in apparel production. Our tie-up with Xeros is a big step towards our vision for a sustainable future – giving back to Mother Earth what we have been taking from her."

Sunder Belani
MD Ramsons Garment Finishing Equipments Pvt Ltd



"Chinese customers are demanding laundry equipment which saves them money, delivers better quality washing, is reliable and is easy to maintain.

Our machines, using Xeros' world-leading technology, will deliver this."

Hong Chen
Chairman of Jiangsu Sea-Lion Machinery

Klaas de Boer
Chairman

Dear Shareholder,

"It was the best of times, it was the worst of times, ..." neatly summarises the situation I find myself in this somewhat surreal Easter weekend under lock-down, as I am reflecting on what to write for my first annual report statement as Chairman. The whole world has changed in the three months since I joined the Board as Chairman in January and the near-term outlook remains highly uncertain. Yet I am convinced that the longer-term outlook for the Company remains as strong as ever.

Xeros Technology Group has made excellent progress during the year and I will touch upon some of the highlights below. David Armfield, my predecessor, the rest of the Board and the executive team should take great credit for that. However, before discussing last year's achievements, I must first address the potential impacts of the Covid-19 pandemic and how these may affect our business.

As one would expect, in the short term, the Company is taking all possible steps to protect and ensure the continued safety of its own employees, those of its partners, but also to act in the interest of society at large. These social distancing and other measures put in place will cause certain delays, but the company continues to execute against the agreements with its partners to the extent possible. On top of that, the Company is taking appropriate measures to manage its expenditure and extend its cash reach.

It is too early to tell how society will revert to a "new normal", and what that "new normal" will mean for the Company. Under nearly all scenarios, the medium to longer term prospects for the Company remain very strong, as the secular trends driving the adoption of the Company's technologies are here to stay, and the company's extensive patent estate reaches into the second half of the 2030s. The apparel industry will continue to be under pressure to improve its sustainability, which is one of the main reasons why Entrepreneurs Fund stepped up its investment in November. Demands for a more responsible stewardship of planet Earth's limited resources will continue; Xeros addresses these by extending garment life and by saving water and energy. And finally, governments will increasingly restrict microplastic pollution, as evidenced by France's recent announcement mandating filtration devices from 2025. Domestic laundry is globally the single largest source of micro plastics pollution.

During the past 12 months, we materially completed our transition to an asset light technology licensing business by materially exiting all direct business operations and announced a number of significant new licensing agreements. In November 2019 we raised £5.0m before fees and with the announcement in April of a further £6.0m raised, this brings the total raised in the last 6 months to £11.0m providing the funding required to execute current contracts and agreements and also to add to these in other targeted geographies.

In terms of new agreements, in 2019 we signed our second contract in commercial laundry to license our technology in India and our first contract in the domestic laundry market, also in India. The Company also signed a Joint Development Agreement for domestic laundry with one of the world's largest appliance manufacturers in China. This momentum has continued into 2020 with the signing of our first licensing contract in the apparel market in South East Asia, and with our first agreement in the area of filtration in commercial laundry. All of our partners are market leaders in their respective fields and geographies.

With the transition complete, the cost base now commensurate with an IP licensing business, 4 licensing agreements signed and 2 JDAs in place the Company is very well positioned for the future. The focus this year will be on supporting our partners in adopting our technology into their products and taking it to market. In parallel the company will seek to bring further partners on board.

Finally, I would like to thank our investors who have been supportive of Xeros since its inception in 2006, and to welcome those who have given us their support more recently. And to the employees of Xeros whose dedication and tireless efforts have brought along the Company's transition to a point where we can now rapidly scale.

Klaas de Boer
Chairman
15 May 2020

"We urgently need to rethink our relationship with fashion. Innovative solutions, such as those offered by Xeros, are urgently needed to reduce the damage being caused to the environment and improve the sustainability of the industry I've served for 25 years."

Krishan Hundal
former Head of Technology and Procurement, Marks & Spencer

Mark Nichols
Chief Executive Officer

Strategy execution

In 2019 we materially completed our planned migration to that of an asset-light company with a strategy of licensing our extensive intellectual property ('IP') portfolio. Our IP is comprised of know-how, trademarks and nearly 40 patent families, either granted or in application, covering inventions which dramatically improve the performance, economics and sustainability of water and energy intensive industrial and domestic processes. Our IP transforms and creates new value in two areas of significant size and importance: firstly, in the global scale industries of finishing, dyeing and cleaning of garments and fabrics and secondly, in the reduction of the largest source of primary microplastic pollution which results from these processes.

Xeros has developed two proven proprietary product platforms, firstly, XOrbs™ that are used within XDrums™ for the finishing, dyeing and cleaning of garments and fabrics. Working in combination they deliver major improvements in sustainability, at a reduced cost, whilst often improving process outcomes. One example being that clothes and fabrics washed in a Xeros-enabled washing machine look better and last longer and need less ironing than those washed using conventional technologies. The XDrum design is a simple and inexpensive enhancement to conventional machines currently used in these applications. The second platform product is XFiltra™ which reduces the largest source of primary microplastic pollution which is created from the washing of clothes and fabrics. This form of plastic pollution is now ubiquitous in our rivers, oceans and food chains.

At a time when OEMs ('Original Equipment Manufacturers') face increasing demands from both regulators and consumers to reduce resource consumption and pollution, Xeros' platform products enable them to take material steps to meeting these demands, whilst simultaneously lowering costs. As a result, licensees of Xeros' innovations and their customers will enjoy significant benefits.

During the reporting period, our licensing progress accelerated with the Company winning a number of new long-term license contracts. In India we signed a license agreement with a leading OEM in the field of commercial laundry. Also in India we were awarded our first licensing contract in the domestic laundry market and, in March 2020 we signed our first licensing agreement for garment finishing applications. In addition, we signed a joint development agreement ('JDA') with one of the world's largest domestic laundry machine manufacturers in China. Finally, in April 2020 we signed our first JDA with a major commercial laundry solutions provider with the objective of installing our XFiltra product across their range of commercial washing machines.

Our business model is to license our innovations to leading OEMs, under long term commercial arrangements, in exchange for royalties. For finishing, dyeing and commercial laundering of garments and fabrics, royalties are to be received for each XDrum machine sold by OEM licensees as well as a royalty for the ongoing use of XOrbs by their customers. For XDrum machines sold into the domestic market, royalties are to be received for each machine sold by OEMs with a similar model envisaged for sales of our XFiltra products when they enter the market. Where appropriate, we look to receive upfront payments from development partners and licensees for access to our technology and for exclusivity, if granted. We also seek to agree contractual minimums in terms of XDrum machine volumes.

Our transition to a license model has been enabled by the knowledge, certifications and accreditations accumulated by our direct participation in commercial laundry and specialist cleaning markets, mainly in the US. With these in place and a physical presence no longer required, in August 2018 we commenced a programme to exit all direct operations in these markets. This programme is now materially complete with the Company having sold the vast majority of its commercial laundry contracts and their obligations to former channel partners, with the servicing of the few still retained undertaken by third parties. As at the date of this report the company is in the process of fulfilling the closing conditions for the sale of the two remaining sites of Marken which serves the US firefighter market. In September 2019, Xeros licensed its IP in leather tanning and sold the brand name "Qualus" to ESTR Ltd, a company established by the former management team. Following these exits, our organisation has reduced from 150 to close to 50 personnel at the end of March 2020. These remaining employees are dedicated to winning, implementing and executing license contracts in our chosen markets.

As a result of the planned exits from direct business operations, revenue from continuing operations reduced in 2019 to £1.8m from £2.7m in the previous year. Going forward, we expect our license revenues to grow starting towards the end of 2020 in accordance with the contracts we have won and to be supplemented by others we anticipate winning in the future. The nature of these contracts is that they are high margin reflecting return on our intellectual property as opposed to margins on physical goods sold.

In 2019, we continued to file key patents and ended the year with nearly 40 patent families either granted or in application. Our key patent families extend into the mid to late 2030s providing security for all current and future licensees of our products.

At the time of publishing this report, much of the world is trying to understand and respond to the consequences of Covid-19. The impact on individuals, families, all forms of government and enterprises, as well national and global economies, is unprecedented. It is impossible at present to predict the longer term effects of the Covid-19 pandemic. Few, if any, industries and countries have been unaffected, including those of our license partners, and so some delays in our future revenues are inevitable. We assume that revenue delays will be commensurate with the periods of substantial lock-down in these countries, which, in the case of India, could be 3 months or more.

We currently have no reasons to believe that there will be broader impacts on the Company given that our commercial agreements are long term and the demand for products from the markets they address, such as clothing and washing machines, are unlikely to reduce in the medium to long term. Our inventions also address the secular demands of increasing sustainability and reducing costs which will continue to be placed upon our licensees and their customers. In summary, whilst it is hard for anyone to judge, we believe that demand for our products and what they deliver will continue to be needed after the impacts of Covid-19 have run their course.

The total of £11.0m of funding received, before fees, from investors in November 2019 and in May 2020 enables the Company to execute its licensing strategy with a strong balance sheet.

Operational review

Commercial markets

Apparel

In 2016, we commenced a development and patenting programme to address the demands for greater sustainability and cost reduction confronting the apparel industry. The apparel industry is the second largest consumer of water globally after agriculture. Our XOrb/XDrum products are capable of not only reducing water consumption in garment dyeing and finishing, but also significantly reducing the volume of chemistry used, and effluent produced, in these processes. Following trials in 2019 with leading manufacturers and brands, which validated the performance of our products, Xeros signed in March 2020, its first licensing agreement in this market with Ramsons Garment Finishing Equipments Limited ('Ramsons'), a leading full range supplier of equipment solutions to the apparel industry in South and East Asia.

Denim finishing, which is applied to an estimated 1.2bn pairs of jeans produced annually across the world, is the first application to be addressed under the agreement with Ramsons. Entry to the market in India and South Asia is expected in late 2020, assuming Covid-19 delays are not substantially more than 3 months. To date, three denim finishing XDrum machine prototypes have been developed in close collaboration between Xeros and Ramsons at 500, 2,000 and 5,000 litre capacity, with cycle development and testing now also having commenced on the largest of these.

Our plan is to expand geographically once the technology is adopted and working well in South Asia. Further apparel applications in development by the Company include garment dyeing and the finishing of non-denim garments. 2020 is the year to establish a solid platform of market validation and acceptance ahead of growth in 2021 and beyond.

Commercial laundry

In 2019, we completed the development of the XOrb/XDrum product designs for commercial washing machines. The first units were produced by Jiangsu SeaLion Technology Development Company ('SeaLion'), in China in September. SeaLion's plan is to complete production-line engineering in the first half of 2020 ahead of broader customer trials and sales later in the year.

Following the signing of a licensing agreement covering India and other nearby territories, IFB Industries Limited ('IFB') have produced a prototype XDrum machine upon which testing will take place ahead of adapting their production line. The timing of IFB's market entry is expected to be similar to that of SeaLion.

During the period of our ownership of Marken we obtained market acceptance and independent verification of the efficacy of the cleaning and garment life extension capabilities of our technology for expensive and life protecting personal protective equipment ('PPE'). The ability, in specialist cleaning, to effectively remove harmful substances such as heavy metals and asbestos from these types of garments, was further demonstrated by the garment fleet management company Georges SAS in France. Georges is now using Xeros technology to serve SNCF, PSA Peugeot Citroen, Air France and the Paris fire brigade as well as cleaning the PPE of those working on the Notre Dame and Eiffel Tower restoration projects.

With the pending sale of Marken and following the sale of the majority of our direct customer contracts in the US, Xeros now has minimal direct physical involvement in the commercial laundry industry. We currently retain a small number of direct customers in the UK and it is our intention to transfer these to third party partners in 2020. Our licensees are now responsible for manufacturing XDrum washing machines and the sales of these along with a "closed-loop" supply of XOrbs to their customers. 2020 is planned to be a year of establishing our XOrb/XDrum products in the Indian and Chinese commercial laundry market with 2021 targeted for high margin growth in these countries with additional license agreements to be developed and signed for other key territories.

Tanning

In September 2019, Xeros spun out its tanning business and sold its "Qualus" brand name to ESTR Ltd ('ESTR'), a company formed by the former management team. Having proven out its process in multiple trials in Europe and Latin America and won its first contract with Le Farc SA de CV in September 2018, ESTR plans to raise equity to fund its expansion. As announced in September, Xeros provided a capped convertible loan facility to ESTR to fund the business to December 2019. On the basis of prudence, the Directors have decided to make a full provision against this loan in the event that ESTR is unable meet its obligations under their contract with the Company.

Domestic markets

Domestic laundry

Xeros signed its first license agreement for its XOrb/XDrum technologies for use in domestic washing machines with IFB in April 2019. IFB, a leading appliance manufacturer in India, plans to bring Xeros-enabled domestic machines to market in 2021. Xeros-enabled products make garments look better for longer whilst reducing water, energy and detergent bills. Reducing water consumption in India is a national objective with 12% of its 1.3 billion population having no access to clean water. Prototype machines have now been produced ahead of moving to testing prior to production prototyping which is required for the manufacturing process.

In January 2019, we signed a joint development agreement with one of the world's largest domestic washing machine manufacturers, Wuxi Little Swan Company Limited, a subsidiary of Midea Group. With feasibility studies now complete, prototype machines have been produced for a testing programme to be completed ahead of entering commercial discussions later in 2020.

Filtration

In line with Xeros' mission to improve the sustainability and environmental impact of water intensive processes, we materially completed the development of our proprietary filtration device, XFiltra, which is designed to prevent microplastics being released into wastewater from domestic and commercial laundry cycles. Plastic released from synthetic clothing during washing is the largest source of primary microplastics entering our oceans every year. We also completed internal studies of microplastic emissions from our own XOrb/XDrum machines when compared to conventional machine cycles. These confirm that, without the addition of any filtration, Xeros' XDrum machines produce significantly less microplastic pollution due to their reduced water consumption and gentler, but highly effective, mechanical action.

We also witnessed strong evidence that regulatory demand for microplastic filtration will become widespread. In February 2020 France became the first country in the world to mandate the fitting of microplastic filters in all domestic washing machines sold in the country from 2025.

XFiltra, which was featured on BBC television in March 2019, captures up to 99% of microplastic fibres released from a load of laundry. In March 2020 the Company signed its first joint development agreement with one of the world's leading commercial laundry equipment manufacturers. Following the successful completion of the joint development programme they intend to incorporate XFiltra within their full product range.

Intellectual property

The IP rich and asset light commercialisation business model that we now have in place is founded upon a strong and defendable patent portfolio which provides freedom to operate and protection for us and for our license partners. Our products are protected by close to 40 patent families which are in application or have been granted with key patent lives extending through mid to late 2030s. The Company policy is to file its patents in countries with large potential markets and where it believes it can successfully defend its intellectual property. In overall terms, our core patents are filed in countries which represent 90% of global GDP. Whilst we do not expect historical levels of new patent filings to continue, we will continue to selectively make applications based upon their ability to secure future high margin license revenue.

In order to have the financial capacity to defend its patent portfolio, the Company carries significant levels of patent defence and litigation insurance. To date, the Company has not identified any infringements of intellectual property that could materially affect future revenues.

Outlook

2019 was a pivotal year in creating the platform for Xeros to become a world leader in the sustainability of water intensive processes both in industry and the home. We are now a low-cost, licensing organisation focussed upon executing the contracts we have won and winning others in our targeted markets and geographies. Consequently, whilst the impacts of Covid-19 may cause a temporary delay in some areas, we anticipate 2020 being the year we create the platform for substantial future growth.

In November 2019 we raised £5.0m, before expenses, in order to continue and expand the commercialisation of our proprietary products with leading OEMs. At the time, we identified that we believed that we required £10m in total to enable the execution of our strategy and April's announcement of a further £6.0m equity raise completes this funding requirement.

Overall, the Group is trading in line with the Board's expectations.

Mark Nichols

Chief Executive Officer

15 May 2020

Chief Financial Officer's review

Paul Denney
Chief Financial Officer

Financial review

Group revenue from continuing operations was generated as follows:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Machine sales	**652**	1,058
Service revenue	**1,018**	1,616
Consumables	**21**	12
Licensing revenue	**123**	–
Total revenue	**1,814**	2,686

Group revenue reduced by 32.5% to £1.8m in the year ended 31 December 2019 (2018: £2.7m). This revenue reduction of £0.9m arises from the sale of the majority of the US Hydrofinity commercial washing machine contracts to third party channel partners.

After a sale process which began in 2019, following the period end the Group announced the sale of the four Marken specialist cleaning sites in North America, in line with previously communicated Group strategy. Consequently, in the year ended 31 December 2019 the revenue of £0.8m (2018: £0.9m) and the operating loss of £3.0m (2018: £1.9m) related to Marken has been shown as a discontinued operation (see note 8).

As at 31 December 2018, the Group's Hydrofinity business reported a total revenue generating estate of 397 machines. In August 2019 the Group announced the sale of the lease contracts for 164 machines to Wash IQ and ELS in North America. In addition, a further 168 machines were sold to other channel partners or direct to customers in exchange for one-off payments during the year, leaving a balance of 65 revenue generating machines at 31 December 2019. In line with previously communicated strategy, the Group intends to sell this balance of machines to channel partners or customers during 2020. Going forward, all new XDrum commercial washing machines will be sold by regional license partners in exchange for royalty payments.

The disposal of these Hydrofinity customer contracts resulted in the reduction of continuing operations service revenue by 37.0% to £1.0m (2018: £1.6m) and the reduction of continuing operations machine revenue by 38.3% to £0.7m (2018: £1.1m). The Group recognised £0.1m (2018: nil) of license revenue from license partners and the Group expects this revenue to grow as a proportion of revenue as license partners bring XDrum machines to market in future years.

The Group reduced its adjusted EBITDA loss on continuing operations by 24.2% to £14.4m (2018: loss £19.0m).

Gross loss on continuing operations was £0.3m (2018: £5.2m). This loss reflected the on-going cost of servicing North American Hydrofinity customers prior to the sale of the customer contracts to channel partners. In the year to 31 December 2018 the Group reported adjusted gross profit of £0.2m before an exceptional charge of £5.4m related to the write down of Hydrofinity commercial washing machine inventory.

Adjusted gross profit/loss and adjusted EBITDA are considered the key financial performance measures of the Group as they reflect the true nature of our continuing trading activities. Adjusted gross profit is defined as gross profit before exceptional cost of sales items. Adjusted EBITDA is defined as the loss on ordinary activities before interest, tax, share-based payment expense, non-operating exceptional costs, depreciation and amortisation.

Administrative expenses, before exceptional items, reduced by 25.6% to £15.5m (2018: £20.9m). This reduction reflects the reduction in headcount during the year with the average number of employees in the year to 31 December 2019 falling by 28.8% to 114 (2018:160).

Exceptional administrative expenses of £1.3m are included in total administrative expenses (2018: £2.5m). There is an exceptional loss on sale of £1.3m for lease receivables following the sale of the US Hydrofinity lease estate during the year. As part of the deal the Group sold the rights to future contractual cashflows to third parties and as such a loss on sale was recognised on completion.

Total administrative expenses, after exceptional items, reduced by 28.2% to £16.8m (2018: £23.4m).

The Group reported an operating loss of £17.1m (2018: loss £28.6m), a reduction of 40.2%. The loss per share was 6.53p (2018: loss 28.24p). Xeros expects cash utilisation to further reduce as the Group benefits from a reduced direct cost base resulting from its move to a full licensing business model.

A charge of £1.5m against the loan issued to ESTR Ltd, relating to a provision made against amounts loaned as part of the spin out of the Qualus division, is included within financing expenses. The Directors believe that this loan may be irrecoverable and therefore a full provision against this amount has been made.

Net cash outflow from operations reduced to £14.1m (2018: £22.1m) from a combination of a reduced cash used in operations, £13.8m (2018: £22.6m), cash used in discontinued operations of £1.2m and the receipt of £0.9m R&D tax credits from HMRC relating to 2018. Cash utilisation was in line with the Board's expectations.

The Group had existing cash resources as at 31 December 2019 of £5.6m (2018: £16.0m) and remains debt free. Group cash as at 31 March was £3.1m and the Group completed a £6.0m equity placing to strengthen the balance sheet in May 2020.

Paul Denney

Chief Financial Officer

15 May 2020

Principal activity

Xeros Technology Group plc (LN: XSG) possesses two platform technologies which are deployed in water intensive industrial and commercial processes.

Xeros' patented XOrb technologies significantly reduce the amount of water used in the washing or dyeing of soft substrates such as garments and fabrics. They enable the remaining water to become far more efficient and effective in either affixing or removing molecules, the result being improvements in economic, operational, product and sustainability outcomes. The Group is applying its technology in the fields of garment and fabric cleaning, leather tanning and apparel manufacturing. XOrbs are applied in these fields using Xeros' XDrum technology, a patented, simple, low cost machine drum design which enables them to be introduced into and subsequently removed from process cycles. The design provides Original Equipment Manufacturers with the ability to easily incorporate the Company's XOrb technology into their products.

XFiltra is a patented filtration technology which is designed to prevent harmful microplastics generated by washing cycles from being released into the aqua cycle. Plastics released from synthetic clothing during washing cycles is the single largest sources of primary microplastic pollution.

The Company is incorporated and domiciled in the UK.

Business model

A description of the Group's activities and how it seeks to add value are included in the Chairman's statement, Chief Executive Officer's review and Chief Financial Officer's Review on pages 7 to 14.

Business review and results

A review of the Group's performance and future prospects is included in the Chairman's statement, Chief Executive Officer's review and Chief Financial Officer's review on pages 7 to 14. The loss for the year attributable to equity holders was £20.6m (2018: £29.4m). The Directors do not recommend the payment of a dividend (2018: nil).

Key performance indicators

As the Group is in the process of development and commercialisation, the Directors consider the key quantitative performance indicator to be the level of cash and deposits held in the business of £5.6m (2018: £16.0m). The Board performs regular reviews of actual results against budget, and monitors cash balances on a regular basis to ensure that the business has sufficient resources to enact its current strategy. Certain qualitative measures, such as the performance of commercial initiatives, are also monitored on a regular basis. The Board will continue to review the KPIs used to assess the business as it grows.

Key risks

The Board carefully considers the risks facing the Group and endeavours to minimise the impact of those risks. The key risks are as follows:

Intellectual property

The Group's success will depend in part on its ability to maintain adequate protection of its intellectual property, covering its processes and applications. The intellectual property on which the Group's business is based is a combination of patent applications and proprietary know-how. No assurance can be given that any pending patent applications or any future patent applications will result in granted patents, that any patents will be granted on a timely basis, that the scope of any patent protection will exclude competitors or provide competitive advantages to the Group, that any of the Group's patents will be held valid if challenged, or that third parties will not claim rights in, or ownership of, the patents and other proprietary rights held by the Group.

There can be no assurance that others have not developed or will not develop similar products, duplicate any of the Group's products or design around any patent applications held by the Group. Others may hold or receive patents which contain claims having a scope that covers products developed by the Group (whether or not patents are issued to the Group). In addition, no assurance can be given that others will not independently develop or otherwise acquire substantially equivalent techniques or otherwise gain access to the Group's unpatented proprietary technology or disclose such technology or that the Group can ultimately protect meaningful rights to such unpatented technology.

Any claims made against the Group's intellectual property rights, even without merit, could be time consuming and expensive to defend and could have a materially detrimental effect on the Group's resources.

Third party intellectual property

Although the Board believes that the Group's current products, products in development and processes do not infringe the intellectual property rights of any third parties, it is impossible to be aware of all third party intellectual property. No assurance can be given that third parties will not in the future claim rights in or ownership of the patents and other proprietary rights from time to time held by the Group.

Research and development risk

The Group is involved in complex scientific areas and new product development. There is no guarantee that the Group will be successful in its research and product development. Some of the Group's technology and intellectual property portfolio is at an early stage of commercial development. The Group may not be able to develop and exploit its technology sufficiently to license its technologies. Furthermore, the Group may not be able to develop new applications or identify additional specific market needs that can be addressed by the Group's technology.

Risk of competing technology

There is a risk that technological advances in competing technology and/or the lower cost of such technology may impede the commercial exploitation of the Group's technology.

Acceptance of the Group's products

The success of the Group will depend on the market's acceptance of, and attribution of value to, its core technologies and the benefits of incorporating the same into various applications. There can be no guarantee that this acceptance will be forthcoming, that an acceptable value will be placed upon such technology or that the Group's core technology will succeed as an alternative to other applications.

Commercialisation risk

The Group has, and will continue to, enter into arrangements with third parties in respect of the development, production and commercialisation of products based on its technology. The Group's negotiating position in agreeing terms of either joint development, licensing, service or supply arrangements may be affected by its size and limited cash resources relative to potential development partners with substantial cash resources and established levels of commercial success. An inability to enter into or renew such arrangements on favourable terms, if at all, or disagreements between the Group and any of its potential partners could lead to delays in the Group's commercialisation strategy.

Early stage of operations

Whilst the Group has made initial limited licensing agreements and product sales, it is still at an early stage of development. There are a number of operational, strategic and financial risks associated with such early stage companies. In particular, the Group's future growth and prospects will depend on its ability to develop and license products and services for applications which have sufficient commercial appeal, to manage growth and to continue to develop operational, financial and quality control systems on a timely basis, whilst at the same time maintaining effective cost controls. Any failure to develop operational, financial and management information and quality control systems in line with the Group's growth could have a material adverse effect on its business, financial condition and results of operations.

The Group is currently loss making and there can be no certainty that the Group will achieve increased or sustained revenues, profitability or positive cash flow from its operating activities within the timeframe expected by the Board or at all. The development of the Group's revenues is difficult to predict and there is no guarantee that it will generate any material revenues in the foreseeable future. The successful commercialisation of the Group's technology may rely, in part, on the ability of the Group to raise further finance. While the Group has been successful to date in raising funds as required, there can be no guarantee that a future fundraise will be successful.

Competition risk

There is a risk that technological advances in competing technology and/or the lower cost of such technology may impede the commercial exploitation of the Group's technology. This would have a significant adverse effect on the Group's business.

Third party risk

The majority of products incorporating the Group's technology are in the early to mid-stages of being produced on a fully commercial scale. As a result, the Group is dependent on its commercial partners to demonstrate the ability to scale up such production. Failure to operate production at an increased capacity may have a material adverse effect on the growth of the Group's business and its financial position.

The Group is dependent on a limited number of key suppliers in relation to the production of its polymer based XOrbs. Should any such key supplier cease to deal with the Group for any reason and/or materially and adversely change the terms upon which it deals with the Group, difficulties may be experienced by the Group in sourcing alternative suppliers on acceptable terms. Any such disruption to the Group's supply arrangements may have a material adverse effect on the growth of the Group's business and its financial position.

Dependence on key executives and personnel and the ability to attract and retain appropriately qualified personnel

The Group's future success is substantially dependent on the continued services and performance of its Executive Directors and senior management and its ability to attract and retain suitably skilled and experienced personnel. The Group cannot give assurances that members of the senior management team and the Executive Directors will continue to remain within the Group. Finding and hiring any such replacements could be costly and might require the Group to grant significant equity awards or other incentive compensation, which could adversely impact its financial results.

Economic conditions, current economic weakness and geopolitical risks

Any economic downturn either globally or locally in any area in which the Group operates may have an adverse effect on the demand for the Group's products. A more prolonged economic downturn may lead to an overall decline in the volume of the Group's sales, restricting the Group's ability to generate a profit.

As a UK domiciled business, the Group is exposed to the risks associated with the UK's decision to leave the EU ("Brexit"). Brexit could adversely affect the UK (and potentially European and worldwide) economic and market conditions, which could adversely impact the performance of the Group. The Board expects future revenues from the commercialisation of its technology in the EU to be in the form of royalties on its intellectual property. The international patent laws that apply to the protection of intellectual property are not affected by the status of the UK's membership of the EU and therefore the Board do not view Brexit as posing a material risk to the Group's future revenues.

Current travel restrictions and the associated disruption of Covid-19 are causing a significant level of economic uncertainty on a global basis. A prolonged period of disruption may have a negative impact upon the Group's ability to work closely with international license partners.

The Group operates or is seeking to develop its operations in several geographic regions and countries, some of which are categorised as developing and, as a result, is exposed to a wide range of political, economic, regulatory, social and tax environments. These environments are subject to changes in a manner that may have a material adverse for the Group, including changes to government policies and regulations governing import and export controls, tariffs, subsidies, income and other forms of taxation (including policies relating to the granting of advance rulings on taxation matters), repatriation of income, royalties, the environment, labour and health and safety. The geopolitical risks associated with operating in a variety of regions and countries, if realised, could affect the Group's operations and could have a material adverse effect on the Group's business, financial condition or results.

Foreign exchange risk

Given the international nature of its business, the Group is exposed to foreign exchange risk arising from the normal conduct of its activities. The Board regularly reviews this foreign exchange risk and all forward currency purchases of foreign currency are reviewed and approved within the framework of an agreed risk policy.

Future developments

Future developments are described in the Chairman's statement, Chief Executive Officer's review and Chief Financial Officer's review on pages 7 to 14.

On behalf of the Board

Mark Nichols

Chief Executive Officer

15 May 2020

Directors' report

The Directors hereby present their annual report and audited consolidated and parent company financial statements for the year ended 31 December 2019.

Share capital and funding

Full details of the Group and Company's share capital movements during the year are given in note 20 of the financial statements.

Directors and their interests

The following Directors held office during the period and up to the date of signing this report:

Klaas de Boer	appointed 13 January 2020
David Armfield	
Mark Nichols	
Paul Denney	
John Samuel	resigned 12 February 2019
Dr Richard Ellis	resigned 28 June 2019
David Baynes	appointed 12 February 2019

Directors' interests in the shares of the Company, including family interests are included in the Directors' Remuneration Report on pages 20 to 22.

Directors' indemnity insurance

The Group has maintained insurance throughout the year for its Directors and officers against the consequences of actions brought against them in relation to their duties for the Group.

Profile of the current Directors

Klaas de Boer, Chairman

Klaas joined Xeros as Chairman in January 2020. He has served as Managing Partner of Entrepreneurs Fund since 2008. Klaas holds numerous board positions with international companies including SmartKem, General Fusion and Vasopharm. Klaas began his career with McKinsey & Company before transitioning to venture capital with Baan Investment more than 20 years ago. He holds an MSc in Applied Physics from Delft University of Technology and an MBA from INSEAD. Klaas is Chair of the Nominations Committee.

Mark Nichols, Chief Executive Officer

Mark joined Xeros as Chief Executive Officer in September 2015. Mark has held senior executive positions in business development, finance and operations with Global enterprises including Total, Laing O'Rourke and BOC. These roles were undertaken in the US, Asia and Europe. Prior to joining Xeros, Mark led a number of technology start-ups in the cleantech arena. Mark is a qualified accountant.

Paul Denney, Chief Financial Officer and Company Secretary

Paul joined Xeros as Chief Financial Officer in October 2016. He established his career in financial management with US-based IT outsourcing business, Electronic Data Systems Inc. (now part of Hewlett Packard), working in the UK, Spain and Latin America. His two most significant recent roles before joining Xeros were within high growth environments at Experian plc and at Callcredit Information Group. Paul is a qualified accountant and has an MBA from the London Business School.

David Armfield, Senior Independent Director

David joined Xeros in July 2018. His background is in corporate finance, having previously worked for Lehman Brothers as its Co-Head of European Industrial Coverage. He has also served as a partner at PwC, and as the firm's National Head of Industrial Products. He is the Founding Partner and Director of Kinetix Critchleys Corporate Finance, which provides advisory services to companies in the Clean Technology and Resource Efficiency industries. David is Chair of the Remuneration Committee.

David Baynes, Non-Executive Director

David joined Xeros in February 2019. He was appointed to the Board of IP Group plc in March 2014 following the acquisition of Fusion IP plc, where he was Chief Executive Officer and one of the founders. David has been a board director of Fusion IP plc since 2004, having been a director of Fusion IP Trading since 2003. Previously David worked at Celsis International plc from its incorporation to its flotation on the full list of the London Stock Exchange in July 1993; Toad plc (now 21st Century Technology plc, which he also co-founded where he was responsible for taking the company from start-up to a full listing on the London Stock Exchange. David was also CFO of Codemasters Limited, which at the time was the UK's largest privately held games company. David is chair of the Audit Committee.

Substantial shareholders

As at 31 March 2020, shareholders holding more than 3% of the share capital of Xeros Technology Group plc were:

Name of shareholder	Number of shares	% of voting rights
Entrepreneurs Fund LP	224,253,474	28.6
IP Group plc	105,763,129	13.5
Canaccord Genuity	58,500,000	7.5
Schroder Investment Management	33,947,693	4.3
Walker Crips Investment Management	29,098,300	3.7
Hansa Capital	25,000,000	3.2

Employment policies

The Group supports employment of disabled people where possible through recruitment, by retention of those who become disabled and generally through training, career development and promotion.

The Group is committed to keeping employees as fully informed as possible with regard to the Group's performance and prospects and seeks their views, wherever possible, on matters which affect them as employees.

Statement as to disclosure of information to the auditor

The Directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. Each of the Directors have confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Auditor

The board will put Grant Thornton UK LLP forward to be re-appointed as auditor by the shareholders and a resolution concerning their appointment will be put to the forthcoming AGM of the Company.

On behalf of the Board

Mark Nichols

Chief Executive Officer

15 May 2020

Unit 2, Evolution
Advanced Manufacturing Park
Whittle Way, Catcliffe
Rotherham
S60 5BL

It is the Company’s policy that Executive Directors should have contracts with an indefinite term providing for a maximum of six months’ notice. In the event of early termination, the Directors’ contracts provide for compensation up to a maximum of basic salary for the notice period.

Non-executive Directors are employed on letters of appointment which may be terminated on not less than one months’ notice.

Companies with securities listed on AIM do not need to comply with the UKLA Listing Rules. The Remuneration Committee is however committed to maintaining high standards of corporate governance and disclosure and has applied the guidelines as far as practical given the current size and development of the Company.

Remuneration Committee

The Remuneration Committee consists of David Armfield as Chairman, Klaas de Boer and David Baynes.

The Remuneration Committee will review and make recommendations in respect of the Directors’ remuneration and benefits packages, including share options, and the terms of their appointment. The remuneration committee will also make recommendations to the Board concerning the allocation of share options to employees under the share incentive schemes. The Remuneration Committee will meet at least once a year.

The main elements of the remuneration packages for Executive Directors and senior management are:

Basic annual salary (including Directors’ fees)

The base salary is reviewed annually from the beginning of each calendar year. The review process is undertaken by the Remuneration Committee and takes into account several factors, including the current position and development of the Group, individual contribution and market salaries for comparable organisations.

Discretionary annual bonus and Deferred Annual Bonus Plan

All Executive Directors and senior managers are eligible for a discretionary annual bonus which is paid in accordance with a bonus scheme developed by the Remuneration Committee. This takes into account individual contribution, business performance and commercial progress, along with financial results.

The Group previously had a Deferred Annual Bonus plan (the “DAB Plan”). Under the terms of the DAB Plan Directors and senior managers will be given the opportunity to defer up to 50% of any gross cash annual bonus in exchange for a nominal cost share option over ordinary shares in the Company (the “Deferred Award”), which can be exercised after 3 years (or earlier if the participant ceases employment). The number of ordinary shares comprising the Deferred Award (i.e. subject to the option) will be calculated by dividing the amount of the cash bonus deferred by the closing market value of the ordinary shares of the Company on the dealing day immediately prior to the date of grant of the award. By participating in the DAB Plan Directors and senior managers will be entitled to receive a matching award at no additional cost (the “Matching Award”). The Matching Award will also be a nominal cost option over ordinary shares in the Company. The number of ordinary shares comprising the Matching Award will be equivalent to two times the number of ordinary shares received in the Deferred Award. Participants will not be entitled to receive the Matching Award until the vesting date is reached which is three years from the date of grant of the award. The vesting of a Matching Award will be subject to performance conditions which will be determined by the Remuneration Committee. The first awards under the DAB Plan took place early in 2015 following confirmation of bonuses for the calendar year 2014 and further awards were made in early 2016 following confirmation of bonuses for the calendar year 2015, in early 2017 following confirmation of bonuses for the calendar year 2016 and in early 2018 following confirmation of bonuses for the calendar year 2017.

Following confirmation of bonuses for 2019, Executive Directors will commute two thirds of their bonus award into either shares in the company or share options.

Share incentive schemes

The Group operates share option plans, under which certain Directors’ and senior management have been granted options to subscribe for ordinary shares. All options are equity settled. The options are subject to service and performance conditions, have an exercise price of between 0.15 pence and 305.00 pence and the vesting period is generally 1-3 years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Remuneration Policy for Non-Executive Directors

Remuneration for Non-Executive Directors is set by the Chairman and the Executive Members of the Board. Non-Executives do not participate in bonus schemes.

Directors' remuneration

The remuneration of the main Board Directors' of Xeros Technology Group plc who served from 1 January 2019 (or date of appointment if later) to 31 December 2019 (or date of resignation if earlier) was:

	Salary and fees £'000	Bonus Payments £'000	Benefits £'000	Total Year ended 31 December 2019 £'000	Total Year ended 31 December 2018 £'000
John Samuel (note 1)	**12**	**–**	**–**	**12**	62
Mark Nichols (note 2)	**286**	**16**	**2**	**304**	300
Paul Denney (note 2)	**201**	**34**	**1**	**236**	213
Julian Viggars (note 3)	**–**	**–**	**–**	**–**	12
Dr Richard Ellis (note 4)	**15**	**–**	**–**	**15**	30
Stephen Taylor (note 5)	**–**	**–**	**–**	**–**	22
David Armfield (note 6)	**57**	**–**	**–**	**57**	18
David Baynes (note 7)	**18**	**–**	**–**	**18**	–
Total	**589**	**50**	**3**	**642**	657

Note 1: John Samuel resigned as a director on 12 February 2019.

Note 2: In addition to the remuneration above, certain Directors hold employee share scheme interests in the company. Fair value share-based payment charges recognised in the consolidated statement of profit or loss and other comprehensive income attributable to these Directors are: Mark Nichols £149,211 (2018: £404,967) and Paul Denney £117,358 (2018: £253,634). Paul Denney has provided a commitment to the Board that two-thirds of the post-tax annual bonus amount will be used to purchase Group shares.

Note 3: Julian Viggars resigned as a director on 23 May 2018.

Note 4: Dr Richard Ellis resigned as a director on 28 June 2019.

Note 5: Stephen Taylor resigned as a director on 19 September 2018.

Note 6: David Armfield was appointed as a director on 5 June 2018.

Note 7: David Baynes was appointed as a director on 12 February 2019.

Directors' shareholdings

The interests of the Directors holding office at 31 December 2019 in the shares of the Company, including family interests were:

	Ordinary shares of 0.15p each	
	2019 Number	**2019 %**
David Armfield	5,000,000	0.64
Mark Nichols	5,500,000	0.70
Paul Denney	5,500,000	0.70
David Baynes	–	–

Directors' interests in share options

Directors' interests in share options, for Directors who held office at any point during the period, granted under either the Xeros Technology Group plc Enterprise Management Incentive Share Option Scheme or the Xeros Technology Group plc Unapproved Share Option Scheme, to acquire ordinary shares of 0.15 pence each in the Company at 31 December 2019 were:

	At 1 January 2019	Granted during the period	Exercised during the period	Forfeited/ lapsed during the period	At 31 December 2019	Exercise price
John Samuel (note 1)	81,300	–	–	–	81,300	0.15p
Mark Nichols (note 2)	1,250,000	–	–	–	1,250,000	225.0p
Mark Nichols (note 3)	48,471	–	–	–	48,471	0.15p
Mark Nichols (note 4)	250,000	–	–	–	250,000	210.0p
Mark Nichols (note 5)	500,000	–	–	–	500,000	225.0p
Mark Nichols (note 6)	4,504	–	–	–	4,504	0.15p
Paul Denney (note 4)	500,000	–	–	–	500,000	210.0p
Paul Denney (note 5)	300,000	–	–	–	300,000	225.0p

Note 1: There were employment period and performance conditions in relation to the 81,300 options granted on 25 March 2014 which allowed for vesting in three equal proportions on or after the Company's share price reaching 184.5 pence per share, 246 pence per share and 307.5 pence per share. As at the 31 July 2015 the performance conditions had been met. The 81,300 options lapsed on 7 February 2020.

Note 2: There were employment conditions in relation to 1,000,000 options granted on 12 November 2015 which allowed for vesting in 3 annual instalments between 14 September 2016 and 14 September 2018, and a further 250,000 options granted on 16 December 2015 which allowed for vesting in 3 annual instalments between 16 December 2016 and 16 December 2018.

Note 3: There were employment conditions in relation to 34,188 options granted on 20 January 2016 which allowed for vesting on 20 January 2019 and a further 14,283 options granted on 27 January 2017 which allowed for vesting on 27 January 2020.

Note 4: There were employment conditions in relation to 750,000 options granted on 25 January 2017 which allowed for vesting in 3 annual instalments between 25 January 2018 and 25 January 2020.

Note 5: There were employment conditions in relation to 800,000 options granted on 18 January 2018 which allowed for vesting in 3 annual instalments between 18 January 2019 and 18 January 2021.

Note 6: There are no performance conditions attached to 4,504 options grated on 26 January 2018 which vested immediately upon grant.

On behalf of the Board

David Armfield

Chairman of the Remuneration Committee

15 May 2020

Corporate governance report

Corporate governance

In April 2018, the Quoted Companies Alliance released a new version of its Code for Small and Mid-sized quoted companies (the 'Code'). The Board fully supports the underlying principles contained within the Code, has reviewed the Code in detail and has adopted the code in full. The responsibility for ensuring compliance and accurate reporting of Corporate Governance resides with the Board. Corporate Governance will be continually monitored and reviewed by the Board at least annually, as part of the Annual Report and Accounts process each year.

The Board set out their view on compliance with the corporate governance principles as detailed in the Code below:

Principle One: Establish a strategy and business model which promote long-term value for shareholders

The Group's strategy is to be an IP-rich, capital-light licensor of water saving solutions and filtration technologies to multiple scale industries. Given the scale of the markets in which the Group operates, the strategy is to commercialise the Xeros technology with partners who already have strong market positions and who also demonstrate a strategic intent to deliver increased levels of sustainability. The strategic report in this Annual Report and Accounts sets out this strategy in more detail.

Principle Two: Seek to understand and meet shareholder needs and expectations

The Group remains committed to an ongoing dialogue with shareholders to ensure that its strategy, direction and performance are clearly understood. Understanding the opinion of analysts and investors in the Group, and, as result, helping our business be better understood, is a crucial objective for the Group and the Group actively seeks to engage in this area.

Private shareholders

The AGM is the key forum for dialogue between retail shareholders and the Board. The Notice of Meeting is sent to shareholders at least 21 days before the meeting. The chairs of the Board and the Executive Directors routinely attend the AGM and are available to answer questions raised by shareholders. For each vote, the number of proxy votes received for, against and withheld is announced at the meeting. The results of the AGM are subsequently published on the Group's website.

Institutional shareholders

The Directors seek to build long-term relationships with institutional shareholders. These relationships are primarily managed by the Chief Executive Officer and the Chief Financial Officer. This process includes presentations to institutional shareholders and analysts following the release of the full-year and interim results, alongside other meetings as appropriate.

The Board as a whole is updated on these relationships, including any views or concerns held by shareholders, by the Executive Directors on a regular basis. Analyst reports are also circulated to the Board as and when they are produced. In addition, two major shareholders are represented on the Board.

Principle Three: Take into account wider stakeholder and social responsibilities and their implications for long-term success

The Board believes that the long-term success of the Groups is reliant on good relationships with a wide variety of stakeholders, both internal and external to the Group. The Board is regularly updated on key stakeholder engagement by the Executive team and through other members of senior management, who manage stakeholder relationships where appropriate.

Employees

The Group is committed to employee engagement, as the knowledge, skill and application of its employees is the defining factor in the long-term success of the Group. The Group takes the employee value proposition seriously, engaging with employees to establish what is important to them, through direct feedback and ongoing dialogue. The annual performance review cycle is key to the Group, ensuring that staff are given the necessary support in their development throughout the year, as well as allowing the senior management team to get feedback at a one to one level.

Suppliers

The Group has relationships with key suppliers which are managed closely by relevant senior management to ensure ongoing supply of products which are crucial to the Group. The Board are actively updated on supplier relationships on a regular basis.

Licensees

As the medium and long-term strategy of the business evolves into the IP-rich, capital-light licensor of water saving solutions, relationships with licensees become longer-term and more co-operative. These key relationships are managed by the appropriate members of the Group's senior management, with Board support where necessary. The Board are updated on key relationships on a regular basis.

Principle Four: Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Group has established a framework of internal controls which the Directors believe to be appropriate for the size and operations of the Group. This framework is reviewed by the Executive team, the Audit Committee and the Board on an ongoing basis.

The Board is responsible for reviewing and approving overall Group strategy, approving Group budgets and determines the financial structure of the Group. Monthly results, including variances and commentary are reported to the Board on a regular basis.

The Audit Committee assists the Board in discharging its duties regarding the financial statements, accounting policies and the maintenance of proper internal business, and operational and financial controls.

The Board has ultimate responsibility for the Group's system of internal control and the effectiveness thereof. Any such system can only mitigate partially against the risk of material misstatement or loss to the Group. The Board consider that the internal control environment in place within the Group is appropriate for the size, complexity and risk profile of the Group.

Principle Five: Maintain the Board as a well-functioning, balanced team led by the chair

The Board comprises the Non-Executive Chairman, two Executive Directors and two Non-Executive Directors. David Armfield is the Senior Independent Director.

The Board believes that the make-up of the Directors currently provides a balance between independence and knowledge of the Group which allows them to discharge their responsibilities effectively, alongside the relevant Board committees. The Board are expected to commit time for a minimum of eight Board meetings a year, alongside adequate preparation time. Other meetings and commitments may be required as appropriate.

Principle Six: Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

The Board believes that the current make-up of Directors offers a well balanced mix of skills in areas relevant to the long-term strategy of the Group. This belief is gained through a knowledge and understanding of the backgrounds of the Board, alongside the understanding of the needs of the Xeros Group. Details of the Directors, their backgrounds and the skills and expertise they bring to Xeros can be found on page 18 of this Annual Report and Accounts. The Board keep their skills up to date through regular updates from professional advisors.

The Board consider succession planning through the work of the nomination committee, considering the long-term benefits an appointee and how their skills fit in to the existing skills possessed by the Board. The continuous improvement process the Board undergo ensures that they are aware of the areas in which they would like to strengthen, and it is through this lens that Director Recruitment is performed. Executive Director and Senior Management succession planning is informed through the annual review cycle.

Principle Seven: Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

The Board has a formal evaluation procedure to be performed at least annually. The Board performed an evaluation in November 2019, resulting in a series of recommended actions for the Board to implement in 2020.

Principle Eight: Promote a corporate culture that is based on ethical values and behaviours

The Group exists to provide solutions to global environmental challenges of water scarcity and pollution. The Board believes that Xeros technology provides genuine solutions to these challenges and prides itself on the impact that the Group can make in these critical areas. It is through this lens that the Group promotes a corporate culture based on ethical values and behaviours.

This process is led by the Board, through actions such as committing resources to projects with an ethical and societally beneficial purpose and setting a tone at the top which encourages these within the wider Group.

Principle Nine: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

The Board meets at least eight times a year in accordance with its meeting calendar. This meeting calendar is established each year to align with the Group's financial calendar, ensuring a spread across the financial year alongside meetings at key times during the year. This calendar can also be supplemented with additional meetings as and when required.

The Board and the associated committees receive appropriate information in a timely manner prior to each meeting.

Roles of the Board, Chairman and Chief Executive Officer

The Board is responsible for the long-term success of the Group. There is a formal schedule of matters which are reserved for the Board. These matters reserved for the Board include:

- The overall strategy for the Group
- The structure and capital of the Group
- The financial reporting and control environment of the Group
- The Group's internal control framework
- Major contracts for the Group
- Shareholder communications
- The delegation of authority and other key Group policies

There is clear distinction between the roles of the Chairman and the Chief Executive Officer. The Chairman is responsible for providing leadership to the Board and ensuring that the long-term strategic focus of the Group is in the best interest of shareholders. The Chief Executive Officer is responsible for implementing the strategy as agreed by the Board and managing the direction of the Group through the Executive and wider senior management teams.

Board committees

The Board has established three subcommittees – the Audit, Remuneration and Nomination committees – which exist to support the Board in its objectives.

The Board believes the current governance structure is appropriate for the current size and scope of the Group. The Board remains committed to good corporate governance and will evolve the governance policies and procedures in place as the nature and scope of the Group evolves.

Principle Ten: Communicate how the Group is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Group communicates with shareholders through the Annual Report and Accounts, full-year and half-year announcements, and AGM and meetings with institutional shareholders. More detailed corporate information, including all announcements and presentations can be seen on the Xeros website. The Board are provided with updates on these communications by the Executive team and through the Group's brokers as appropriate. The Group maintains an open dialogue with other key stakeholders, including Group employees.

The Board

The Board currently comprises two Executive Directors and three Non-Executive Directors.

Audit Committee

The Audit Committee consists of David Baynes as Chairman and David Armfield. The Audit Committee will, inter alia, determine and examine matters relating to the financial affairs of the Company including the terms of engagement of the Company's auditor and, in consultation with the auditor, the scope of the audit. It will receive and review reports from management and the Company's auditor relating to the annual accounts and the accounting and the internal control systems in use throughout the Group. The Audit Committee will meet at least twice a year.

Nominations Committee

The Nominations Committee consists of Klaas de Boer as Chairman, David Baynes and David Armfield. The Nominations Committee will monitor the size and composition of the Board and the other Board Committees, be responsible for identifying suitable candidates for board membership and monitor the performance and suitability of the current Board on an ongoing basis. The Nominations Committee will meet at least once a year.

Internal Control

The Board is responsible for maintaining a sound system of internal control. The Board's measures are designed to manage, not eliminate risk, and such a system provides reasonable but not absolute assurance against material misstatement or loss. Whilst, as an AIM listed company, the Company is not required to comply with the full provisions of the "Internal Control Guidance for Directors on the Combined Code" (The Turnbull Report), the Board considers that the internal controls do meet many of those requirements and are adequate given the size of the Company.

Some key features of the internal control system are:

(i) Management accounts information, budgets, forecasts and business risk issues are regularly reviewed by the Board who meet at least seven times per year;

(ii) The Company has operational, accounting and employment policies in place;

(iii) The Board actively identifies and evaluates the risks inherent in the business and ensures that appropriate controls and procedures are in place to manage these risks;

(iv) There is a clearly defined organisational structure; and

(v) There are well-established financial reporting and control systems.

Statement in respect of Section 172 of the Companies Act 2006

Under section 172 of the Companies Act 2006, the Directors of Xeros Technology Group plc have a duty to promote the success of the Group for the benefit of the members as a whole and, in doing so, have regard to:

(i) the likely consequences of any decision in the long term;

(ii) the interests of the company's employees;

(iii) the need to foster the company's business relationships with suppliers, customers and others;

(iv) the desirability of the company maintaining a reputation for high standards of business conduct; and

(v) the need to act fairly between members of the company.

The Directors of Xeros Technology Group plc consider the following areas of key importance in fulfilment of this duty:

- long-term strategic planning and budgeting to allow the Group to project a path to creating value for shareholders;
- continued emphasis on health and safety, with regular and comprehensive dialogue with employees;
- open and fair dealings with partners, customers, and suppliers, leading to long-term mutually beneficial relationships; and
- a Group built on improving sustainability, with innovative technologies serving a range of industries.

Going Concern

At 31 December 2019, the Group had £5.6m of cash and cash equivalents. At this stage in its development the Group incurs operating cash outflows and is reliant on existing cash resources. The Group announced an equity fundraise during April 2020 which was completed in May 2020, providing an additional £6.0m before fees. The Directors believe that following the conclusion of this fundraise, the Group has sufficient cash resources to allow it to implement its commercialisation plans and reach the point of cash break even.

The Group is subject to a number of risks, including those as set out in the strategic report on pages 15 to 17. These risks include the global macro-economic conditions, such as the impact of the Covid-19 on both the Group and the environment in which it operates. The going concern assessment as carried out by the Directors has taken the impact of these into account as far as possible. While this inclusion does not change the assessment of the Directors in respect of going concern, it is clear that a prolonged period of disruption may have a negative impact upon the Group's ability to work closely with international license partners and therefore execute the Group's strategy.

When making their going concern assessment the Directors assess available and committed funds against all non-discretionary expenditure, and related cash flows, as forecast for the period ended 31 May 2021. These forecasts indicate that the Group is able to settle its liabilities as they fall due in the forecast period. In these forecasts the Directors have considered appropriate sensitivities, including the progress of the Group's commercial contracts. The Directors believe that the successful completion of the fundraise provides the Group certainty in its short and medium term forecasting. Accordingly, the Directors continue to believe that the going concern assumption is appropriate for the Group and the financial statements have been prepared on that basis.

Note 16 to this financial information includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposure to credit, liquidity and market risk. The Directors have considered their obligation, in relation to the assessment of the going concern of the Group and each statutory entity within it and have reviewed the current budget cash forecasts and assumptions as well as the main risk factors facing the Group.

Statement of Directors' responsibilities

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Strategic Report, 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 year. In compliance with this the Directors have prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including FRS101 'Reduced Disclosure Framework'). Under company law the Directors must not approve the financial statements unless they are satisfied that they show a true and fair view of the state of affairs and profit or loss of the company and the group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union or United Kingdom Generally Accepted Accounting Practice have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of Xeros Technology Group plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Xeros Technology Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise the Consolidated statement of profit or loss and other comprehensive income, the Consolidated statement of changes in equity, the Consolidated statement of financial position, the Consolidated statement of cash flows, the Company statement of financial position, the Company statement of cash flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosures Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's loss for the period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Directors' conclusions, we considered the risks associated with the group's business model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Overview of our audit approach

- Group materiality of £1,331,000 which represented 5% of the group's expected loss before tax when planning our audit. This has been revisited throughout the audit to ensure still appropriate.
- The key audit matter for the group was identified as revenue recognition.
- The key audit matters for the parent company were identified as the carrying value of investments in subsidiaries and the carrying value of inter-company receivables.
- We have assessed the significance of the components within the group and performed a combination of targeted audit procedures and analytical procedures based on that assessment.

Key audit matters

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

Key Audit Matter – Group

The recognition of revenue

There is a risk that revenue may be misstated due to the improper recognition of revenue.

The Group offers an integrated service and care package. This package includes the transfer of equipment and an ongoing commitment to service and support. Where appropriate, the Group accounts for sales under these packages as finance leases. As part of determining the appropriate revenue recognition policy for such packages, the Group is required to allocate the total contract revenue between the various contract elements which requires judgement.

There is therefore a risk that revenue is not recognised in line with the lease agreement and that the split of the product and the aftercare is not performed appropriately.

We therefore identified revenue recognition as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the matter was addressed in the audit – Group

Our audit work included, but was not restricted to:

- obtaining an understanding of the relevant business and controls in place around the recording of revenue, which were corroborated through a walkthrough;
- evaluation of the revenue recognition policies for compliance with IFRS 16 'Leases' and IFRS 15 'Revenue from contracts with customers' as applicable; and
- testing a sample of revenue transactions in respect of leases and agreeing them to supporting documentation, including lease agreements and cash receipts where necessary to vouch that income has been appropriately recognised in accordance with the Group's revenue recognition policies.

The group's accounting policy on revenue recognition including the key sources of estimation uncertainty is shown in note 2 to the financial statements in the Accounting policies section on page 36 and related disclosures are included in note 3.

Key observations

Based on our audit work, we have found that revenues were accounted for in line with the Group's accounting policies, IFRS 16 'Leases' and IFRS 15 'Revenue from contracts with customers'.

Key Audit Matter – Parent

Recoverability of the carrying value of investments in, and inter-company receivables due from, subsidiaries

The parent company balance sheet includes investments in trading subsidiaries of £9.0m (2017: £9.6m) and receivables from those subsidiaries of £21.0m (2018: £38.7m).

There is a risk that the carrying value of investments and inter-company receivables may be overstated. The process for assessing whether impairment exist under both International Accounting Standard (IAS) 36 Impairment of Assets and International Financial Reporting Standard (IFRS) 9 Financial Instruments is complex.

The group's subsidiaries are currently loss making and due to the group still being in the development stage of activities management's assessment of any potential impairment is inherently subjective. Assumptions involved in the forecasting and discounting future cash flows associated with such impairment assessments can be highly judgemental and can significantly impact the results of the impairment review.

Given the nature of the business, management have assessed the recoverability with reference to both external valuations and forecast performance.

How the matter was addressed in the audit – Parent

Our audit work included, but was not restricted to:

- validating the integrity of the impairment models through testing of their mathematical accuracy;
- understanding the underlying process used by management to determine the discount rates, and working with our internal valuation specialists to assess them;
- obtaining third party evidence to support the long-term value in current markets; and
- assessing the adequacy of the disclosure included within the financial statements for compliance with IAS 36 'Impairment of assets' and IFRS 9 'Financial Instruments' as appropriate.

From the work performed we identified that changes in the group's strategic plans were not fully reflected within management's initial assessment of impairment. As a result of this challenge an impairment of £29.5m has been recognised by management.

The company's accounting policy on valuation of investments is shown in note C1 in the Accounting policies section to the financial statements on page 71 and related disclosures detailing the adjustments are included in note C3 on page 72.

Key observations

Based on our audit work, we have concluded that the valuation of non-current assets is accounted for in line with the parent company's accounting policies, IAS 36 'Impairment of assets' and IFRS 9 'Financial instruments'.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	£1,331,000 which was 5% of the expected loss before tax at the time of planning our audit. This benchmark is considered the most appropriate because the group is still in the development stage. Materiality for the current year is higher than the level that we determined for the period ended 31 December 2018, based upon the same benchmark, due to the increase in year on year loss before tax at draft stage. We have revisited our materiality basis following the adjustments for discontinued operations and concluded the basis is till appropriate.	£522,000 which is based on 0.5% of total assets, capped for component materiality purposes. This benchmark is considered the most appropriate as the parent company is primarily a holding company and its major activities relate to its investments in subsidiary undertakings. Materiality for the current year is higher than the level that we determined for the period ended 31 December 2018, based upon the same benchmark, due to an increase in loss at planning stage prior to impairment losses.
Performance materiality used to drive the extent of our testing	60% of financial statement materiality.	60% of financial statement materiality.
Communication of misstatements to the audit committee	£66,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£26,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- documenting the processes and controls covering all of the assessed significant risks;
- evaluation by the group audit team of identified components to assess the significance of each component and to determine the planned audit response based on a measure of materiality;
- full scope audit procedures on the financial information of the parent company and all other non-dormant UK-based group components; and
- targeted procedures for non-significant components overseas.

The group has components in the UK, US and China. The audit of the overseas components was performed by the group engagement team in the UK. The components subject to full scope audit procedures represented 33% of group revenue.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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

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

Independent auditor's report to the members of Xeros Technology Group plc continued

Matters on which we are required to report under the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Responsibilities of Directors for the financial statements

As explained more fully in the Directors' responsibilities statement set out on page 26, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Overfield BSc FCA

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Leeds

15 May 2020

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2019

	Notes	Year ended 31 December 2019 £'000	Year ended 31 December 2018* £'000
Continuing operations			
Revenue	3	**1,814**	2,686
Cost of sales		**(2,125)**	(2,505)
Adjusted gross profit/(loss)**		**(311)**	181
Exceptional cost of sales	5	**–**	(5,396)
Gross loss		**(311)**	(5,215)
Administrative expenses	7	**(16,773)**	(23,366)
Adjusted EBITDA***		**(14,433)**	(19,042)
Exceptional cost of sales	5	**–**	(5,396)
Share based payment expense	23	**(826)**	(926)
Exceptional administrative expenses	7	**(1,252)**	(2,504)
Depreciation of tangible fixed assets	13	**(573)**	(713)
Operating loss		**(17,084)**	(28,581)
Net finance (expense)/income	9	**(1,442)**	134
Loss before tax		**(18,526)**	(28,447)
Taxation	10	**898**	1,012
Loss after tax from continuing operations		**(17,628)**	(27,435)
Loss from discontinued operations	8	**(3,015)**	(1,933)
Loss for the period		**(20,643)**	(29,368)
Other comprehensive (expense)/(income):			
Items that are or may be reclassified to profit or loss:			
Foreign currency translation differences – foreign operations		**227**	(2,458)
Total comprehensive expense for the period		**(20,416)**	(31,826)
Loss per share			
Basic and diluted on loss from continuing operations	11	**(5.57)p**	(26.38)p
Basic and diluted on total loss for the period	11	**(6.53)p**	(28.24)p

* The Group has applied IFRS 16 in 2019 using the modified retrospective method. Under this method, the comparative information is not restated. See note 4 for further details.

** Adjusted gross profit/loss comprises gross profit/loss before exceptional cost of sales items

*** Adjusted EBITDA comprises loss on ordinary activities before interest, tax, share-based payment expense, other exceptional charges & credits, depreciation and amortisation.

Consolidated statement of changes in equity

For the year ended 31 December 2019

	Share capital £'000	Share premium £'000	Merger reserve £'000	Foreign currency translation reserve £'000	Retained earnings deficit £'000	Total £'000
At 31 December 2017	149	90,382	15,443	(15)	(70,290)	35,669
Loss for the year	–	–	–	–	(29,368)	(29,368)
Other comprehensive expense	–	–	–	(2,458)	–	(2,458)
Loss and total comprehensive expense for the period	–	–	–	(2,458)	(29,368)	(31,826)
Transactions with owners, recorded directly in equity:						
Issue of shares	237	15,549	–	–	–	15,786
Exercise of share options		7	–	–	–	7
Costs of share issues	–	(754)	–	–	–	(754)
Share based payment expense	–	–	–	–	1,090	1,090
Total contributions by and distributions to owners	237	14,802	–	–	1,090	16,129
At 31 December 2018	386	105,184	15,443	(2,473)	(98,568)	19,972
Impact of change in accounting policy*	–	–	–	–	(83)	(83)
Adjusted balance at 31 December 2018	386	105,184	15,443	(2,473)	(98,651)	19,889
Loss for the year	–	–	–	–	(20,643)	(20,643)
Other comprehensive expense	–	–	–	227	–	227
Loss and total comprehensive expense for the year	–	–	–	227	(20,643)	(20,416)
Transactions with owners, recorded directly in equity:						
Issue of shares following placing and open offer	790	4,477	–	–	–	5,267
Costs of share issues	–	(435)	–	–	–	(435)
Share based payment expense	–	–	–	–	826	826
Total contributions by and distributions to owners	790	4,042	–	–	826	5,637
At 31 December 2019	**1,176**	**109,226**	**15,443**	**(2,246)**	**(118,468)**	**5,131**

* The Group has applied IFRS 16 in 2019 using the modified retrospective method. Under this method, the comparative information is not restated. See note 4 for further details.

Consolidated statement of financial position
For the year ended 31 December 2019

	Notes	At 31 December 2019 £'000	At 31 December 2018 £'000
Assets			
Non-current assets			
Intangible assets	12	**–**	1,290
Property, plant and equipment	13	**357**	1,954
Right of use assets	13	**283**	–
Trade and other receivables	15	**143**	1,292
Total non-current assets		**783**	4,536
Current assets			
Inventories	14	**341**	945
Trade and other receivables	15	**584**	2,402
Assets classified as held for sale	8	**252**	–
Cash and cash equivalents	16	**5,625**	16,001
Total current assets		**6,802**	19,348
Total assets		**7,585**	23,884
Liabilities			
Non-current liabilities			
Right of use liabilities	18	**(287)**	–
Deferred tax	19	**(38)**	(38)
Total non-current liabilities		**(325)**	(38)
Current liabilities			
Trade and other payables	18	**(2,129)**	(3,874)
Total current liabilities		**(2,129)**	(3,874)
Total liabilities		**(2,454)**	(3,912)
Net assets		**5,131**	19,972
Equity			
Share capital	20	**1,176**	386
Share premium	20	**109,226**	105,184
Merger reserve	20	**15,443**	15,443
Foreign currency translation reserve	21	**(2,246)**	(2,473)
Accumulated losses	21	**(118,468)**	(98,568)
Total equity		**5,131**	19,972

Approved by the Board of Directors and authorised for issue on 15 May 2020.

Klaas de Boer
Chairman

Paul Denney
Chief Financial Officer

Company number: 08684474

Consolidated statement of cash flows
For the year ended 31 December 2018

	Notes	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Operating activities			
Loss before tax		**(18,526)**	(28,851)
Adjustment for non-cash items:			
Depreciation of property, plant and equipment		**573**	705
Share based payment	23	**826**	1,090
Decrease in inventories		**546**	5,852
Decrease/(increase) in trade and other receivables		**2,850**	(104)
Decrease in trade and other payables		**(2,090)**	(3,691)
Impairment of fixed assets		**583**	2,523
Finance income		**(60)**	(135)
Finance expense		**1,502**	–
Cash used in operations		**(13,796)**	(22,611)
Tax (payments)/receipts		**898**	2,318
Cashflow from discontinued operations	8	**(1,183)**	(1,840)
Net cash outflow from operations		**(14,081)**	(22,133)
Investing activities			
Finance income		**60**	134
Finance expense		**(1,502)**	–
Purchases of property, plant and equipment		**(147)**	(917)
Sale of property, plant and equipment		**127**	–
Cashflow from discontinued operations	8	**(23)**	(1,117)
Net cash inflow/(outflow) from investing activities		**(1,485)**	(1,900)
Financing activities			
Proceeds from issue of share capital, net of costs	20	**4,833**	14,916
Net cash inflow from financing activities		**4,833**	14,916
(Decrease)/increase in cash and cash equivalents		**(10,733)**	(9,117)
Cash and cash equivalents at start of year/period		**16,001**	25,149
Effect of exchange rate fluctuations on cash held		**357**	(31)
Cash and cash equivalents at end of year	16	**5,625**	16,001

1) Basis of preparation

Xeros Technology Group plc is a public limited company domiciled in the United Kingdom. The financial statements of Xeros Technology Group plc are audited consolidated financial statements for the year ended 31 December 2019. These include comparatives for the year ended 31 December 2018. The level of rounding for financial information is the nearest thousand pounds.

The Company's registered office is Unit 2, Evolution, Advanced Manufacturing Park, Whittle Way, Catcliffe, Rotherham, S60 5BL.

The consolidated financial statements have been prepared under the historical cost convention in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS).

Business combinations and basis of consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date control ceases.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

Where the acquisition is treated as a business combination, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

All intra-group balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated fully on consolidation.

Going Concern

At 31 December 2019, the Group had £5.6m of cash and cash equivalents. At this stage in its development the Group is loss making and incurs operating cash outflows. The Group executed a successful fundraise in May 2020, raising £6m before fees, which the Directors believe provides the Group a platform to successfully execute the Group's commercialisation strategy and lead the Group towards cash break-even.

When making their going concern assessment the Directors assess available and committed funds against all non-discretionary expenditure, and related cash flows, as forecast for the period ended 30 May 2021. These forecasts indicate that the Group is able to settle its liabilities as they fall due in the forecast period. In these forecasts the Directors have considered appropriate sensitivities such as the level of revenue from existing and anticipated contracts. In addition, they have considered liquidity risk, key assumptions and uncertainties including considerations for any potential disruption and economic impact caused by Covid-19. The Directors consider that the going concern assumption is appropriate for the Group.

Note 16 to this financial information includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposure to credit, liquidity and market risk. The Directors have considered their obligation, in relation to the assessment of the going concern of the Group and each statutory entity within it and have reviewed the current budget cash forecasts and assumptions as well as the main risk factors facing the Group.

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive Officer's review on pages 9 to 12. The financial position of the company, its cash flows, and liquidity position are described in the Chief Financial Officer's Review on pages 13 to 14. In addition, notes 2 to 25 to the financial statements include the company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

2) Significant accounting policies

The principal accounting policies applied are set out below.

Revenue recognition

Revenue on machines sales is recognised once the machine has been installed at the customer site in line with the contract agreed. Service revenue is recognised in line with the profile of the delivery of the service to the customer and consumable revenue is recognised when the product is delivered to the customer.

When assessing the revenue recognition against IFRS15, the Group assess the contract against the five steps of IFRS15. This process includes the assessment of the performance obligations within the contract and the allocation of contract revenue across these performance obligations once identified. This is particularly relevant where customer contracts are agreed with multiple elements, such as those sales where a machine is sold in a bundle with an ongoing service contract, is split according to the amount of consideration expected to be received for the transfer of the relevant goods or services to the customer. This consideration is calculated using cost data and an appropriate margin.

Revenue is shown net of Value Added Tax or Sales Tax as appropriate.

The difference between the amount of income recognised and the amount invoiced on a particular contract is included in the statement of financial position as deferred income. Amounts included in deferred income due within one year are expected to be recognised within one year and are included within current liabilities.

The Group has recognised some licencing revenue in the year, the amount of which is not material.

Foreign currencies

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

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated.

The assets and liabilities of foreign operations are translated using exchange rates at the balance sheet date. The components of shareholders' equity are started at historical value. An average exchange rate for the period is used to translate the results and cash flows of foreign operations.

Exchange differences arising on translating the results and net assets of foreign operations are taken to the translation reserve in equity until the disposal of the investment. The gain or loss in the statement of profit or loss and other comprehensive income on the disposal of foreign operations includes the release of the translation reserve relating to the operation that is being sold.

Exceptional items

One off items with a material effect on results are disclosed separately on the face of the Consolidated Statement of Profit and Loss and Other Comprehensive Income. The Directors apply judgement in assessing the particular items which, by virtue of their scale and nature, should be classified as exceptional items. The Directors consider that separate disclosure of these items is relevant to an understanding of the Group's financial performance.

2) Significant accounting policies continued

Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Development costs are only capitalised when the related products meet the recognition criteria of an internally generated intangible asset, the key criteria being as follows:

- it is probable that the future economic benefits that are attributable to the asset will flow to the Group;
- the project is technically and commercially feasible;
- the Group intends to and has sufficient resources to complete the project;
- the Group has the ability to use or sell the asset; and
- the cost of the asset can be measured reliably.

Such intangible assets are amortised on a straight-line basis from the point at which the assets are ready for use over the period of the expected benefit and are reviewed for an indication of impairment at each reporting date. Other development costs are charged against profit or loss as incurred since the criteria for their recognition as an asset are not met.

The costs of an internally generated intangible asset comprise all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Directly attributable costs include employee costs incurred on technical development, testing and certification, materials consumed and any relevant third-party cost. The costs of internally generated developments are recognised as intangible assets and are subsequently measured in the same way as externally acquired intangible assets. However, until completion of the development project, the assets are subject to impairment testing only.

No development costs to date have been capitalised as intangible assets as it is deemed that the probability of future economic benefit is currently uncertain.

Leases

As a lessee

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations, which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- The Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract.
- The Group has the right to direct the use of the identified asset throughout the period of use.

Measurement and recognition of leases as a lessee

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the lease commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available of the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments, variable payments based on an index or rate, amounts expected to be payable under a residual guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect and reassessment or modification, or if there are changes in in-substance fixed payments.

2) Significant accounting policies continued

Measurement and recognition of leases as a lessee continued

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities within trade and other payables.

For further details on the transition to IFRS 16, please see note 4.

As a lessor

The Group's accounting policy under IFRS 16 has not changed from the comparative period.

As the Group transfers substantially all the risks and benefits of ownership of the asset, a receivable is recognised for the initial direct costs of the lease and the present value of the minimum lease payments. As payments fall due, finance income is recognised in the income statement so as to achieve a constant rate of return on the remaining net investment in the lease. Assets held for rentals to customers under which the customer does not take substantially all the risks and rewards of ownership are recorded as fixed assets and are depreciated on a straight-line basis to their estimated residual values over their estimated useful lives. Operating lease income is recognised within revenue on a straight-line basis over the term of the rental period. Depreciation on machines leased to customers which are held in fixed assets is charged to administrative expenses as it is not directly related to sales.

Intangible assets and goodwill

Recognition and measurement

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Other intangible assets, including customer relationships and brands, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognised in profit or loss. Goodwill is not amortised. The estimated useful lives for current and comparative periods are as follows:

- Customer lists – 5 years
- Brands – 5 years
- Software – 3 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Assets considered to have indefinite useful economic lives, such as goodwill, are tested annually for impairment.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is charged so as to write off the costs of assets over their estimated useful lives, on the following basis:

Leasehold improvements	– over the term of the lease on a straight-line basis
Plant and machinery	– 20% on cost on a straight-line basis
Fixtures and fittings	– 20% on cost on a straight-line basis
Computer equipment	– 33% on cost on a straight-line basis
Vehicles	– 20% on cost on a straight-line basis

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of profit or loss and other comprehensive income.

2) Significant accounting policies continued

Impairment of non-current assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level at which management monitors goodwill. Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost incurred in bringing each product to its present location and condition is accounted for as follows:

Raw materials, work in progress and finished goods – Purchase cost on a first-in, first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business.

Share based payments

Certain employees and consultants (including Directors and senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions"). This policy applies to all schemes, including the Deferred Annual Bonus scheme open to certain management personnel.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate pricing model. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied. Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2) Significant accounting policies continued

Financial assets and liabilities

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes party to the contractual provisions of the instrument. Financial assets are de-recognised when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are de-recognised when the obligation specified in the contract is discharged, cancelled or expired.

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI)

In the periods presented the Group does not have any financial assets categorised as FVTPL or FVOCI.

After initial recognition, these are measured at amortised cost using the effective interest rate method. Discounting is omitted where the effect is immaterial. All of the Group's financial assets fall into this category.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment. Appropriate provisions for estimated irrecoverable amounts are recognised in the statement of profit or loss and other comprehensive income when there is objective evidence that the assets are impaired.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Trade and other payables

Trade payables are initially measured at their fair value and are subsequently measured at their amortised cost using the effective interest rate method; this method allocates interest expense over the relevant period by applying the "effective interest rate" to the carrying amount of the liability.

Impairment of financial assets

The Group accounts for impairment of financial assets using the expected credit loss model as required by IFRS 9. The Group considers a broad range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

2) Significant accounting policies continued

Taxation

The tax expense/(credit) represents the sum of the tax currently payable or recoverable and the movement in deferred tax assets and liabilities.

Current tax is based upon taxable profit/(loss) for the year. Taxable profit/(loss) differs from net profit/(loss) as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the reporting date.

Credit is taken in the accounting period for research and development tax credits, which have been claimed from HM Revenue and Customs, in respect of qualifying research and development costs incurred. Research and development tax credits are recognised on an accruals basis with reference to the level of certainty regarding acceptance of the claims by HMRC.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited in the statement of profit or loss and other comprehensive income, 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 is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the liability method. Deferred tax liabilities are generally 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 from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the profit nor the accounting period.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Disposal groups and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the noncurrent asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

2) Significant accounting policies continued

Critical accounting estimates and areas of judgement

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. Actual results may differ from these estimates. The estimates and assumptions that have the most significant effects on the carrying amounts of the assets and liabilities in the financial information are discussed below:

Revenue recognition

The Group offers an integrated service and care package to its direct customers. This package includes the transfer of equipment and an ongoing commitment to service and support. Where appropriate, the Group accounts for the sales under these packages as finance leases. As part of determining the appropriate revenue recognition policy for such packages, the Group is required to allocate the total contract revenue between the various contract elements in line with IFRS 15. Due to the unique nature of the product and the stage of development of the Group, such assessment is based on limited historical information and requires a level of judgement. These judgements may be revised in future years.

During the year ended 31 December 2019 the Group recognised revenue in respect of fees received from licence partners. The Group accounts for licence revenue under IFRS 15, allocating revenue between the performance obligations in the contract. Where a contract contains elements of variable consideration, the Group estimates these revenues where it considers that it is highly probable that a significant reversal of recognised revenue will not occur. Given the complexity and the early stages of the contracts, revenue recognition requires a degree of judgement. These judgements may be revised in future years.

Research and development costs

Careful judgement by the Directors is applied when deciding whether the recognition requirements for capitalising development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems. Judgements are based on the information available at each reporting date which includes the progress with testing and certification and progress on, for example, establishment of commercial arrangements with third parties. Specifically, the Directors consider production scale evidence of commercial operation of the Group's technology. In addition, all internal activities related to research and development of new products are continuously monitored by the Directors. To date, no development costs have been capitalised.

Accounting standards and interpretations not applied

At the date of authorisation of these financial statements, the following IFRSs, IASs and Interpretations were in issue but not yet effective. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

Amendments to IFRS9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	1 January 2020
Amendments to IAS 1 and IAS 8	Definition of Material	1 January 2019
Amendments to References to the Conceptual Framework in IFRS standards		1 January 2020

3) Segmental reporting

The financial information by segment detailed below is frequently reviewed by the Chief Executive Officer, who has been identified as the Chief Operating Decision Maker ("CODM"). The segments are distinct due to the markets they serve. The all other activities segment contains supporting functions and activities in respect of applications that have not yet been fully commercialised.

The Marken segment is classified as a discontinued operation for the year ended 31 December 2019 and as such is not included in the below analysis.

For the year ended 31 December 2019:

	Hydrofinity £'000	All Other Activities £'000	Total £'000
Machine sales	652	–	652
Service Income	1,018	–	1,018
Consumables	21	–	21
Licencing revenue	–	123	123
Total revenue	1,691	123	1,814
Gross (loss)/profit	(433)	122	(311)
Adjusted EBITDA	(4,274)	(10,159)	(14,433)
Operating loss	(4,306)	(12,778)	(17,084)
Net finance income	59	(1,501)	(1,442)
Loss before tax	(4,247)	(14,279)	(18,526)
Segmental net assets	560	4,571	5,131
Other segmental information:			
Capital expenditure	–	147	147
Depreciation	–	573	573

3) Segmental reporting continued

For the year ended 31 December 2018:

	Hydrofinity £'000	All Other Activities £'000	Total £'000
Machine Sales	1,058	–	1,058
Service Income	1,616	–	1,616
Consumables	12	–	12
Total revenue	2,686	–	2,686
Adjusted Gross profit/(loss)	181	–	181
Gross Loss	(5,215)	–	(5,215)
Adjusted EBITDA	(5,027)	(14,015)	(19,042)
Operating loss	(12,656)	(15,925)	(28,581)
Net finance income	93	41	134
Loss before tax	(12,563)	(15,884)	(28,447)
Segmental net assets	2,324	17,648	19,972
Other segmental information:			
Capital expenditure	–	924	924
Depreciation	323	390	713
Amortisation	–	–	–

An analysis of revenues by type is set out below:

	Year ended 31 December 2019 £'000	Year Ended 31 December 2018 £'000
Sale of goods	**673**	1,070
Rendering of services	**1,018**	1,616
Licencing revenue	**123**	–
	1,814	2,686

During the year ended 31 December 2019 the Group had no customers who individually generated more than 10% of revenue.

During the year ended 31 December 2018 the Group had no customers who individually generated more than 10% of revenue.

3) Segmental reporting continued

An analysis of revenues by geographic location of customers is set out below:

	Year ended 31 December 2019 £'000	Year Ended 31 December 2018 £'000
Europe	**483**	416
North America	**1,208**	2,270
Rest of the World	**123**	–
	1,814	2,686

An analysis of non-current assets by location is set out below:

	31 December 2019 £'000	31 December 2018 £'000
Europe	**593**	672
North America	**190**	3,864
	783	4,536

4) Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

IFRS 16 'Leases'

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Lease Form of a Lease').

The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having an initial lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as a lease under IAS 17 and IFRIC 4.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

4) Changes in accounting policies continued

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 5%.

The Group has benefitted from the use of hindsight for determining the lease term when considering options to extend and terminate leases

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at 1 January 2019:

	Carrying amount at 31 December 2018 £'000	Remeasurement £'000	**IFRS 16 carrying amount at 1 January 2019 £'000**
Property, plant and equipment	6,487	969	**7,456**
Lease liabilities	–	(1,052)	**(1,052)**
	6,487	(83)	**6,404**

The following is a reconciliation of total operating lease commitments at 31 December 2018 (as disclosed in the financial statements to 31 December 2018) to the lease liabilities recognised at 1 January 2019:

Total operating lease commitments disclosed at 31 December 2018		**1,033**
Recognition exemptions:		
Leases with remaining lease terms of less than 12 months:	(34)	
	(34)	
Operating lease liabilities before discounting		**999**
Discounted using incremental borrowing rate		**(80)**
Variances due to lease extension assumptions		**133**
Total lease liabilities recognised under IFRS 16 at 1 January 2019		**1,052**

5) Loss from operations

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Loss from operations is stated after charging to cost of sales:		
Exceptional write down of inventory	**–**	5,396
Loss from operations is stated after (crediting):		
Foreign exchange expense/(gains)	**–**	(2,786)
Loss from operations is stated after charging to administrative expenses:		
Foreign exchange losses	**214**	–
Depreciation of plant and equipment (note 12)	**573**	769
Amortisation of intangible assets (note 11)	**–**	194
Operating lease rentals – land and buildings	**10**	431
Staff costs (excluding share-based payment charge)	**6,960**	10,658
Research and development	**1,074**	1,565
Auditors remuneration:		
– Audit of these financial statements	**19**	19
– Audit of financial statements of subsidiaries of the company	**22**	25
– All other services	**–**	–
Total auditor's remuneration	**41**	44

The exceptional write down of inventory in the prior year relates to provisions made against the value of inventory held by the Group. The value of this inventory has fallen as the technology used within the Group's products and inventory develops. The provision is made in accordance with IAS2.

6) Staff numbers and costs

	Year ended 31 December 2019 Number	Year ended 31 December 2018 Number
The average monthly number of persons (including Directors) employed by the Group during the year was:		
Directors	**5**	5
Operational staff	**109**	149
	114	160
	£'000	£'000
The aggregate remuneration, including Directors, comprised:		
Wages and salaries	**6,177**	9,709
Social security costs	**670**	775
Pension contributions	**113**	174
Share based expense (note 22)	**826**	1,090
	7,786	11,748
Directors' remuneration comprised:		
Emoluments for qualifying services	**642**	657

Directors' emoluments disclosed above include £304,000 paid to the highest paid director (Year ended 31 December 2018: £300,000). There are no pension benefits for Directors. Please see Directors' Remuneration Report on pages 20 to 22 for further information on Directors' emoluments.

7) Expenses by nature

The administrative expenses charge by nature is as follows:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Staff costs, recruitment and other HR	**7,313**	10,886
Share-based payment expense	**826**	926
Premises and establishment costs	**612**	921
Research and development costs	**440**	1,485
Patent and IP costs	**697**	1,265
Engineering and operational costs	**34**	895
Legal, professional and consultancy fees	**2,005**	2,146
IT, telecoms and office costs	**653**	901
Depreciation charge	**573**	713
Travelling, subsistence and entertaining	**815**	1,866
Advertising, conferences and exhibitions	**102**	861
Bad debt expense	**105**	457
Other expenses	**1,132**	326
Foreign exchange losses/(gains)	**214**	(2,786)
Total operating administrative expenses	**15,521**	20,862
Administrative exceptional items:		
Costs of placing of ordinary shares	**–**	114
Exceptional impairment of Property Plant & Equipment	**–**	2,390
Loss on sale of lease receivables following sale of US estate	**1,252**	–
Total administrative expenses	**16,773**	23,366

The exceptional loss on sale of lease receivables follows the sale of the US lease estate during the year. As part of the deal the Group sold the rights to future income to third parties and as such a loss was recognised on sale.

The exceptional impairment to property plant and equipment relate to the write off of machines leased to customers across the Group as the technology used in the Group's products develops. These write offs are made in accordance with IAS16.

The exceptional release of deferred consideration in 2018 relates to the release of deferred consideration on acquisitions which management no longer believed would become payable.

8) Discontinued operations

As at the year end, the Group classified the Marken operating segment of the business as held for sale, and also considered that the operating segment met the criteria for a discontinued operation in accordance with IFRS 5. The loss for the year ended 31 December 2019 relating to this operating segment was £3,015,000 (2018: £1,933,000).

The results of the discontinued operations are shown below for the year ended 31 December 2019 and the year ended 31 December 2018.

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Revenue	754	858
Expenses	(3,242)	(2,791)
Impairment of assets held for sale	(527)	–
Loss before and after income tax from discontinued operation	(3,015)	(1,933)
Exchange differences on translation of discontinued operations	(85)	(28)
Other comprehensive income from discontinued operations	(85)	(28)
Net cash inflow from operating activities	(1,183)	(1,840)
Net cash inflow from investing activities	(23)	(1,117)
Net cash outflow from financing activities	–	–
Net decrease in cash generated by the subsidiary	(1,206)	(2,957)

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at 31 December 2019. There were no assets or liabilities classified as held for sale as at 31 December 2018.

	31 December 2019 £'000
Assets classified as held for sale	
Property, plant and equipment	180
Inventories	72
Total assets held for sale	252
Liabilities directly associated with assets classified as held for sale	
Right of use lease liabilities	–
Total liabilities associated with assets held for sale	–

9) Net finance (expense)/income

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Bank interest receivable	**1**	41
Finance expense in relation to right-of-use assets	**(24)**	–
Finance income from lease receivables	**59**	93
Provision against loan issued to ESTR Ltd	**(1,478)**	–
Net finance income	**(1,442)**	134

10) Taxation

Tax on loss on ordinary activities

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Current tax:		
UK Tax credits received in respect of prior periods	**(898)**	(1,035)
Foreign taxes paid	**–**	23
	(898)	(1,012)
Deferred tax:		
Origination and reversal of temporary timing differences	**–**	–
Tax credit on loss on ordinary activities	**(898)**	(1,012)

10) Taxation continued

The credit for the year/period can be reconciled to the loss before tax per the statement of profit or loss and other comprehensive income as follows:

Factors affecting the current tax charges

The tax assessed for the year varies from the main company rate of corporation tax as explained below:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
The tax assessed for the period varies from the main company rate of corporation tax as explained below:		
Loss on ordinary activities before tax	**(21,541)**	(30,380)
Tax at the standard rate of corporation tax 19% (2018: 19%)	**(4,093)**	(5,772)
Effects of:		
Expenses not deductible for tax purposes	**157**	229
Research and development tax credits receivable	**(898)**	(1,035)
Unutilised tax losses for which no deferred tax asset is recognised	**3,936**	5,544
Employee share acquisition adjustment	**–**	(1)
Foreign taxes paid	**–**	23
Tax credit for the year/period	**(898)**	(1,012)

The Group accounts for Research and Development tax credits where there is certainty regarding HMRC approval. The Group has received a tax credit in respect of the year ended 31 December 2018. There is no certainty regarding the claim for the year ended 31 December 2019 and as such no relevant credit or asset is recognised.

11) Loss per share (basic and diluted)

Basic loss per share is calculated by dividing the loss attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the year. Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares in issue during the period to assume conversion of all dilutive potential ordinary shares.

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Total loss from continuing operations	**(17,628)**	(27,435)
Total loss from discontinued operations	**(3,015)**	(1,933)
Total loss attributable to the equity holders of the parent	**(20,643)**	(29,368)

	No.	No.
Weighted average number of ordinary shares in issue during the year	**316,206,303**	103,990,542
Loss per share		
Basic and diluted on loss from continuing operations	**(5.57)p**	(26.38)p
Basic and diluted on loss from discontinued operations	**(0.95)p**	(1.86)p
Basic and diluted on total loss for the year	**(6.53)p**	(28.24)p

Adjusted earnings per share has been calculated so as to exclude the effect of exceptional costs including related tax charges and credits. Adjusted earnings used in the calculation of basic and diluted earnings per share reconciles to basic earnings as follows:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Basic earnings	**(20,643)**	(29,722)
Exceptional costs	**1,252**	7,935
Adjusted earnings	**(19,391)**	(21,787)
Adjusted loss per share		
Basic and diluted on loss for the year	**(6.13)p**	(20.95)p

The weighted average number of shares in issue throughout the period is as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Issued ordinary shares at 1 January 2019/1 January 2018	**257,039,151**	99,169,956
Effect of shares issued for cash	**59,167,152**	4,820,586
Weighted average number of shares at 31 December	**316,206,303**	103,990,542

The Company has issued employee options over 10,198,621 (31 December 2018: 8,120,803) ordinary shares which are potentially dilutive. There is however, no dilutive effect of these issued options as there is a loss for each of the periods concerned.

12) Intangible assets and goodwill

	Goodwill £'000	Customer relationships £'000	Brand £'000	Software £'000	Total £'000
Cost					
As at 31 December 2017	131	242	320	–	**693**
Acquisitions through business combinations	314	404	–	18	**736**
Foreign currency differences	26	56	19	2	**103**
As at 31 December 2018	471	702	339	20	**1,532**
Foreign currency differences	(13)	(20)	(10)	(1)	**(44)**
As at 31 December 2019	**458**	**682**	**329**	**19**	**1,488**
Accumulated amortisation and impairment losses					
As at 31 December 2017	–	39	–	–	**39**
Amortisation charge for the year	–	97	91	5	**194**
Foreign currency differences	–	6	5	–	**11**
As at 31 December 2018	–	142	96	5	**243**
Amortisation charge for the year	–	549	239	16	**804**
Impairment recognised in the year	459	–	–	–	**459**
Foreign currency differences	(1)	(9)	(6)	(2)	**(18)**
As at 31 December 2019	**458**	**682**	**329**	**19**	**1,488**
Net book value					
At 31 December 2019	**–**	**–**	**–**	**–**	**–**
At 31 December 2018	471	561	243	15	**1,290**
At 31 December 2017	131	203	321	–	**654**

Amortisation & impairment

The amortisation and impairment of intangible assets is included within the result of the discontinued operation in the consolidated statement of profit or loss and other comprehensive income.

Impairment testing for CGUs containing goodwill

For the purposes of impairment testing, goodwill has been allocated to the Group's CGUs (operating divisions) as follows:

	2019 £'000	2018 £'000
Hydrofinity	**–**	–
High Performance Workwear	**–**	471
	–	**471**

High Performance Workwear

As noted in note 8, certain assets of the High Performance Workwear division are considered to represent assets held for sale in accordance with IFRS 5 as at the year end. Given this classification, the goodwill previously recognised has been impaired and the intangible assets fully amortised in the period.

13) Property, plant and equipment

	Right-of-use assets £'000	Leasehold improvements £'000	Plant and equipment £'000	Computer equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost							
At 31 December 2017	–	893	3,261	345	189	3	4,691
Arising on acquisitions	–	–	16	1	1	11	29
Additions	–	806	407	142	21	21	1,397
Transfers from/to inventory	–	–	64	–	–	–	64
Foreign currency differences	–	56	225	16	7	2	306
At 31 December 2018	**–**	**1,755**	**3,973**	**504**	**218**	**37**	**6,487**
Additions on change of accounting policy	**969**	**–**	**–**	**–**	**–**	**–**	**969**
Additions	**–**	**22**	**145**	**1**	**2**	**–**	**170**
Disposals	**–**	**(1,111)**	**(3,435)**	**(349)**	**(148)**	**–**	**(5,043)**
Transfers to assets held for sale	**(448)**	**(111)**	**(390)**	**(61)**	**(23)**	**(36)**	**(1,069)**
Foreign currency differences	**(23)**	**(8)**	**(28)**	**(3)**	**(1)**	**(1)**	**(64)**
At 31 December 2019	**498**	**547**	**265**	**92**	**48**	**–**	**1,450**
Depreciation							
At 31 December 2017	–	497	392	191	95	–	1,175
Charge for the year	–	200	404	123	32	10	769
Impairment recognised in the year	–	–	2,390	–	–	–	2,390
Foreign currency differences	–	19	168	10	2	–	199
At 31 December 2018	–	716	3,354	324	129	10	4,533
Charge for the year	371	195	134	99	39	10	848
Disposals	–	(533)	(3,224)	(309)	(112)	–	(4,178)
Transfers to assets held for sale	(152)	(37)	(123)	(42)	(10)	(20)	(384)
Foreign currency differences	(4)	(2)	(2)	(1)	–	–	(9)
At 31 December 2019	**215**	**339**	**139**	**71**	**46**	**–**	**810**
Net book value							
At 31 December 2019	**283**	**208**	**126**	**21**	**2**	**–**	**640**
At 31 December 2018	–	1,039	619	180	89	27	1,954
At 31 December 2017	–	396	2,869	154	94	3	3,516

The Group has recognised right-of-use assets with a value of £969,000 as at 1 January 2019 in accordance with the transition provisions of IFRS 16. Further details on the transition can be seen in note 4.

All the right of use assets recognised relate to land and buildings.

14) Inventories

	31 December 2019 £'000	31 December 2018 £'000
Finished goods	**341**	945

In the year ended 31 December 2019, changes in finished goods recognised as cost of sales amounted to £604,000 (year ended 31 December 2018: £1,408,000).

15) Trade and other receivables

	31 December 2019 £'000	31 December 2018 £'000
Due within 12 months		
Trade debtors	**213**	458
Other receivables	**113**	1,354
Prepayments and accrued income	**258**	590
	584	2,402
Due after more than 12 months		
Other receivables	**143**	1,292

There is no material difference between the lease receivables amounts included in other receivables noted above, the minimum lease payments or gross investment in the lease as defined by IFRS 16.

The minimum lease payment is receivable as follows:

	31 December 2019 £'000	31 December 2018 £'000
Not later than one year	**66**	317
Later than one year not later than five years	**143**	1,088
Later than five years	**–**	234
	209	1,639

Contractual payment terms with the Group's customers are typically 30 to 60 days. The Directors considered the carrying value of trade receivables at 31 December 2019 and made a provision of £270,000 (31 December 2018: £639,000) for potential impairment losses arising from balances which were considered to be past due. The Directors believe that the carrying value of trade and other receivables represents their fair value. In determining the recoverability of trade receivables the Directors consider any change in the credit quality of the receivable from the date credit was granted up to the reporting date. For details on credit risk management policies, refer to note 17.

Other receivables of £143,000 (31 December 2018: £1,292,000) due after more than one year comprise the long-term portion of finance leases where the Group acts as lessor.

16) Cash and cash equivalents

	31 December 2019 £'000	31 December 2018 £'000
A+	**–**	15,851
A	**5,484**	41
BBB+	**140**	107
Held outside banking institutions	**1**	2
Cash and cash equivalents	**5,625**	16,001

The above has been split by the Fitch rating system and gives an analysis of the long-term credit rating of the financial institutions where cash balances are held.

All of the Group's cash and cash equivalents at 31 December 2019 are at floating interest rates. Balances are denominated in UK Sterling (£), US Dollars ($) and Euros (€) as follows:

	31 December 2019 £'000	31 December 2018 £'000
Denominated in Pound Sterling	**5,398**	15,597
Denominated in US Dollars	**218**	127
Denominated in Euros	**9**	277
Cash and cash equivalents	**5,625**	16,001

The Directors consider that the carrying value of cash and cash equivalents approximates to their fair value. For details of credit risk management policies, refer to note 17.

17) Financial instruments

The Group's principal financial instruments comprise short-term receivables and payables and cash and cash equivalents. The Group does not trade in financial instruments but uses derivative financial instruments in the form of forward foreign currency contracts to help manage its foreign currency exposure and to enable the Group to manage its working capital requirements.

(a) Fair Values of Financial Assets and Financial Liabilities

Derivative Financial Instruments – Fair Value Hierarchy

The following hierarchy classifies each class of financial asset or liability depending on the valuation technique applied in determining its fair value:

Level 1: The fair value is calculated based on quoted prices traded in active markets for identical assets or liabilities.

Level 2: The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Level 3: The fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In these financial statements, any forward foreign exchange contracts are considered to be Level 2 in the fair value hierarchy. There have been no transfers between categories in the current or preceding year. The fair value of financial instruments held at fair value have been determined based on available market information at the balance sheet date.

17) Financial instruments continued

(b) Credit risk

Financial Risk Management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Group is exposed to credit risk in respect of trade and lease receivable balances such that, if one or more customers or a counterparty to a financial instrument encounters financial difficulties, this could materially and adversely affect the Group's financial results. The Group attempts to mitigate credit risk by assessing the credit rating of new customers and financial counterparties prior to entering into contracts and by entering into contracts with customers on agreed credit terms.

The Group is potentially exposed to credit risk in respect of its bank deposits in the event of failure of the respective banks. The Group attempts to mitigate this risk through ongoing monitoring of the credit ratings of those banks. Further details are set out in note 15. At 31 December 2019, the Directors were not aware of any factors affecting the recoverability of the Group's bank balances.

Exposure to Credit Risk

At 31 December 2019, the Group had net trade receivables outstanding of £213,000 (2018: £458,000). The Directors have considered the recoverability of outstanding balances at 31 December 2019 and have made provisions for bad and doubtful debts amounting to £270,000 (2018: £639,000). The Group had lease receivable balances outstanding of £209,000 (2018: £1,639,000) after the deduction of provisions amounting to £22,000 (2018: £145,000).

The concentration of credit risk for trade and other receivables and lease receivables at the balance sheet date by geographic region was:

	31 December 2019 £'000	31 December 2018 £'000
United Kingdom	**457**	1,527
United States of America	**270**	2,167
	727	3,694

(c) Liquidity Risk

Financial Risk Management

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its future obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances to meet its expected cash requirements.

The following are the contractual maturities of financial liabilities:

Non-derivative financial liabilities	**31 December 2019 £'000**	31 December 2018 £'000
Due within one year		
Trade and other payables	**1,749**	1,812

17) Financial instruments continued

(d) Market Risk

Financial Risk Management

Market risk is the risk that changes in market prices, such as interest rates or foreign exchange rates will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters. Market interest rate risk arises from the Group's holding of cash and cash equivalent balances and from cash held on term deposit accounts (see note 16). The Board make ad hoc decisions at their regular Board meetings, as to whether to hold funds in instant access accounts or longer-term deposits. All accounts are held with reputable banks. These policies are considered to be appropriate to the current stage of development of the Group and will be kept under review in future years.

Foreign Currency Risk

The Group is exposed to currency risk on sales and purchases and cash held in bank accounts that are denominated in a currency other than the respective functional currencies of Group entities, primarily Pound Sterling (GBP), the US Dollars (USD) and the Euro (EUR). The Group's policy is to reduce currency exposure on sales and purchasing through forward foreign currency contracts where appropriate.

The Group had no forward currency contracts in place as at either 31 December 2019 or 31 December 2018.

The Group's overall exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments.

At 31 December 2019	Sterling £'000	US Dollar £'000	Euro £'000	Total £'000
Cash and cash equivalents	**5,398**	**218**	**9**	**5,625**
Trade and other receivables	**434**	**270**	**23**	**727**
Trade and other payables	**(1,390)**	**(415)**	**–**	**(1,805)**
Balance sheet exposure	**4,442**	**73**	**31**	**4,547**
Net exposure	**–**	**73**	**31**	**104**

At 31 December 2018	Sterling £'000	US Dollar £'000	Euro £'000	Total £'000
Cash and cash equivalents	15,596	128	277	16,001
Income tax receivable		–	–	
Trade and other receivables	1,527	2,167	–	3,694
Trade and other payables	(1,013)	(244)	–	(1,257)
Balance sheet exposure	16,110	2,051	277	18,438
Net exposure	–	2,051	277	2,437

17) Financial instruments continued

(d) Market Risk continued

Sensitivity Analysis

A 10% weakening of the following currencies against the £ sterling at 31 December 2019 would have increased equity and profit or loss by the amounts shown below. The calculation assumes that the change occurred at the balance sheet date and had been applied to the risk exposure existing at that date.

This analysis assumes that all other variables, in particular, other exchange rates and interest rates remain constant. The analysis is performed on the same basis for the period ended 31 December 2018.

	Equity		Profit or Loss	
	31 December 2019 £'000	31 December 2018 £'000	**31 December 2019 £'000**	31 December 2018 £'000
US Dollars	**(7)**	(205)	**(7)**	(205)
Euros	**(3)**	(28)	**(3)**	(28)

A 10% strengthening of the above currencies against the Pound Sterling at 31 December 2019 would have had the equal but opposite effect on the above currencies to the amounts shown above on the basis that all other variables remain constant.

Interest Rate Risk

At the balance sheet date the interest rate profile of the Group's interest-bearing financial instruments was:

	31 December 2019 £'000	31 December 2018 £'000
Fixed rate instruments		
Financial assets	**–**	–
Financial liabilities	**–**	–
	–	–
Variable rate instruments		
Financial assets	**5,625**	16,001
Financial liabilities	**–**	–
	–	16,001

Based on the Group's above balances at 31 December 2019, if interest rates had been 5 per cent higher, then the impact on the results for the year would be a reduction in the loss for the period of approximately £280,000 with a corresponding increase in the Group's net assets. If the interest rate had reduced to zero per cent, then the impact on the results for the period would be an increase in the loss for the year of £1,000 with a corresponding decrease in the Group's net assets.

(e) Capital Management

The Group's capital is made up of share capital, share premium and retained losses, totalling £5,568,000 at 31 December 2019 (31 December 2018: £6,468,000).

The Group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The capital structure of the Group consists of shareholders' equity as set out in the consolidated statement of changes in equity. All working capital requirements are financed from existing cash resources. There are no externally imposed capital requirements. Financing decisions are made by the Board of Directors based on forecasts of the expected timing and level of capital and operating expenditure required to meet the Group's commitments and development plans.

18) Trade and other payables

	31 December 2019 £'000	31 December 2018 £'000
Trade payables	**518**	1,257
Taxes and social security	**60**	164
Other creditors	**65**	555
Accruals and deferred income	**1,106**	1,897
Right of use liabilities	**667**	–
	2,416	3,874
Current	**2,129**	3,874
Non-current	**287**	–
	2,416	3,874

Trade payables, split by the currency they will be settled are shown below:

	31 December 2019 £'000	31 December 2018 £'000
Sterling	**465**	1,013
US Dollars	**53**	244
Euros	**–**	–
Trade payables	**518**	1,257

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. They are non-interest bearing and are normally settled on 30 to 45 day terms. The Directors consider that the carrying value of trade and other payables approximate their fair value. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe and no interest has been charged by any suppliers as a result of late payment of invoices during the period.

19) Deferred tax

	31 December 2019 £'000	31 December 2018 £'000
Accelerated depreciation for tax purposes	**38**	38
Deferred tax credit/(expense) for the period	**–**	–

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
At beginning of year	**38**	38
Tax expense	**–**	–
At end of year	**38**	38

As at 31 December 2019, the Group had unrecognised deferred tax assets totalling approximately £21,133,000 (31 December 2018: £17,981,000), which primarily relate to losses and the IFRS 2 share-based payment charge. The Group has not recognised this as an asset in the Statement of Financial Position due to the uncertainty in the timing of its crystallisation.

20) Share capital

	Number	Share capital £'000	Share premium £'000	Merger reserve £'000	Total £'000
Total Ordinary shares of 0.15p each as at 31 December 2017	99,169,956	149	90,382	15,443	105,974
Issue of ordinary shares following placing and open offer	157,861,209	237	15,549	–	15,786
Issue of ordinary shares on exercise of share options	7,986	–	7	–	7
Costs of share issues	–	–	(754)	–	(754)
Total Ordinary shares of 0.15p each as at 31 December 2018	257,039,151	386	105,184	15,443	121,013
Issue of ordinary shares following placing and open offer	**526,690,502**	**790**	**4,477**	**–**	**5,267**
Issue of ordinary shares on exercise of share options	**32,478**	**–**	**–**	**–**	**–**
Costs of share issues	**–**	**–**	**(435)**	**–**	**(435)**
Total Ordinary shares of 0.15p each as at 31 December 2019	**783,762,131**	**1,176**	**109,266**	**15,443**	**125,845**

As permitted by the provisions of the Companies Act 2006, the Company does not have an upper limit to its authorised share capital.

The following is a summary of the changes in the issued share capital of the Company during the period ended 31 December 2019:

(a) 17,094 Ordinary Shares were allotted at a price of 0.15 pence per share, for total cash consideration of £26, upon the exercise of share options granted in the Company's share option schemes.

(b) 526,690,502 Ordinary Shares were allotted at a price of 1 pence per share, for total cash consideration of £5,266,905 upon the placing and open offer of the Company's shares in December 2018.

(c) 15,384 Ordinary Shares were allotted at a price of 0.15 pence per share, for total cash consideration of £23, upon the exercise of share options granted in the Company's share option schemes.

At 31 December 2019, the Company had only one class of share, being Ordinary Shares of 0.15p each.

The Group's Share Capital reserve represents the nominal value of the shares in issue. The Group's Share Premium Reserve represents the premium the Group received on issue if its shares. The Merger Reserve arose on the combination of companies within the Group prior to the flotation on AIM.

21) Movement in accumulated losses and foreign currency translation reserve

	Accumulated losses £'000	Foreign currency translation reserve £'000
At 31 December 2017	(70,290)	(15)
Loss for the period	(29,368)	–
Other comprehensive expense – Foreign currency translation differences – foreign operation	–	(2,458)
Shared based payment charge	1,090	–
At 31 December 2018	**(98,568)**	**(2,473)**
Impact of change in accounting policy	**(83)**	**–**
	(98,651)	**(2,473)**
Loss for the year	**(20,643)**	**–**
Other comprehensive income – Foreign currency translation differences – foreign operation	**–**	**227**
Shared based payment charge	**(826)**	**–**
At 31 December 2019	**(118,468)**	**(2,246)**

The Group's accumulated losses reserve represents the accumulation of losses of the Group since inception. The foreign currency translation reserve represents the cumulative differences recognised on the translation of the net assets of the Group's overseas subsidiaries.

22) Leases

The Group has leases for office buildings and associated warehousing and operational space. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see Note 13).

Leases of buildings range from between 1 and 7 years. Lease payments are generally fixed but some leases are subject to periodic rent reviews.

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings and factory premises the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Group's leasing activities by type of right of use asset recognised on the balance sheet:

Right-of-use asset	No. of right-of-use assets leased	Remaining range of term	Average remaining lease term	No. of leases with extension options
Land and buildings	6	1 – 7 years	2 years	1

22) Leases continued

Right-of-use assets

Additional information on the right-of-use assets by class is as follows:

	Land and buildings £'000
Balances as at 31 December 2018	–
Additions on change in accounting policy	969
Depreciation charged in the year	(371)
Transfer to assets held for sale in the year	(296)
Foreign exchange differences	(19)
Balance as at 31 December 2019	**283**

Lease liabilities

Lease liabilities are presented in the statement of financial position as follows:

	31 December 2019 £'000	31 December 2018 £'000
Current	**380**	–
Non-current	**287**	–
	667	–

There are no leases with termination options and one lease with an extension option, which is assumed not to be activated in the lease liability shown. Since the year end notice has been given on this lease and the lease will not be extended. The Group has no commitments to leases which have not yet commenced.

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of the lease liabilities at 31 December 2019 is as follows:

	Within 1 year	1-2 years	2-3 years	3-4 years	5+ years	Total
Lease payments	(409)	(152)	(52)	(31)	(78)	(722)
Finance charges	29	10	6	5	5	55
Net present value	(380)	(142)	(46)	(26)	(73)	(667)

Lease payments not recognised as a liability

The Group has elected not to recognise a liability for short term leases (12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

The expense relating to payments not included in the measurement of the lease liability is as follows:

	£'000
Short term leases	155
	155

At 31 December 2019 the Group was committed to short term leases and the total commitment at that date was £20,000.

23) Share based payments

Share options

The Company has share option plans (The Xeros Technology Group plc Unapproved Share Option Scheme and The Xeros Technology Group plc Enterprise Management Incentive Share Option Scheme) under which it grants options over ordinary shares to certain Directors, employees and consultants of the Group. Options under these plans are exercisable at a range of exercise prices ranging from the nominal value of the Company's shares to the market price of the Company's shares on the date of the grant. The vesting period for shares is usually over a period of three years. The options are settled in equity once exercised. If the options remain unexercised for a period after 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

The number and weighted average exercise prices of share options are as follows:

	Number of share interests				
	EMI options	Unapproved options	Deferred Annual Bonus plan	Total	Weighted average exercise price per share (£)
At 31 December 2017	**976,421**	**6,444,380**	**237,345**	**7,658,146**	**1.719**
Granted in the period	–	2,436,832	25,900	2,462,732	2.166
Exercised in the year	(451)	(7,535)		(7,986)	(1.787)
Forfeited/lapsed in the year	(17,518)	(1,868,320)	(106,971)	(1,992,809)	(1.752)
At 31 December 2018	**958,452**	**7,005,357**	**156,274**	**8,120,083**	**1.839**
Granted in the period	**5,597,000**	**2,195,000**	**–**	**7,792,000**	**0.100**
Exercised in the period	**–**	**–**	**(32,478)**	**(32,478)**	**0.002**
Forfeited/lapsed in the period	**(982,826)**	**(3,962,997)**	**(45,545)**	**(4,991,368)**	**1.089**
At 31 December 2019	**5,572,626**	**5,237,360**	**78.251**	**10,888,237**	**0.957**

There were 4,203,529 share options outstanding at 31 December 2019 which were eligible to be exercised. The remaining options were not eligible to be exercised as these are subject to employment period and market-based vesting conditions, some of which had not been met at 31 December 2019. Options have a range of exercise prices from 0.15 pence per share to 305.0 pence per share and have a weighted average contractual life of 7.42 years (31 December 2018: 8.07 years).

23) Share based payments continued

Options granted in the period	Unapproved options granted in March 2019	EMI options granted in March 2019	Options granted in June 2019
Dividend yield	0%	0%	0%
Expected volatility*	54.00%	54.00%	54.00%
Risk free interest rate (%)	0.40%	0.40%	0.40%
Expected vesting life of options (years)	10	10	10
Weighted average share price (pence)	10.0	10.0	10.0
Fair value of an option (pence per share)	5.21	5.21	3.58

* Expected volatility is based upon the Company's historical share price.

Any share options which are not exercised within 10 years from the date of grant will expire.

A charge has been recognised in the consolidated statement of profit or loss and other comprehensive income for each period as follows:

	31 December 2019 £'000	31 December 2018 £'000
Share options	**826**	1,090

24) Related party transactions

During the year, the Group entered into transactions, in the ordinary course of business, with other related parties. Those transactions with Directors are disclosed below. Transactions entered into, along with trading balances outstanding at each period end with other related parties, are as follows:

Related party	Relationship	Purchases from related party 31 December 2019 £'000	Amounts owed to related party 31 December 2019 £'000	Purchases from related party 31 December 2018 £'000	Amounts owed to related party 31 December 2018 £'000
Enterprise Ventures Limited	Fund manager for certain shareholders (note 1)	**–**	**–**	12	–
Kinetix Critchleys Corporate Finance LLP	Corporate finance advisor for certain shareholders (note 2)	**53**	**–**	–	–
IP Group plc	Fund manager for certain shareholders (note 3)	**18**	**18**	–	–

Note 1: Enterprise Ventures Limited provided the services of Julian Viggars, who was a director of the Company until 23 May 2018 and invoiced the Group for associated director's fees.

Note 2: Kinetix Critchleys Corporate Finance LLP provided corporate finance services for the new equity issue in November 2019. David Armfield, a Director of the Company, is a Partner employed by Kinetix Critchleys Corporate Finance LLP.

Note 3: IP Group plc provide the services of David Baynes, who is a director of the Company, and invoice the Group for related fees.

24) Related party transactions continued

Terms and conditions of transactions with related parties

Purchases between related parties are made on an arm's length basis. Outstanding balances are unsecured, interest free and cash settlement is expected within 60 days of invoice.

Transactions with Key Management Personnel

The Company's key management personnel comprise only the Directors of the Company. During the period, the Company entered into the following transactions in which the Directors had an interest:

Directors' remuneration:

Remuneration received by the Directors from the Company is set out below. Further detail is provided within the Directors' Remuneration Report:

	Year ended 31 December 2019 £'000	Year Ended 31 December 2018 £'000
Short-term employment benefits*	**654**	657

* In addition, certain Directors hold share options in the Company for which a fair value share based charge of £677,809 has been recognised in the consolidated statement of profit or loss and other comprehensive income (Year ended 31 December 2018: £658,601).

The highest paid Director in the year received total remuneration of £304,000 (Year ended 31 December 2017: £300,000). During the year ended 31 December 2019, the Company entered into numerous transactions with its subsidiary companies which net off on consolidation – these have not been shown above.

25) Events occuring after the reporting period

25a) Completion of equity placing

In May 2020, and in line with the previously communicated strategy of the Group completed an equity placing of 1,200,000,000 ordinary shares of 0.15p each, raising £6.0m before fees.

25b) Impact of Covid-19

The full impact of Covid-19 on the macroeconomic environment became clear in early 2020, after the balance sheet date of this report. While the Directors are monitoring the situation closely, they do not consider that the impact of Covid-19 after the reporting period has a material impact on the results as reported in these financial statements. No adjustments have been made to nor additional disclosures made in these financials statements as a result of Covid-19. It is not possible to estimate the financial impact of Covid-19 on the Group.

Company statement of changes in equity
For the year ended 31 December 2019

Attributable to the equity holders of the Company	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings reserve £'000	Total £'000
At 31 December 2017	**149**	**90,382**	**6,625**	**289**	**97,445**
Total expense and other comprehensive loss for the period	–	–	–	(50,598)	(50,598)
Transactions with owners, recorded directly in equity:					
Issue of placing shares	237	15,549	–	–	15,786
Exercise of share options	–	7	–	–	7
Costs of share issues	–	(754)	–	–	(754)
Share based payment expense	–	–	–	643	643
Share based payment expense in respect of services provided to subsidiary undertaking	–	–	–	451	451
Total contributions by and distributions to owners	237	14,802	–	1,094	16,133
At 31 December 2018	**386**	**105,184**	**6,625**	**(49,215)**	**62,980**
Total expense and other comprehensive loss for the period	**–**	**–**	**–**	**(33,535)**	**(33,535)**
Transactions with owners, recorded directly in equity:					
Issue of placing and open offer shares	**790**	**4,477**	**–**	**–**	**5,267**
Exercise of share options	**–**	**–**	**–**	**–**	**–**
Costs of share issues	**–**	**(435)**	**–**	**–**	**(435)**
Share based payment expense	**–**	**–**	**–**	**260**	**260**
Share based payment expense in respect of services provided to subsidiary undertaking	**–**	**–**	**–**	**545**	**545**
Total contributions by and distributions to owners	**790**	**4,042**	**–**	**805**	**5,637**
At 31 December 2019	**1,176**	**109,226**	**6,625**	**(81,945)**	**35,082**

Company statement of financial position
For the year ended 31 December 2019

	Notes	At 31 December 2019 £'000	At 31 December 2018 £'000
Assets			
Non-current assets			
Investments	C3	**9,014**	9,561
Total non-current assets		**9,014**	9,561
Current assets			
Trade and other receivables	C4	**119**	755
Intercompany loan balance	C5	**20,985**	38,694
Cash and cash equivalents		**5,218**	14,917
Total current assets		**26,322**	54,366
Total assets		**35,336**	63,927
Liabilities			
Current liabilities			
Trade and other payables	C6	**(254)**	(947)
Total liabilities		**(254)**	(947)
Net assets		**35,082**	62,980
Equity			
Share capital	20	**1,176**	385
Share premium	20	**109,226**	105,184
Merger reserve		**6,625**	6,625
Retained earnings		**(81,945)**	(49,215)
Total equity		**35,082**	62,980

The Company reported a loss for the year ended 31 December 2019 of £33,535,000 (2018: £50,598,000). The accounting policies and notes on pages 71 to 73 form part of these Financial Statements.

Approved by the Board of Directors and authorised for issue on 15 May 2020.

Klaas de Boer
Chairman

Paul Denney
Chief Financial Officer

Company number: 08684474

Company statement of cash flows

As at 31 December 2019

	Notes	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Operating activities			
Loss before tax		**(33,535)**	(50,598)
Adjustment for non-cash items:			
Share based payment		**260**	671
Provision made for intercompany receivables		**30,591**	48,771
Decrease/(increase) in trade and other receivables	C4	**636**	(676)
(Decrease)/increase in trade and other payables	C6	**(693)**	306
Net cash outflow from operations		**(2,741)**	(1,526)
Investing activities			
Increase in intercompany loans	C5	**(11,791)**	(22,444)
Net cash outflow from investing activities		**(11,971)**	(22,444)
Financing activities			
Proceeds from issue of share capital, net of costs		**4,833**	15,038
Net cash inflow from financing activities		**4,833**	15,038
Increase/(decrease) in cash and cash equivalents		**(9,699)**	(8,932)
Cash and cash equivalents at start of year/period		**14,917**	23,849
Cash and cash equivalents at end of year/period		**5,218**	14,917

C1. Basis of preparation and accounting policies

Xeros Technology Group plc is registered in England and Wales as a public limited company. The address of its registered office is Unit 2, Evolution, Advanced Manufacturing Park, Whittle Way, Catcliffe, Rotherham, South Yorkshire, S60 5BL.

The principal activity of Xeros Technology Group plc (together the 'Group') is that of platform technology company that is that is transforming water intensive industrial and commercial processes. The principal activity of the Company is that of a holding company.

The separate financial statement of the Company have been prepared in accordance with the Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101), on the going concern basis under the historical cost convention, and in accordance with the Companies Act 2006 and applicable Accounting Standards in the UK. The principal accounting policies are consistent with those set out in the financial statements of the Group.

The following exemptions from the requirements in IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- The following paragraphs of IAS 1 "Presentation of Financial Statements"
  - 16 (statement of compliance with all IFRS); and
  - 134-136 (capital management disclosures)
- IFRS 9 "Financial Instruments: Disclosures";
- IAS 24 (paragraphs 17 and 18a) "Related Party Disclosures" (key management compensation); and
- IAS 24 "Related Party Disclosures" – the requirement to disclosure related party transactions between two or more members of a group.

As the Group financial statements include the equivalent disclosures, the Company has taken the exemptions available under FRS 101 in respect of the following disclosures:

- IFRS 2 "Share-Based Payments" in respect of Group settled equity share-based payments; and
- Certain disclosures required by IFRS 13 "Fair Value Measurement" and disclosures required by IFRS 7 "Financial Instruments: Disclosures"

Critical accounting estimates and areas of judgement

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions that have the most significant effects on the carrying amounts of the assets and liabilities in the financial information are discussed below:

Carrying value of investments and intercompany loan balances

Xeros Technology Group has significant balances held as investments in subsidiaries and intercompany loan balances. The Directors consider the valuation and recoverability of these balances based on the potential future cashflows from utilisation of the Xeros technology. The Directors consider all available evidence in making their judgements on the recoverability of these balances, including internal forecasts and valuations performed by third parties. In the year the Directors have made a provision in respect of loans receivable from Xeros Ltd. The Directors believe that the Group's new strategy and business model may impact the ability of Xeros Ltd to repay these loans. The Group does not in any case expect the intercompany loans to be repaid within the next twelve months.

C2. Company results

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company's statement of profit or loss and other comprehensive income. The parent company's result for the year ended 31 December 2019 was a loss of £33,535,000 (year ended 31 December 2018: loss of £50,598,000).

The audit fee for the company is set out in note 5 of the Group's financial statements.

C3. Investment in subsidiary companies

At 31 December 2018, the Company held the following investments in subsidiaries;

Undertaking	Sector	Share of issued capital and voting rights 2018
Xeros Limited	Research, development and commercialisation of polymer technology alternatives to traditional aqueous based technologies	**100%**
Xeros Inc*	Commercialisation of polymer technology alternatives to traditional aqueous based technologies	**100%**
Xeros High Performance Workwear Inc*	Commercialisation of polymer technology alternatives to traditional aqueous based technologies in cleaning specialist personal protective equipment	**100%**
Xeros Environmental Protection Technology (Shanghai) Co. Ltd*	Commercialisation of polymer technology alternatives to traditional aqueous based technologies	**100%**

* Held through Xeros Limited.

Xeros Limited, is incorporated in England and Wales as a private limited company under registered number 05933013. Its registered office is Unit 2, Evolution, Advanced Manufacturing Park, Whittle Way, Catcliffe, Rotherham, S60 5BL.

Xeros Inc. is incorporated in Delaware, USA. Its registered office is 195 Dupont Drive, Providence, Rhode Island, 02907, USA.

Xeros High Performance Workwear Inc's registered office is Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, 19801, USA.

Xeros Environmental Protection Technology (Shanghai) Co. Ltd.'s registered office is 15F, HSBC Building, Pudong, Shanghai, 200120, China.

Cost and net book value	£'000
At 31 December 2017	9,137
Additions	424
At 31 December 2018	9,561
Additions	545
Impairment	(1,092)
At 31 December 2019	**9,014**

Additions comprise amounts in respect of the IFRS 2 share-based payment contribution relating to options granted to employees of the Company's subsidiaries. Impairment relates to provisions against the investment in Xeros Inc as the Directors believe that this amount may not be recoverable.

C4. Trade and other receivables

	31 December 2019 £'000	31 December 2018 £'000
Prepayments and accrued income	**9**	31
Other debtors	**110**	725
	119	755

C5. Intercompany loans

	31 December 2019 £'000	31 December 2018 £'000
Intercompany loan	**20,985**	38,694

Loans comprise a loan of £20,985,000 (31 December 2018: £36,894,000) to Xeros Limited and a loan of £nil (31 December 2018: £1,800,000) to Xeros Inc. No interest was payable on these loans. All intercompany loans are repayable on demand. During the year a provision was made of £29,499,000 against loans receivable from Xeros Limited.

C6. Trade and other payables

	31 December 2019 £'000	31 December 2018 £'000
Trade payables	**69**	141
Social security and other taxes	**25**	27
Accruals	**160**	779
	254	947

Directors and officers

Directors

Klaas de Boer	(Chairman)
Mark Nichols	(Chief Executive Officer)
Paul Denney	(Chief Financial Officer)
David Armfield	(Non-Executive Director)
David Baynes	(Non-Executive Director)

Company secretary

Paul Denney

Company website

http://www.xerostech.com/

Company number

08684474 (England and Wales)

Registered office

Unit 2 Evolution
Advanced Manufacturing Park
Whittle Way
Catcliffe
Rotherham
S60 5BL

Registrar

Neville Registrars Limited
Neville House
Steelpark Road
Halesowen
B62 8HD

Auditor

Grant Thornton UK LLP
No 1 Whitehall Riverside
Leeds
LS1 4BN

Legal adviser

Squire Patton Boggs (UK) LLP
7 Devonshire Square
London
EC2M 4YH

Nominated adviser and broker

finnCap Ltd
60 New Broad Street
London
EC2M 1JJ

Notes

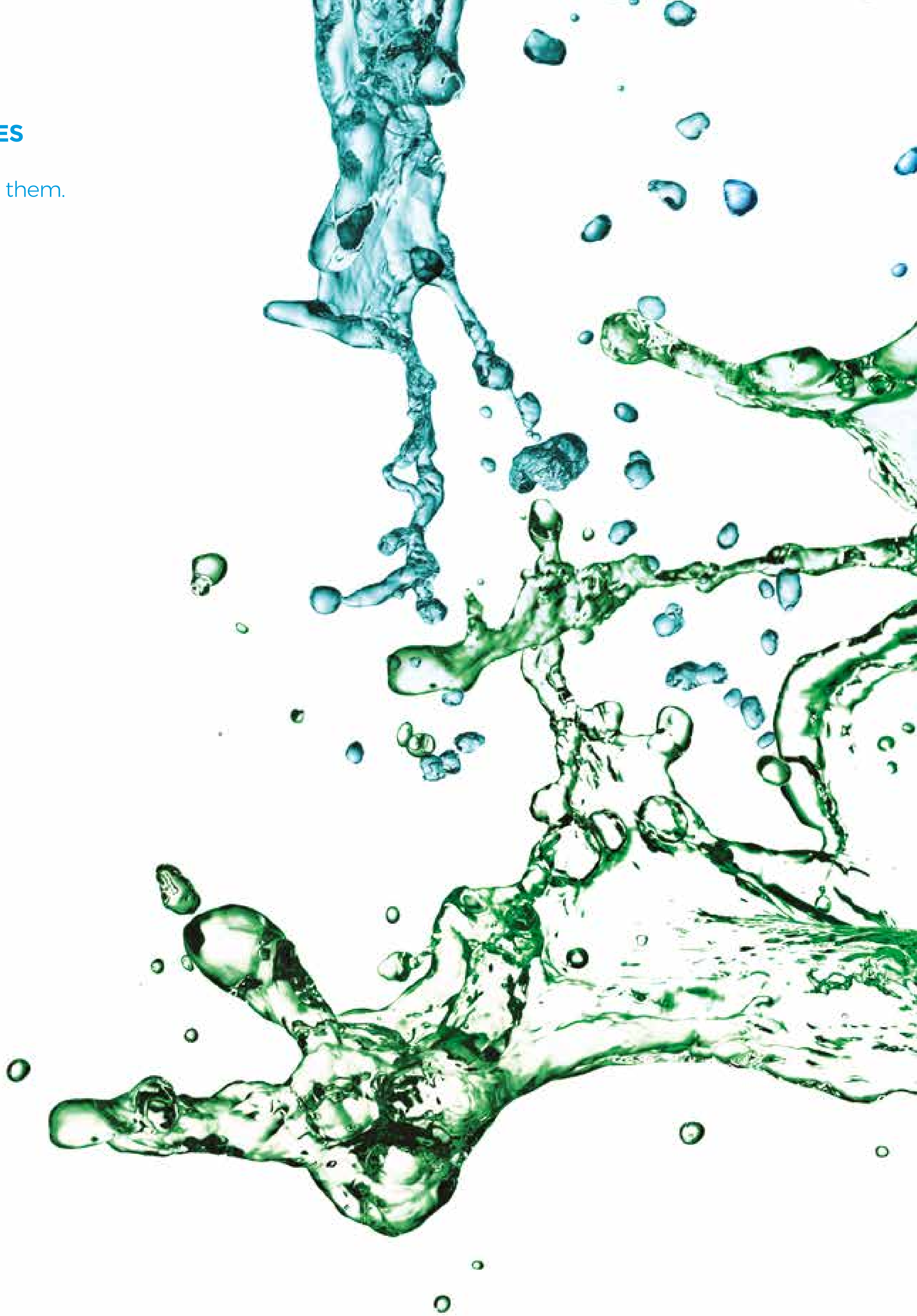
Notes

Designed and produced by Instinctif Partners
www.creative.instinctif.com

The paper in this report comprises 100% (FSC) recycled fibres sourced entirely from post consumer waste.

XEROS TECHNOLOGIES

Without limits.
For a world with them.



Unit 2 Evolution,
Advanced Manufacturing Park,
Whittle Way,
Catcliffe,
Rotherham,
S60 5BL

T: +44 (0)114 2699 656
xerostech.com

XEROS TECHNOLOGY GROUP