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## Group highlights

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### Strategic & Financial Highlights

- Proven platform technology being commercialised across three global scale industries: cleaning, tanning and textiles
- Strengthened operational structure fully aligned to commercial applications
- Seven new patents filed since the beginning of 2017 bringing the total to 48 patent families at the end of March 2017
- Group earned income increased to £2.5m (year ended 31st July 2015: £480,000)
- Cash resources on 31st March 2017 of £23.6m

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### Operational Highlights

#### Cleaning Technologies

- 140 Commercial Laundry machines commissioned (year ended 31st July 2015: 48)
- Machine estate and order backlog totalling 438 at the end of March 2017
- 'Symphony Project' launched to share Xeros' technology on an 'open source' basis for incorporation within any brand of commercial laundry machine
- Multiple successful customer trials in high added value performance workwear market
- Fourth prototype in development which targets simple changes for the incorporation of Xeros' technology within any domestic washing machine

#### Tanning Technologies

- Successful completion of multiple scale trials in retanning and dyeing
- Heads of terms signed with Wollsdorf Leder, a leading European tannery
- Scale trials planned with four additional European tanneries

#### Textile Technologies

- Laboratory scale testing has demonstrated that Xeros' technology can deliver quantum benefits in garment manufacture and colouration
- Intellectual property filed and in development to underpin opportunity



We're taking giant steps to change industry for the better. Our game-changing technology transforms many industrial and domestic processes by radically reducing their dependence on water, chemicals and energy, while improving performance.



# OUR PURPOSE



# XEROS TECHNOLOGIES



“The Xeros system is the exact type of solution that many businesses in California need, as it helps to significantly reduce water while improving our laundry cleaning capabilities. We are doing our part to meet the state’s water restrictions, and we are actually able to improve our customer experience by providing cleaner linens. It’s a win-win situation no matter how you look at it.”

**Steve Thompson**  
Director, Property Operations  
Hilton Los Angeles/Universal City



“Polymer technology is a paradigm shift in reducing water and chemical usage in the tanning industry which minimises the effluent stream.”

**David L Peters**  
President  
American Leather Chemists Association



**John Samuel**  
Chairman

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Since our last set of financial results the business has clearly established that it possesses a unique platform technology that can deliver significant sustainability and economic benefits across a number of large-scale global industries.

During the reporting period, Xeros has made significant progress and it is now increasingly recognised that we have a unique platform technology, capable of delivering significant sustainability and economic benefits across a number of large-scale global industries. Furthermore, we have made material advances in the development and commercialisation of our target markets.

Our customers and our commercial development partners are increasing their endorsement and adoption of our technology which delivers significant water, chemistry and effluent reductions whilst at the same time improving or matching the performance of their processes.

We are now applying our technology across three application areas: Cleaning Technologies, Tanning Technologies and Textile Technologies with each offering significant growth opportunities. Our commercialisation strategy is to generate returns on our intellectual property, and we have underpinned this with an expansion in our intellectual property portfolio which at the end of March 2017 totalled 48 patent families 'pending' and 'granted'.

During the period, we grew our Cleaning Technologies business from being a very early stage operation to one with 212 commissioned commercial washing machines at 31st December 2016. We have also developed and refined our sales and supply chain capability which provides an important foundation for future growth. The recent granting of Approved Supplier Status by Hilton Americas is a major endorsement of the benefits created by our polymer cleaning technology and our ability to deliver them.

Our Tanning Technology business is developing at pace. Our initial focus has been on the application of polymer technology in the retanning and dyeing processes in the leather industry, with first revenues expected to commence in 2017. The reduction in water and chemistry usage demonstrated in our laboratories and scale trials in the field over the last 17 months indicate significant shared benefits are available for the leather industry and for Xeros.

Our Textile Technology business, recently established, is showing strong early-stage promise. During 2017, we will further establish this business's potential through laboratory and scale trials before engaging with producers and the global brands they supply.

We have strengthened our executive team with the appointment of Mark Nichols as CEO in September 2015 and Paul Denney as CFO in October 2016. The business is now resourced and organised around our three application areas, supported by R&D and engineering teams. We have a well-qualified management team with focus and accountability for execution in 2017 and beyond.

I would like to take this opportunity to thank all our employees for their innovation and continued commitment which has helped us to make significant strides towards commercialising our ground-breaking technology.

**John Samuel**  
Chairman

19th April 2017



“The Xeros machines’ water and power savings will provide our department with long-term savings. I am most impressed with the customer service at Xeros, they truly value their customers. Xeros will continue to revolutionize the way we clean firefighter gear. They are committed to the health and safety of firefighters.”

**Battalion Chief Frank Orefice**  
Prince William County Department  
of Fire and Rescue, VA



**Mark Nichols**  
Chief Executive Officer

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Our core purpose at Xeros Technology Group is to develop polymer based technologies which radically improve the sustainability, performance and economics of water intensive processes.

### Strategic review

We develop polymer based technologies which radically improve the sustainability, performance and economics of water intensive processes, dramatically reducing water, chemistry, energy and effluent whilst either meeting or exceeding the conventional quality standards for the materials being processed.

We have established that our technologies can deliver these benefits in three world-scale industries: cleaning, tanning and textiles. These target markets have been evaluated and selected based upon the size of their potential economic returns net of the investment needed to realise them. For each, we seek to generate returns on our intellectual property and know-how with low capital intensity.

Given the scale of the markets in which we operate, our strategy is to commercialise our technology with partners who already have strong market positions and who also demonstrate a strategic intent to deliver increased levels of sustainability. The disruptive nature of our technology enables the creation of new high value-added business models and revenue streams. Where necessary, we enter markets ourselves to prove out our propositions so that our prospective partners benefit from materially lower risk profiles when they join us in the commercialisation process.

In order to accelerate the adoption of our technology, we have increased and aligned our resources to each of the application areas that we are pursuing with the vast majority being applied to those with nearer term profitability. Commercialisation is progressing in Cleaning Technologies with revenue of £2.4m during the period; Tanning Technologies is expected to deliver its first revenues in 2017; and we are targeting 2019 for Textile revenues once a full suite of intellectual property has been established.

Whilst each of our chosen applications are currently several years from profitability, their long-term financial value, given their scale and the quantum of economic improvements we can deliver, justifies our continued investment.

### Operating review

#### Cleaning Technologies

##### Commercial Laundry

Our objective within the Commercial Laundry market is to establish and then progressively build a profitable position in the 'On Premise' hotel segment in the US and beyond. Initially, we will do this with our own brand of washing machines but over time we seek to supplement these with those of other third party manufacturers which incorporate our proprietary technology.

Our model is based on Xeros and branded manufacturers supplying machines directly to approved 'Forward Channel Partners' who have responsibility for their installation, commissioning and the delivery of lifetime services and consumables to customers under our proprietary Sbeadycare® programme.

The total number of commissioned machines grew by 140 during the period commencing 1st August 2015 to a total of 212 at the end of December 2016 and by 195 to 267 at the end

of March 2017. In addition, there were installations awaiting commissioning of 74 machines and letters of agreements for further installations of 97 machines at the end of March 2017. This growth in demand has been supported by an increasing body of evidence that Xeros' technology delivers sustainability, performance and economic benefits.

These figures compare to an estimated market size of 10,000 machines installed annually in the hotel 'On Premise' Laundry segment in the US. We therefore see significant opportunity for growth, given the benefits and competitive differentiation that our technology delivers.

Additional measures taken to increase penetration of the market included completing the development of our smaller 16kg machine as a complement to our 25kg washing machine, with the first units being delivered to customers in the US in late 2016.

We announced two new add-on products: SbeadyCare® Xtend and Assure which are designed to reduce linen replacement and compliance related costs for hotels by leveraging new polymer technology and our information technology respectively.

Having market tested our commercial offers against the needs of different types of customers, we added an operating lease package called 'Excel' to complement our capital leasing ('Complete') and outright machine purchase ('Perform') propositions. We now believe we have a suite of offerings that comprehensively addresses the spectrum of customer requirements both financially and contractually.

We took a number of actions to increase the capacity of our supply chain to meet market demand. To serve the western US and Central America, we opened a regional office in Corona, California to complement our established sales, warehousing and training facilities located on the East Coast of the United States. Over time, this facility will reduce supply chain related expenses and serve as a hub for sales support and operations activities in the region.

We integrated all Commercial Laundry engineering in the US into our new Engineering Centre located in Seekonk, Massachusetts. In doing so we have accelerated acceptance and life testing of our new 16kg machine. Additionally, we have developed engineering solutions to advance our strategy of making Xeros' technology increasingly compatible with a wider range of commercial laundry washing machines.

Whilst our early market penetration in the US was necessarily geographically diverse to promote ourselves as a new market entrant, we have since started to concentrate our efforts towards defined areas where we can create network density. We continue to upgrade our Forward Channel Partners in these areas and we now have five 'Platinum' members on the East and West coasts of the United States who are qualified to sell, commission and service our installations.

As previously announced, we reduced the installation and commissioning rates in Q4 2016 in order to work on improving our commissioning capacity to meet demand. The above improvements have been instrumental in significantly increasing the rate at which we can now commission

machines, achieving a commissioning rate of 31 machines in March 2017 with high levels of customer satisfaction being recorded. We intend to broadly maintain these rates during 2017 with a further increase supported by additional fully certified FCPs later in the year.

Outside of North America, we have continued to expand using Forward Channel Partners. Post period end, we signed Heads of Terms with Richard Jay Pty Ltd who will serve three major metropolitan markets in Australia where drought conditions are experienced on a regular basis. We also entered the Spanish market with installations in the Canary Islands where two thirds of the population of 1.7 million people and 5 million annual tourists rely on desalinated water.

By the end of April 2017, 16 of our customers in the Americas will have joined our 'Million Gallons Saved Club', providing further evidence of the benefits our technology delivers to customers and the environment. Also by the end of April 2017, we estimate that our technology will have saved approximately 300 million litres of water on a global basis and an equivalent amount of effluent.

Our enterprise sales team secured Approved Supplier Status with Hilton Americas Supply Management which represents over 4,300 hotels across Canada, the USA and South America. We are now in discussions with other hotel chains with a view to achieving a similar status with them.

Through our Symphony Project, announced on 20th April 2017, we are making freely available to all machine manufacturers a relatively simple means of incorporating our technology at the end of their production lines. In so doing, we are enabling them to sell their products into the marketplace and to receive a share of the long-term savings that Xeros' technology generates. We anticipate greatly accelerating the adoption rate of our technology. Under this model, our targeted gross contribution for a 100-month Sbeadycare® contract for a 25kg machine is expected to be approximately \$47,000.

Our total machine installation target remains one per working hour in 2020. Our ambition is that this demand will be met by commercial laundry machine manufacturers selling their Xeros enabled machines to certified Forward Channel Partners who in turn deliver our differentiated Sbeadycare® proposition. This strategy is expected to enable Xeros to make a financial return on its intellectual property and know-how with relatively low capital intensity.

### **High Performance Workwear**

We have trialled our cleaning technology in 12 separate installations in the High Performance Workwear market, which covers personal protective clothing including that used by emergency services and other regulated end markets. Results indicated that we have the potential to become the de facto standard for cleaning high-value and often life-protecting workwear.

There is little additional technical development and cost required for Xeros to enter this market which spans many sub-segments including petrochemicals and the armed services, all of which are becoming increasingly aware of the adverse and potentially dangerous effects of incorrectly or insufficiently cleaned workwear.

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## We have the capacity to dramatically reduce water, chemistry, energy and effluent whilst either meeting or exceeding the conventional quality standards.

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Each of the sub-segments can be addressed with our existing machine technology using bespoke cleaning cycles developed by our in-house specialists downloaded onto machines from our databases.

The market size for the cleaning of high performance workwear is extremely large. In the firefighting segment alone, there are over 1 million registered firefighters in the US and over 50,000 fire houses with increasingly prescriptive maintenance and cleaning regimes for their gear.

We are currently refining our business model and plans to enter this market and once our proposition is proven to an appropriate degree, we will seek to work with partners to generate a return on our intellectual property and know-how.

### **Consumer Cleaning**

Similar to high performance workwear, we have established that we have a highly differentiated technology for cleaning and extending the life of a number of high value, but hard to clean garments owned by consumers.

Following extensive market research and process design, we have evaluated an internet-enabled on-demand outsourcing approach as the best model to bring our technology to this market. We have designed and are now ready to test our proposition within a limited number of zip codes in the US for a single garment type.

Given the nature of this model, we believe that we should partner from the outset with businesses and investors experienced in this type of service model and we are currently profiling suitable partners.

We continue to actively work on bringing Xeros' technology to the home and we have developed three further domestic washing machine prototypes. The latest design is planned to be very simple to manufacture, service and operate. As a result, we believe that it has the potential to substantially reduce the barriers to bringing the sustainability and economic benefits of Xeros' technology to the consumer cleaning market.

### **Smart Xeros Machines**

We have continued to develop the 'smart' features in all our machine designs. In our Commercial Laundry business, we have continuous data flows which enable remote management and ongoing performance improvement in each of the constituents in our value chain. We now have a relatively low financial investment compared with the value that is being created.

Our 'Gateway' communication hubs, which we install in each of our customers' laundries are now transmitting multiple data points from each cycle. The data collected resides centrally in our Cloud storage and is configured into actionable information which is made available online to customers to improve their operations.

We believe our approach to information technology is unique within the broader industry and represents another sustainable competitive advantage for all our cleaning applications.

In overall terms, it has been a period of great progress for Cleaning Technologies. Commercial Laundry is now becoming established and we have a business model and routes to market which we believe will support profitable revenues. We have taken the first steps towards working with major industry incumbents to participate in our value chain with the objective of accelerating growth whilst reducing our capital intensity. Our entry into the High Performance Workwear market represents another global scale opportunity where Xeros has the potential to become the de facto cleaning standard. Finally, we have plans to serve the consumer market, through an outsourced model in the first instance, and, in due course, through placing Xeros' technology in the home.

### **Tanning Technologies**

In Cleaning Technologies, our polymer technology gently removes unwanted molecules and contaminants from materials. In contrast, our tanning technology is highly effective in pushing molecules into hides during leather processing. As in Cleaning Technologies, deployment of Xeros' technology and processes substantially reduces water, chemistry and effluent.

There are significant growth opportunities in the leather industry. A number of tanneries are becoming output-constrained due to shortages of water and legal limits on effluent emissions. Xeros is uniquely positioned to help address these issues and expand capacity in those tanneries.

Whilst the polymers are different, the process within which they are used, via deployment in rotating drums, is similar – albeit on a significantly larger scale. Our Cleaning Technologies currently use 30kg to 50kg of polymer in a cycle whereas Tanning Technologies may use as much as 5 tonnes.

We have chosen to focus initially on the retanning and dyeing stage in the tanning process, which uses large volumes of water to apply specialty chemicals. In due course, we believe we can also move upstream to the tanning stage which typically uses proportionately more water to apply bulk chemicals.

We conducted six production scale trials in retanning and dyeing during the period, during which over 1,000 hides were processed. The trials were conducted with our development partner, Wollsdorf Leder Schmidt & Co. Ges.m.b.h. in Austria. Strong evidence was produced to show that Xeros' technology is effective in reducing water, chemistry and effluent in the production process without impacting the quality of the leather produced.

We have since signed heads of terms with Wollsdorf Leder to convert their retanning and dyeing operations to incorporate Xeros' technology and are currently determining the final engineering and commissioning requirements before entering into a binding contract.

Our business model for this industry is one of sharing gains with customers under 10 year contracts with the capital required to add Xeros' technology into the production process, paid for by the tannery from their share of the savings generated.

The size of the global bovine segment is estimated to be 300 million hides per annum. Our ambition is to achieve a percentage market share in the high teens by 2022 with typical chemistry savings of between 10% and 15% per hide for the retanning and dyeing stage.

We have also successfully conducted further first stage trials in retanning and dyeing with four other European tanneries who address the auto, shoe and garment markets. Each have indicated that they wish to proceed with scale trials. We plan to complete these trials by mid-2017 and to establish suitable commercial arrangements; thereafter, we intend to extend our presence in Europe and, in due course, the Americas.

The design of the system which delivers this technology is materially complete and Xeros has engaged with leading equipment suppliers to the tanning industry to provide key components of a Polymer Management System to include storage, transportation and cleaning of the polymers after each cycle.

We have been granted patents for our tanning and dyeing process in Europe and have made similar applications in all territories with major leather processing industries.

We strengthened our management team in Tanning Technologies which is exclusively focused on its successful commercialisation. We will continue to add more resource as we look to scale this exciting application.

### **Textile Technologies**

In mid-2016, we extensively evaluated major water-intensive markets and identified garment and fabric manufacturing as market sectors with significant potential. 22.7 million tonnes of natural fibres are processed annually for the clothing and textiles industries which are seeking to improve their environmental performance without compromising on cost or quality. We see this as a substantial opportunity, and the research we have conducted so far supports this view.

Xeros' technology has the capacity to deliver water, chemistry and energy reductions with commensurate improvements in effluent whilst improving performance outcomes in a number of textile applications. In so doing, we believe we have the ability to support manufacturers, brands and retailers in delivering their sustainability objectives without compromising cost or quality.

We anticipate significant intellectual property being created in this area and have filed four patent applications to date with further filings anticipated.

### **Polymer Technologies**

Our polymer technology is protected by extensive patent approvals and our R&D team is constantly developing and evolving our Intellectual Property.

Our Generation One polymers cover the optimal shape, size and density of the polymers used in each application. During the period, we supplemented these with Generation Two, which incorporate performance enhancing additives.

For our cleaning applications, both Generations One and Two were developed in a partnership with BASF with whom we signed a five year supply agreement in November 2016.

We are now actively developing Generation Three polymers which use novel surface effects to deliver further reductions in chemistry, or performance improvements for the markets we are addressing. We anticipate these improvements being introduced in a two to three-year timeframe.

All our novel polymer and engineering developments are underpinned by Intellectual Property and we have further increased our coverage and at the end of March 2017 we have a total of 48 patent families 'pending' or 'granted' to protect our portfolio, with more anticipated to follow. A number of the patent filings have the benefit of significantly extending the time horizon of our protection.

To deliver our development goals, we increased our polymer science team to eight people by the end of the period. The team is directly aligned to the three application areas and their successful commercialisation. As at the end of March 2017, our development teams possessed a total of 12 PhDs.

### **Summary and outlook**

Over the past 17 months, we have achieved major milestones in our technology development and its commercialisation. We now have strong evidence that we have the capacity to deliver sustainability, performance and economic benefits across three world scale industries: cleaning, tanning and textiles.

Technical validation and increasing market endorsement show that we possess a platform technology that can transform these industries.

The long-term value of our technology in each of the selected markets is substantial, given their scale, the environmental and economic pressures on them, and the quantum of the improvements we deliver in these areas. These benefits are now increasingly being recognised and we are in active discussions with a number of partners with the objective of further accelerating our commercial development.

Our scope and strategy is now fixed. 2017 will be a year of execution, in which we significantly progress the commercialisation of our highly disruptive, innovative technology.

# Chief Executive Officer's review

## Financial review

### Financial review

Group earned income was generated as follows:

|                            | 17 month<br>period ended<br>31st December<br>2016<br>£'000 | Year ended<br>31st July<br>2015<br>£'000 |
|----------------------------|--|--|
| Machine sales              | 1,540  | 289                                      |
| Service income             | 837  | 177                                      |
| Consumables                | 16   | -  |
| Lease interest income      | 73   | 14                                       |
| <b>Total earned income</b> | <b>2,466</b>   | <b>480</b>                               |

Group earned income increased to £2,466,000 in the 17 month period ended 31st December 2016 when compared to the prior year (year ended 31st July 2015: £480,000).

Notably both machine sales income and service income from the installed base of Commercial Laundry machines have increased significantly. Machine sales income has increased to more than five times the income generated in the year to 31st July 2015 and service income has increased to more than four times the income generated in the prior year.

The point at which revenue and costs from machine sales can be recognised is dependent on the completion of a number of stages. These include the installation of the machine, commissioning of the machine, acceptance of the machine by the customer, completion of utility incentive formalities, where applicable, and then, in the case of lease sales, finalisation of the lease agreement. The Group does not recognise revenue and costs from a machine sale until all of these aspects are complete.

The number of machines installed in the period are as follows:

|  | 17 month<br>period ended<br>31st December<br>2016<br>No. | Year ended<br>31st July<br>2015<br>No. |
|--|--|--|
| Machines sold - revenue and costs taken to P&L statement   | 76   | 16                                     |
| Machines commissioned and generating service revenue, but machine sale revenues and costs not yet recognised | 64   | 32                                     |
| Machines installed but not yet commissioned  | 70   | 34                                     |
| <b>Machines installed in the period</b>  | <b>210</b>   | <b>82</b>                              |

As at 31st December 2016, contracted future revenues amount to £3.8m (31st July 2015: £1.6m) and average contract length is 59 months (31st July 2015: 74 months). As the Group's commercial activities have expanded this average contract period reflects normal trading terms.

Gross profit was £290,000 compared to £67,000 in the year ended 31st July 2015. Adjusted gross margin, defined as gross profit plus lease interest income, was £363,000 (15%) compared to £81,000 (17%) in the year ended 31st July 2015.

Adjusted gross margin and adjusted EBITDA are considered the key financial performance measures of the Group as they reflect the true nature our continuing trading activities.

The Group has continued to invest in its R&D programme. The Group spent £7.6m on R&D including staff and patent costs (year ended 31st July 2015: £3.6m) alongside the Commercial Laundry working capital and start-up costs, in line with the Board's expectations. Total administrative expenses (which include the R&D expenses detailed above) increased to £22.6m in the period (year ended 31st July 2015: £11.1m). This reflects the expanded headcount and increased commercial activities of the Group during the period.

The figure of £22.6m also includes a foreign exchange gain of £3.8m resulting from movements in the US Dollar rate during the period. This has resulted in an adjusted EBITDA loss of £20.7m (year ended 31st July 2015: loss £9.9m). Adjusted EBITDA is defined as the loss on ordinary activities before interest, tax, share-based payment expense, non-operating exceptional costs, depreciation and amortisation. Non-operating exceptional costs are the professional advisory costs related to the November 2015 fundraising.

The recent strength of the US\$ means that working capital and operating costs in the US Commercial Laundry business are proportionally more expensive when translated into Sterling, the Group's functional currency. However, a strong US\$ will benefit the Group financial statements as the US business grows to generate cash and become profitable.

The Group reported an operating loss of £22.4m (year ended 31st July 2015: loss £10.9m). The loss per share was 25.04p (year ended 31st July 2015: loss 15.62p).

The Group expects cash utilisation to continue to accelerate over the coming years, as we continue to fund our R&D programmes alongside the roll-out in Commercial Laundry. The increase in net cash outflow from operations to £26.4m (year ended 31st July 2015: £11.8m) reflects these activities and was in line with the Board's expectations.

The Group had existing cash resources as at 31st December 2016 of £28.9 million, comprised of cash and cash equivalents of £19.0m and investments of £9.9m (31st July 2015: £17.5m, comprised of cash and cash equivalents of £15.9m and investments of £1.5m) and remains debt free.

The Group has tax losses of approximately £42.4m to offset against future taxable profits (31st July 2015: £19.8m).

### Accounting reference date change

As previously reported in the financial statements for the prior period, the Group has changed its accounting reference date to 31st December. Consequently, these financial statements have been prepared for the 17 month period ended 31st December 2016. The comparative figures are presented for the year ended 31st July 2015.

### Mark Nichols

Chief Executive Officer

19th April 2017

### Principal activity

Xeros has developed a number of patented polymer bead systems with multiple identified potential commercial applications. The Group has targeted the commercial laundry market and has begun the roll-out of 25kg and 16kg capacity washing machines which exclusively use Xeros's patented polymer bead cleaning system. In trials with customers, this system has been shown to achieve superior cleaning performance as well as material reductions in water, energy and chemical usages compared to conventional commercial laundry methods. The Xeros proprietary polymer cleaning system also reduces the carbon footprint of the entire laundry process. In addition to the commercial laundry market, the Group's polymer technologies have a range of potential applications in other industries including domestic laundry, leather processing and garment finishing.

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 and Chief Executive Officer's review on pages 7 to 13.

### Business review and results

A review of the Group's performance and future prospects is included in the Chairman's statement and Chief Executive Officer's review on pages 7 to 13. The loss for the year attributable to equity holders was £20,239,000 (year ended 31st July 2015: £10,205,000). The Directors do not recommend the payment of a dividend (2015: 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 £28,934,000 (31st July 2015: £17,452,000). 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 product development 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 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 enable it to develop commercial and marketable products. 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 technology 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, distribution, service or supply arrangements may be affected by its size and limited cash resources relative

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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 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 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 Group has a limited operating history upon which its performance and prospects can be evaluated.

#### **Competition risk**

Given the potentially disruptive nature of the Group's technology in relation to established markets, the Group may face significant competition and negative commentary from organisations which have greater capital resources than it and/or which have a product offering competitive to that of the Group, to the detriment of the Group.

#### **Supply chain risk**

The Group is dependent on a limited number of key suppliers in relation to the production of its polymer bead cleaning system (which includes the production of the machines used in the system). 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.

#### **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.

#### **Reduction in government support for environmental-focused technologies**

Most states in the US offer energy incentive programmes to help offset energy costs, with the Federal Energy Management Program's Energy Incentive Program providing information to Federal agencies about the availability of energy-efficiency and renewable-energy project funding for public purpose programmes on a state-by-state basis. These public purpose programmes are administered by utilities, state agencies, or other third parties and paid for by utility ratepayers. The Group's existing and prospective customers in the US are potentially able to benefit from attractive incentives to install Xeros washing machines as a result of these incentive programmes. In the event that the federal government reviews, reduces or withdraws its energy efficiency and renewable-energy project funding, the Group's ability to sign up new customers who would be able to benefit from incentives to install Xeros washing machines could be adversely affected.

#### **Brexit**

The Board expects future revenues from the commercialisation of its technology in the EU to effectively 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.

#### **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 and Chief Executive Officer's review on pages 7 to 13.

On behalf of the Board

#### **Mark Nichols**

Chief Executive Officer

19th April 2017

## Directors' report

The Directors hereby present their annual report and audited consolidated and parent Company financial statements for the 17 month period ended 31st December 2016.

### 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:

|                  |                               |
|------------------|-------------------------------|
| John Samuel      |                               |
| Mark Nichols     | appointed 14th September 2015 |
| Paul Denney      | appointed 3rd October 2016    |
| Julian Viggars   |                               |
| Dr Richard Ellis |                               |
| Stephen Taylor   | appointed 13th February 2017  |
| Dr Steve Jenkins | resigned 26th January 2016    |
| Dr Maciek Drozd  | resigned 11th January 2016    |
| Chris Hanson     | resigned 3rd October 2016     |
| Bill Westwater   | resigned 15th September 2015  |

Directors' interests in the shares of the Company, including family interests are included in the Directors' remuneration report on pages 18 to 20.

### 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

#### John Samuel, Chairman

John joined Xeros as Chairman in September 2011. John has previously held a number of senior finance positions and was formerly the CEO of the Molnlycke Health Care Group as well as a former partner with Apax Partners LLP. John is also the Non-Executive Chairman at Tissue Regenix Group plc and Vernacare Group Limited.

#### Mark Nichols, Chief Executive Officer

Mark joined Xeros as Chief Executive Officer in September 2015. Mark's background is in business development, finance and operations with Global enterprises including Total, Laing O'Rourke and BOC. During his career he has lived and worked in the US, Asia and Europe. Prior to joining Xeros, Mark led a number of technology start-ups in the cleantech arena.

#### 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 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.

#### Julian Viggars, Non-Executive Director

Julian was appointed to the Xeros Board in June 2009. Julian is Head of Technology Investment at Enterprise Ventures, which is an investor in Xeros. He was previously a Director of BioProjects International plc, an AIM-traded early stage technology fund and an Associate Partner with accountancy firm NCL Smith & Williamson in London.

#### Richard Ellis, Non-Executive Director

Richard joined the Board in October 2014. Richard was the global head of Research and Development for Reckitt Benckiser and prior to that held positions with Unilever. He has experience of both the consumer and industrial cleaning markets and has worked in the UK, Netherlands, USA and Australia. He has a BSc and PhD in Chemistry from the University of Manchester.

#### Stephen Taylor, Non-Executive Director

Stephen joined the Board in February 2017. He is currently the Chief Marketing Officer for PayPal Europe and has over 20 years of experience working in brand development and marketing in the FMCG sector. He was previously the Chief Marketing Officer, Europe for Samsung Electronic Appliances. Prior to this he held a number of commercial and business development roles within Procter & Gamble and Findus.

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## Substantial shareholders

As at 3rd April 2017, shareholders holding more than 3% of the share capital of Xeros Technology Group plc were:

| Name of shareholder                | Number of shares | % of voting rights |
|------------------------------------|------------------|--------------------|
| Invesco Asset Management Limited   | 22,378,590       | 25.6               |
| Woodford Investment Management LLP | 21,792,440       | 24.9               |
| IP Group plc*                      | 16,420,201       | 18.8               |
| Entrepreneurs Fund LP              | 7,363,432        | 8.4                |
| Baillie Gifford & Co               | 4,428,798        | 5.1                |
| RisingStars Growth Fund II         | 2,798,999        | 3.2                |

\*Held through IP2IPO Limited, IP Assist Services Limited (formerly Techtran Group Limited), IP Venture Fund and Parkwalk Advisors Funds

## 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 KPMG 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

19th April 2017

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

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## Directors' remuneration report

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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 John Samuel as Chairman, Julian Viggars and Richard Ellis.

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 has 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 three 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 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.

#### 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 225.00 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 1st August 2015 (or date of appointment if later) to 31st December 2016 (or date of resignation if earlier) was:

|                                  | Salary<br>and fees<br>£'000 | Bonus<br>payments<br>£'000 | Benefits<br>£'000 | Total<br>17 months<br>ended<br>31st December<br>2016<br>£'000 | Total<br>Year ended<br>31st July<br>2015<br>£'000 |
|----------------------------------|-----------------------------|----------------------------|-------------------|---|---|
| John Samuel                      | 87                          | -                          | -                 | 87  | 61  |
| Mark Nichols (note 1)            | 286                         | 170                        | 1                 | 457   | -   |
| Paul Denney (note 2)             | 41                          | 15                         | -                 | 56  | -   |
| Dr Steve Jenkins (notes 3 and 7) | 64                          | 36                         | -                 | 100   | 177   |
| Julian Viggars                   | 28                          | -                          | -                 | 28  | 10  |
| Dr Maciek Drozdz (note 4)        | 4                           | -                          | -                 | 4   | 10  |
| Dr Richard Ellis                 | 35                          | -                          | -                 | 35  | 16  |
| Chris Hanson (notes 5 and 7)     | 226                         | 81                         | -                 | 307   | 195   |
| Bill Westwater (notes 6 and 7)   | 135                         | -                          | -                 | 135   | 306   |
| <b>Total</b>                     | <b>906</b>                  | <b>302</b>                 | <b>1</b>          | <b>1,209</b>  | <b>775</b>  |

Note 1: Mark Nichols was appointed as a Director on 14th September 2015.

Note 2: Paul Denney was appointed as a Director on 3rd October 2016.

Note 3: Dr Steve Jenkins resigned as a Director on 26th January 2016. His remuneration was paid through the Company's subsidiary, Xeros Limited.

Note 4: Dr Maciek Drozdz resigned as a Director on 11th January 2016.

Note 5: Chris Hanson resigned as a Director on 3rd October 2016.

Note 6: Bill Westwater resigned as a Director on 15th September 2015. His remuneration was paid through the Company's subsidiary, Xeros Limited.

Note 7: 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: John Samuel Enil (2015: £31,800), Mark Nichols £715,519 (2015: £nil), Bill Westwater Enil (2015: £242,600), Chris Hanson £55,163 (2015: £162,600), Dr Steve Jenkins £1,499 (2015: £129,470).

## Directors' shareholdings

The interests of the Directors holding office at 31st December 2016 in the shares of the Company, including family interests were:

|                  | Ordinary shares of 0.15p each |           |
|------------------|-------------------------------|-----------|
|                  | 2016<br>Number                | 2016<br>% |
| John Samuel      | 1,454,966                     | 2.2       |
| Mark Nichols     | -                             | -         |
| Paul Denney      | -                             | -         |
| Julian Viggars   | -                             | -         |
| Dr Richard Ellis | -                             | -         |

## Directors' remuneration report continued

### 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 31st December 2016 were:

|                            | At<br>1st August<br>2015 | Granted<br>during the<br>period | Exercised<br>during the<br>period | Forfeited/<br>lapsed<br>during the<br>period | At<br>31st December<br>2016 | Exercise<br>price |
|----------------------------|--------------------------|---------------------------------|-----------------------------------|--|-----------------------------|-------------------|
| John Samuel (note 4)       | 81,300                   | -                               | -                                 | -  | 81,300                      | 0.15p             |
| Mark Nichols (note 8)      | -                        | 1,250,000                       | -                                 | -  | 1,250,000                   | 225.0p            |
| Mark Nichols (note 9)      | -                        | 34,188                          | -                                 | -  | 34,188                      | 0.15p             |
| Bill Westwater (note 1)    | 366,166                  | -                               | (366,166)                         | -  | -                           | 10.80p            |
| Bill Westwater (note 2)    | 588,500                  | -                               | (588,500)                         | -  | -                           | 12.00p            |
| Bill Westwater (note 3)    | 713,166                  | -                               | (713,166)                         | -  | -                           | 16.20p            |
| Bill Westwater (note 4)    | 609,756                  | -                               | (609,756)                         | -  | -                           | 0.15p             |
| Bill Westwater (note 7)    | 17,626                   | -                               | -                                 | (17,626)                                     | -                           | 160.50p           |
| Chris Hanson (note 2)      | 891,500                  | -                               | -                                 | -  | 891,500                     | 12.00p            |
| Chris Hanson (note 4)      | 406,504                  | -                               | -                                 | -  | 406,504                     | 0.15p             |
| Chris Hanson (note 7)      | 11,495                   | -                               | -                                 | -  | 11,495                      | 160.50p           |
| Chris Hanson (note 9)      | -                        | 15,384                          | -                                 | -  | 15,384                      | 0.15p             |
| Chris Hanson (note 10)     | -                        | 125,000                         | -                                 | -  | 125,000                     | 182.50p           |
| Dr Steve Jenkins (note 5)  | 300,333                  | -                               | (300,333)                         | -  | -                           | 10.80p            |
| Dr Steve Jenkins (note 2)  | 284,666                  | -                               | -                                 | -  | 284,666                     | 12.00p            |
| Dr Steve Jenkins (note 6)  | 427,832                  | -                               | -                                 | -  | 427,832                     | 16.20p            |
| Dr Steve Jenkins (note 4)  | 325,204                  | -                               | -                                 | -  | 325,204                     | 0.15p             |
| Dr Steve Jenkins (note 7)  | 10,729                   | -                               | -                                 | -  | 10,729                      | 160.50p           |
| Dr Steve Jenkins (note 9)  | -                        | 15,384                          | -                                 | -  | 15,384                      | 0.15p             |
| Dr Steve Jenkins (note 10) | -                        | 125,000                         | -                                 | -  | 125,000                     | 182.50p           |

Note 1. There were employment conditions in relation to the 366,166 options granted on 13th May 2010 which allowed for vesting in six instalments between the date of grant and 17th June 2011.

Note 2. There were employment conditions in relation to the 1,746,666 options granted on 24th April 2013 which allowed for vesting in nine instalments between the date of grant and 4th March 2016.

Note 3. There were employment conditions in relation to the 375,500 options granted on 18th March 2011 which allowed for vesting in nine instalments between the date of grant and 11th October 2013, and in relation to the 337,666 options granted on 19th March 2012 and 20th July 2012 which allowed for vesting in nine instalments between the date of grant and 1st January 2015.

Note 4. There were employment period and performance conditions in relation to the 1,422,764 options granted on 25th 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 31st July 2015 the performance conditions had been met.

Note 5. There were employment conditions in relation to the 300,333 options granted on 13th May 2010 which allowed for vesting in nine instalments between the date of grant and 9th March 2012.

Note 6. There were employment conditions in relation to 225,166 options granted on 18th March 2011 which allowed for vesting in nine instalments between the date of grant and 11th October 2013. Additionally, a further 202,666 options granted on 19th March 2012 allowed for vesting in nine instalments between the date of grant and 1st January 2015.

Note 7. There were employment conditions in relation to 39,850 options granted on 30th January 2015 which allowed for vesting in 16 instalments between the date of grant and 30th January 2019.

Note 8. There were employment conditions in relation to 1,000,000 options granted on 12th November 2015 which allowed for vesting in three annual instalments between 14th September 2016 and 14th September 2018, and a further 250,000 options granted on 16th December 2015 which allowed for vesting in three annual instalments between 16th December 2016 and 16th December 2018.

Note 9. There were employment conditions in relation to 64,956 options granted on 30th January 2016 which allowed for vesting on 20th January 2019.

Note 10. There were employment conditions in relation to 250,000 options granted on 18th January 2016 which allowed for vesting in three annual instalments between 18th January 2017 and 18th January 2019.

Subsequent to the period end, Chris Hanson exercised his options following his resignation as a Director of the Company. Dr Steve Jenkins resigned as a Director of the company during the year, but continues to be employed within the Group and he continues to satisfy the conditions of employment relating to his share options.

On behalf of the Board

**John Samuel**  
Chairman of the Remuneration Committee  
19th April 2017

## Corporate governance

The Company is not required to comply with the UK Corporate Governance Code (the 'Code') and does not voluntarily apply the full requirements of the Code. However, our governance arrangements do meet many of the requirements of the Code which the Directors deem most relevant to an AIM listed company having consideration to the size, nature and scope of the Company and Group's activities.

### The Board

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

### Audit Committee

The Audit Committee consists of Julian Viggars as Chairman and John Samuel. 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 half yearly and 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 John Samuel as Chairman, Julian Viggars and Richard Ellis. 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 a small 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:

- a. Management accounts information, budgets, forecasts and business risk issues are regularly reviewed by the Board who meet at least seven times per year;
- b. The Company has operational, accounting and employment policies in place;
- c. 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;
- d. There is a clearly defined organisational structure, and
- e. There are well-established financial reporting and control systems.

### Going concern

At 31st December 2016, the Group had £18,975,000 of cash and cash equivalents available to it, along with £9,959,000 of cash held in term deposit accounts. At this stage in its development the Company is reliant on equity share funding. 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 30th April 2018. These forecasts indicate that the Company 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 discretionary expenditure included. Accordingly, the Directors consider that this should enable the Company to continue in operational existence for the foreseeable future and the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

Note 17 to this financial information includes the Company'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.

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## Statement of Directors' responsibilities

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### Statement of Directors' responsibilities in respect of the Annual Report, Strategic report, the Directors' report and the financial statements

The Directors are responsible for preparing the Annual Report, Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. As required by the AIM rules for Companies published by the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU and applicable law and have elected to prepare the parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the parent Company and of their profit or loss for that period. In preparing each of the Group and the parent Company financial statements, the Directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect 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.

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

We have audited the financial statements of Xeros Technology Group plc for the 17 month period ended 31st December 2016 set out on pages 24 to 54. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

## Opinion on financial statements

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 31st December 2016 and of the group's loss for the 17 month period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company's financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the 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.

## Claire Needham

(Senior Statutory Auditor)  
For and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*  
1 Sovereign Square  
Sovereign Street  
Leeds  
LS1 4DA

19th April 2017

## Consolidated statement of profit or loss and other comprehensive income

For the 17 month period ended 31st December 2016

|   | Notes | 17 months<br>ended<br>31st December<br>2016<br>£'000 | Year<br>ended<br>31st July<br>2015<br>£'000 |
|---|-------|--|---|
| Earned income   |       | 2,466  | 480   |
| Less: lease interest income                                     | 8     | (73)   | (14)  |
| <b>Revenue</b>  | 3     | <b>2,393</b>   | 466   |
| Cost of sales   |       | (2,103)  | (399)                                       |
| <b>Gross profit</b>   |       | <b>290</b>   | 67  |
| <b>Lease interest income</b>                                    | 8     | <b>73</b>  | 14  |
| <b>Adjusted gross margin*</b>                                   |       | <b>363</b>   | 81  |
| Administrative expenses   | 6     | (22,640)   | (11,102)                                    |
| Other operating income  | 7     | -  | 174   |
| <b>Adjusted EBITDA*</b>   |       | <b>(20,659)</b>                                      | (9,868)                                     |
| Share based payment expense                                     | 23    | (1,232)  | (916)                                       |
| Non operating exceptional costs                                 | 6     | (87)   | -   |
| Depreciation of tangible fixed assets                           | 11    | (372)  | (77)  |
| <b>Operating loss</b>   |       | <b>(22,350)</b>                                      | (10,861)                                    |
| Finance income  | 8     | 1,225  | 192   |
| <b>Loss before taxation</b>                                     |       | <b>(21,125)</b>                                      | (10,669)                                    |
| Taxation  | 9     | 886  | 464   |
| <b>Loss after tax</b>   |       | <b>(20,239)</b>                                      | (10,205)                                    |
| <b>Other comprehensive income:</b>                              |       |  |   |
| <b>Items that are or may be reclassified to profit or loss:</b> |       |  |   |
| Foreign currency translation differences - foreign operations   |       | (1,720)  | 16  |
| <b>Total comprehensive expense for the period</b>               |       | <b>(21,959)</b>                                      | (10,189)                                    |
| <b>Loss per share</b>   |       |  |   |
| <b>Basic and diluted on loss from continuing operations</b>     | 10    | <b>(25.04)p</b>                                      | (15.62)p                                    |

\* Adjusted gross margin comprises gross profit plus lease interest income. Adjusted EBITDA comprises loss on ordinary activities before interest, tax, share-based payment expense, non-operating exceptional costs, depreciation and amortisation.

## Consolidated statement of changes in equity

For the 17 month period ended 31st December 2016

|  | Share capital<br>£'000 | Share premium<br>£'000 | Merger reserve<br>£'000 | Foreign currency translation reserve<br>£'000 | Retained earnings deficit<br>£'000 | Total<br>£'000 |
|--|------------------------|------------------------|-------------------------|---|------------------------------------|----------------|
| <b>At 31st July 2014</b>                               | 98                     | 28,132                 | 15,443                  | (38)  | (13,137)                           | 30,498         |
| Loss for the year                                      | -                      | -                      | -                       | -   | (10,205)                           | (10,205)       |
| Other comprehensive expense                            | -                      | -                      | -                       | 16  | -                                  | 16             |
| Loss and total comprehensive expense for the year      | -                      | -                      | -                       | 16  | (10,205)                           | (10,189)       |
| Transactions with owners, recorded directly in equity: |                        |                        |                         |   |                                    |                |
| Issue of shares  | -                      | 46                     | -                       | -   | -                                  | 46             |
| Share based payment expense                            | -                      | -                      | -                       | -   | 916                                | 916            |
| Total contributions by and distributions to owners     | -                      | 46                     | -                       | -   | 916                                | 962            |
| <b>At 31st July 2015</b>                               | <b>98</b>              | <b>28,178</b>          | <b>15,443</b>           | <b>(22)</b>                                   | <b>(22,426)</b>                    | <b>21,271</b>  |
| Loss for the period                                    | -                      | -                      | -                       | -   | (20,239)                           | (20,239)       |
| Other comprehensive expense                            | -                      | -                      | -                       | (1,720)                                       | -                                  | (1,720)        |
| Loss and total comprehensive expense for the period    | -                      | -                      | -                       | (1,720)                                       | (20,239)                           | (21,959)       |
| Transactions with owners, recorded directly in equity: |                        |                        |                         |   |                                    |                |
| Issue of shares  | 27                     | 39,973                 | -                       | -   | -                                  | 40,000         |
| Exercise of share options                              | 4                      | 281                    | -                       | -   | -                                  | 285            |
| Costs of share issues                                  | -                      | (2,152)                | -                       | -   | -                                  | (2,152)        |
| Share based payment expense                            | -                      | -                      | -                       | -   | 1,232                              | 1,232          |
| Total contributions by and distributions to owners     | 31                     | 38,102                 | -                       | -   | 1,232                              | 39,365         |
| <b>At 31st December 2016</b>                           | <b>129</b>             | <b>66,280</b>          | <b>15,443</b>           | <b>(1,742)</b>                                | <b>(41,433)</b>                    | <b>38,677</b>  |

## Consolidated statement of financial position

For the 17 month period ended 31st December 2016

|                                      | Notes | At<br>31st December<br>2016<br>£'000 | At<br>31st July<br>2015<br>£'000 |
|--------------------------------------|-------|--------------------------------------|----------------------------------|
| <b>Assets</b>                        |       |                                      |                                  |
| <b>Non-current assets</b>            |       |                                      |                                  |
| Property, plant and equipment        | 11    | 1,588                                | 577                              |
| Trade and other receivables          | 14    | 1,656                                | 363                              |
| <b>Total non-current assets</b>      |       | <b>3,244</b>                         | 940                              |
| <b>Current assets</b>                |       |                                      |                                  |
| Inventories                          | 12    | 7,005                                | 2,909                            |
| Derivative financial instruments     | 13    | 705                                  | -                                |
| Trade and other receivables          | 14    | 1,830                                | 578                              |
| Current tax asset                    | 9     | -                                    | 477                              |
| Investments – bank deposits          | 15    | 9,959                                | 1,539                            |
| Cash and cash equivalents            | 16    | 18,975                               | 15,913                           |
| <b>Total current assets</b>          |       | <b>38,474</b>                        | 21,416                           |
| <b>Total assets</b>                  |       | <b>41,718</b>                        | 22,356                           |
| <b>Liabilities</b>                   |       |                                      |                                  |
| <b>Non-current liabilities</b>       |       |                                      |                                  |
| Deferred tax                         | 19    | (39)                                 | (22)                             |
| <b>Total non-current liabilities</b> |       | <b>(39)</b>                          | (22)                             |
| <b>Current liabilities</b>           |       |                                      |                                  |
| Trade and other payables             | 18    | (3,002)                              | (1,063)                          |
| <b>Total current liabilities</b>     |       | <b>(3,002)</b>                       | (1,063)                          |
| <b>Total liabilities</b>             |       | <b>(3,041)</b>                       | (1,085)                          |
| <b>Net assets</b>                    |       | <b>38,677</b>                        | 21,271                           |
| <b>Equity</b>                        |       |                                      |                                  |
| Share capital                        | 20    | 129                                  | 98                               |
| Share premium                        | 20    | 66,280                               | 28,178                           |
| Merger reserve                       | 20    | 15,443                               | 15,443                           |
| Foreign currency translation reserve | 21    | (1,742)                              | (22)                             |
| Accumulated losses                   | 21    | (41,433)                             | (22,426)                         |
| <b>Total equity</b>                  |       | <b>38,677</b>                        | 21,271                           |

Approved by the Board of Directors and authorised for issue on 19th April 2017.

**John Samuel**  
Chairman

**Paul Denney**  
Chief Financial Officer

Company number: 08684474

## Consolidated statement of cash flows

For the 17 month period ended 31st December 2016

|  | Notes | 17 months<br>ended<br>31st December<br>2016<br>£'000 | Year<br>ended<br>31st July<br>2015<br>£'000 |
|--|-------|--|---|
| <b>Operating activities</b>                                    |       |  |   |
| Loss before tax  |       | (21,125)   | (10,669)                                    |
| Adjustment for non-cash items:                                 |       |  |   |
| Depreciation of property, plant and equipment                  | 11    | 372  | 77  |
| Share based payment  | 23    | 1,232  | 916   |
| Increase in inventories  |       | (3,957)  | (2,110)                                     |
| Increase in trade and other receivables                        |       | (2,424)  | (90)  |
| (Decrease)/increase in trade and other payables                |       | (663)  | 288   |
| Finance income   |       | (1,225)  | (192)                                       |
| <b>Cash used in operations</b>                                 |       | <b>(27,790)</b>                                      | <b>(11,780)</b>                             |
| Tax receipts/(payments)  |       | 1,380  | (8)   |
| <b>Net cash outflow from operations</b>                        |       | <b>(26,410)</b>                                      | <b>(11,788)</b>                             |
| <b>Investing activities</b>                                    |       |  |   |
| Finance income   |       | 520  | 192   |
| Cash placed on deposits with more than 3 months maturity       |       | (8,420)  | (13)  |
| Purchases of property, plant and equipment                     | 11    | (811)  | (532)                                       |
| <b>Net cash outflow from investing activities</b>              |       | <b>(8,711)</b>                                       | <b>(353)</b>                                |
| <b>Financing activities</b>                                    |       |  |   |
| Proceeds from issue of share capital, net of costs             | 20    | 38,133   | 46  |
| <b>Net cash inflow from financing activities</b>               |       | <b>38,133</b>  | <b>46</b>                                   |
| Increase/(decrease) in cash and cash equivalents               |       | 3,012  | (12,095)                                    |
| Cash and cash equivalents at start of year                     |       | 15,913   | 27,999                                      |
| Effect of exchange rate fluctuations on cash held              |       | 50   | 9   |
| <b>Cash and cash equivalents at the end of the period/year</b> | 16    | <b>18,975</b>  | 15,913                                      |

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## Notes to the consolidated financial statements continued

### For the 17 month period ended 31st December 2016

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#### 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 17 month period to 31st December 2016. These include comparatives for the year to 31st July 2015. 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 entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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 this stage in its development the Company is reliant on equity share funding. 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 30th April 2018. These forecasts indicate that the Company is able to settle its liabilities as they fall due in the forecast period.

Accordingly, the Directors consider that this should enable the Company to continue in operational existence for the foreseeable future and the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

Note 17 to this financial information includes the Company'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.

#### 2) Significant accounting policies

The principal accounting policies applied are set out below.

##### Revenue recognition

Revenue is recognised at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of business and is shown net of Value Added Tax. The Group primarily earns revenues from the sale/provision of polymer bead cleaning equipment, consumables and services.

Where products are sold outright, product sales revenues are recognised once the goods have been despatched. Where sales are made through the Xeros Sbeadycare® service, the contract is separated into the element relating to the initial sale of equipment (where relevant), and the ongoing service element. Consideration is allocated to the different components based on their relative fair values. Service income is recognised pro-rata over the life of the contract. Where equipment is sold under a finance lease agreement revenue is recognised in accordance with the stated lessor accounting policy. Amounts received in respect of operating leases are recognised in the income statement with reference to the period of rental.

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.

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## 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 on 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 stated 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 operation 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.

## Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

Income from grants is allocated to 'cost of sales' and 'administrative expenses' in the consolidated statement of profit or loss and other comprehensive income to match it against the underlying expenditure incurred.

## 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:

- technical feasibility of the completed intangible asset;
- the probability of future economic benefits;
- the reliable measurement of costs;
- the ability and intention of the Group to use or sell the intangible asset.

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.

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## Notes to the consolidated financial statements continued

### For the 17 month period ended 31st December 2016

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## 2) Significant accounting policies continued

### Leases

#### As a lessee

At the current time, the Group only partakes of lease arrangements where all of the risks and rewards incidental to ownership are not transferred to the Group (an 'operating lease'), the total rentals payable under the lease are charged to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction in the rental expense over the lease term.

#### As a lessor

As the Company transfers substantially all the risks and benefits of ownership of the asset, the arrangement is classified as a finance lease and 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 operating leases 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.

### 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                |

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.

### Impairment of property, plant and equipment

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

### 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').

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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.

### **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.

### **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.

### **Investments – bank deposits**

Comprise bank deposits maturing more than three months after the balance sheet date.

### **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.

### **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.

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## Notes to the consolidated financial statements continued

### For the 17 month period ended 31st December 2016

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#### 2) Significant accounting policies continued

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.

#### 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, marketed under Xeros Sbeadycare<sup>®</sup>. This package includes the transfer of equipment and an ongoing commitment to service and support. As part of determining the appropriate revenue recognition policy for such packages, the Group is required to determine the relative fair values of the various elements of revenue. The Group is also required to make judgements as to the market rate of interest used in the calculations. 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.

##### 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. 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:

|   |  |                  |
|---|--|------------------|
| IFRS 2 (amended June 2016)  | Share-based Payment                          | 1st January 2018 |
| IFRS 4 (amended September 2016)                                       | Insurance Contracts                          | 1st January 2018 |
| IFRS 9  | Financial Instruments                        | 1st January 2018 |
| IFRS 10 (amended December 2014)                                       | Consolidated Financial Statements            | 1st January 2016 |
| IFRS 11 (amended May 2014)  | Joint Arrangements                           | 1st January 2016 |
| IFRS 12 (amended December 2014)                                       | Disclosure of Interests in Other Entities    | 1st January 2016 |
| IFRS 14   | Regulatory Deferral Accounts                 | 1st January 2016 |
| IFRS 15   | Revenue from Contracts with Customers        | 1st January 2018 |
| IFRS 16   | Leases                                       | 1st January 2019 |
| IAS 1 (amended December 2014)   | Presentation of Financial Statements         | 1st January 2016 |
| IAS 7 (amended January 2016)  | Statements of Cash Flows                     | 1st January 2017 |
| IAS 12 (amended January 2016)   | Income Taxes                                 | 1st January 2017 |
| IAS 16 (amended May and June 2014)                                    | Property, Plant and Equipment                | 1st January 2016 |
| IAS 27 (amended August 2014)  | Separate Financial Statements                | 1st January 2016 |
| IAS 28 (amended December 2014)  | Investments in Associates and Joint Ventures | 1st January 2016 |
| IAS 38 (amended May 2014)   | Intangible Assets                            | 1st January 2016 |
| IAS 41 (amended June 2014)  | Agriculture                                  | 1st January 2016 |
| Amendments resulting from September 2014 Annual Improvements to IFRSs |  | 1st January 2016 |

The Directors are currently evaluating the impact of IFRS 15 on its revenue recognition policies. It is not anticipated that any of the other new standards or interpretations will have a material impact.

### 3) Segmental reporting

The information that is presented to the Chief Executive Officer, who is considered to be the Chief Operating Decision Maker ('CODM'), for the purposes of resource allocation and assessment of performance, is based wholly on the overall activities of the Group. Due to the current size and activities of the Group, there is a high degree of centralisation of activities. The Directors therefore consider that there is one operating, and hence one reportable segment for the purposes of presenting information under IFRS 8; that of 'Development and commercialisation of polymer bead cleaning technologies'. There are no differences between the segment results and the consolidated statement of comprehensive income. The assets and liabilities information presented to the CODM is consistent with the consolidated statement of financial position.

The single operating segment includes revenue by category as follows:

|                       | 17 months<br>ended<br>31st December<br>2016<br>£'000 | Year<br>ended<br>31st July<br>2015<br>£'000 |
|-----------------------|--|---|
| Sale of goods         | 1,556  | 289   |
| Rendering of services | 837  | 177   |
|                       | <b>2,393</b>   | 466   |

## Notes to the consolidated financial statements continued

For the 17 month period ended 31st December 2016

### 3) Segmental reporting continued

During the 17 month period ended 31st December 2016 the Group had two customers who individually generated more than 10% of revenue. Those customers accounted for 19% and 13% of revenue respectively.

During the year ended 31st July 2015 the Group had no customers who individually generated more than 10% of total revenue.

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

|               | <b>17 months<br/>ended<br/>31st December<br/>2016<br/>£'000</b> | Year<br>ended<br>31st July<br>2015<br>£'000 |
|---------------|---|---|
| Europe        | 259   | 88  |
| North America | 2,134   | 378   |
|               | <b>2,393</b>  | 466   |

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

|               | <b>17 months<br/>ended<br/>31st December<br/>2016<br/>£'000</b> | Year<br>ended<br>31st July<br>2015<br>£'000 |
|---------------|---|---|
| Europe        | 722   | 517   |
| North America | 2,522   | 423   |
|               | <b>3,244</b>  | 940   |

### 4) Loss from operations

|   | <b>17 months<br/>ended<br/>31st December<br/>2016<br/>£'000</b> | Year<br>ended<br>31st July<br>2015<br>£'000 |
|---|---|---|
| Loss from operations is stated after crediting:                           |   |   |
| Grant income  | 410   | 74  |
| Foreign exchange gains  | 3,848   | 174   |
| Loss from operations is stated after charging to administrative expenses: |   |   |
| Depreciation of plant and equipment (see note 11)                         | 372   | 77  |
| Operating lease rentals – land and buildings                              | 270   | 104   |
| Staff costs (excluding share based payment charge)                        | 10,525  | 4,334                                       |
| Research and development  | 3,067   | 1,401                                       |
| <b>Auditors remuneration:</b>   |   |   |
| – Audit of these financial statements                                     | 12  | 8   |
| – Audit of financial statements of subsidiaries of the Company            | 12  | 12  |
| – All other services  | 29  | 6   |
| <b>Total auditor's remuneration</b>                                       | <b>53</b>   | 26  |

Other services in the current period related to interim review work, tax advice and advice in respect of the Group's overseas subsidiary.

## 5) Staff numbers and costs

|  | <b>17 months<br/>ended<br/>31st December<br/>2016<br/>Number</b> | Year<br>ended<br>31st July<br>2015<br>Number |
|--|--|--|
| The average monthly number of persons (including Directors) employed by the Group during the year was: |  |  |
| Directors  | <b>6</b>   | 7  |
| Operational staff  | <b>92</b>  | 58   |
|  | <b>98</b>  | 65   |
|  | <b>£'000</b>   | £'000  |
| The aggregate remuneration, including Directors, comprised:  |  |  |
| Wages and salaries   | <b>9,512</b>   | 3,952  |
| Social security costs  | <b>992</b>   | 382  |
| Pension contributions  | <b>21</b>  | -  |
| Share based expense (see note 23)  | <b>1,232</b>   | 916  |
|  | <b>11,757</b>  | 5,250  |
| Directors' remuneration comprised:   |  |  |
| Emoluments for qualifying services   | <b>1,209</b>   | 775  |

Directors' emoluments disclosed above include £457,000 paid to the highest paid Director (Year ended 31st July 2015: £306,000). There are no pension benefits for Directors. Please see Directors' remuneration report on pages 18 to 20 for further information on Directors' emoluments.

## Notes to the consolidated financial statements continued

For the 17 month period ended 31st December 2016

### 6) Expenses by nature

The administrative expenses charge by nature is as follows:

|   | 17 months<br>ended<br>31st December<br>2016<br>£'000 | Year<br>ended<br>31st July<br>2015<br>£'000 |
|---|--|---|
| Staff costs, recruitment and other HR           | 11,288   | 4,647                                       |
| Share-based payment expense                     | 1,232  | 916   |
| Premises and establishment costs                | 504  | 222   |
| Research and development costs                  | 3,067  | 1,401                                       |
| Patent and IP costs                             | 1,661  | 655   |
| Engineering and operational costs               | 1,314  | -   |
| Legal, professional and consultancy fees        | 2,720  | 1,196                                       |
| IT, telecoms and office costs                   | 645  | 203   |
| Depreciation charge                             | 361  | 77  |
| Travelling, subsistence and entertaining        | 2,102  | 950   |
| Advertising, conferences and exhibitions        | 1,548  | 637   |
| Other expenses                                  | 325  | 263   |
| Less: foreign exchange gains                    | (3,848)  | -   |
| Less: grants receivable                         | (366)  | (65)  |
| Total operating administrative expenses         | 22,553   | 11,102                                      |
| Non operating administrative exceptional items: |  |   |
| Costs of placing of ordinary shares             | 87   | -   |
| <b>Total administrative expenses</b>            | <b>22,640</b>  | <b>11,102</b>                               |

### 7) Other operating income

|                        | 17 months<br>ended<br>31st December<br>2016<br>£'000 | Year<br>ended<br>31st July<br>2015<br>£'000 |
|------------------------|--|---|
| Foreign exchange gains | -  | 174   |

### 8) Finance income

|  | 17 months<br>ended<br>31st December<br>2016<br>£'000 | Year<br>ended<br>31st July<br>2015<br>£'000 |
|--|--|---|
| Bank interest receivable                     | 447  | 178   |
| Gain from forward foreign currency contracts | 705  | -   |
| Finance income from lease receivables        | 73   | 14  |
|  | <b>1,225</b>   | <b>192</b>                                  |

## 9) Taxation

### Tax on loss on ordinary activities

|  | 17 months<br>ended<br>31st December<br>2016<br>£'000 | Year<br>ended<br>31st July<br>2015<br>£'000 |
|--|--|---|
| <b>Current tax:</b>                                      |  |   |
| UK Tax credits received in respect of prior periods      | (923)  | (477)                                       |
| Foreign taxes paid                                       | 20   | 8   |
|  | (903)  | (469)                                       |
| <b>Deferred tax:</b>                                     |  |   |
| Origination and reversal of temporary timing differences | 17   | 5   |
| <b>Tax credit on loss on ordinary activities</b>         | <b>(886)</b>   | <b>(464)</b>                                |

The credit for the period/year 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 small company rate of corporation tax as explained below:

|  | 17 months<br>ended<br>31st December<br>2016<br>£'000 | Year<br>ended<br>31st July<br>2015<br>£'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   | (21,125)   | (10,669)                                    |
| Tax at the standard rate of corporation tax 20% (2015: 20%)  | (4,225)  | (2,134)                                     |
| Effects of:  |  |   |
| Expenses not deductible for tax purposes   | 291  | 202   |
| Research and development tax credits receivable  | (923)  | (477)                                       |
| Unutilised tax losses for which no deferred tax asset is recognised                                      | 5,130  | 1,937                                       |
| Employee share acquisition adjustment  | (1,172)  | -   |
| Foreign taxes paid   | 20   | 8   |
| Change in tax rates  | (7)  | -   |
| <b>Tax credit for the period/year</b>  | <b>(886)</b>   | <b>(464)</b>                                |

In the year ended 31st July 2015, the Group had an amount of £477,000 receivable from HM Revenue and Customs in respect of Research and Development tax credits. This was included as a current tax asset in the consolidated statement of financial position on the basis that HMRC had agreed that this amount was payable and it was received shortly after the period end. The Group accounts for Research and Development tax credits where there is certainty regarding HMRC approval and, as no claims have yet been made for the period to 31st December 2016, the Group has not recognised a debtor for any amounts that may be receivable for this period.

## Notes to the consolidated financial statements continued

For the 17 month period ended 31st December 2016

### 10) 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.

|  | 17 months<br>ended<br>31st December<br>2016<br>£'000 | Year<br>ended<br>31st July<br>2015<br>£'000 |
|--|--|---|
| <b>Total loss attributable to the equity holders of the parent</b>         | <b>(20,239)</b>                                      | (10,205)                                    |
|  | <b>No.</b>   | <b>No.</b>                                  |
| <b>Weighted average number of ordinary shares in issue during the year</b> | <b>80,839,504</b>                                    | 65,336,459                                  |
| <b>Loss per share</b>  |  |   |
| Basic and diluted on loss for the year                                     | <b>(25.04)p</b>                                      | (15.62)p                                    |

Adjusted earnings per share has been calculated so as to exclude the effect of non-operating 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:

|  |                 |          |
|--|-----------------|----------|
| <b>Basic earnings</b>                  | <b>(20,239)</b> | (10,205) |
| Non-operating exceptional costs        | <b>87</b>       | -        |
| Adjusted earnings                      | <b>(20,152)</b> | (10,205) |
| <b>Adjusted loss per share</b>         |                 |          |
| Basic and diluted on loss for the year | <b>(24.93)p</b> | (15.62)p |

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

|   | 17 months<br>ended<br>31st December<br>2016 | Year<br>ended<br>31st July<br>2015 |
|---|---|------------------------------------|
| Issued ordinary shares at 1st August                          | <b>65,504,879</b>                           | 65,173,549                         |
| Effect of shares issued for cash                              | <b>15,334,625</b>                           | 162,910                            |
| Weighted average number of shares at 31st December/ 31st July | <b>80,839,504</b>                           | 65,336,459                         |

The Company has issued employee options over 6,687,763 (31st July 2015: 7,368,901) 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.

## 11) Property, plant and equipment

|                              | Assets<br>under<br>construction<br>£'000 | Leasehold<br>improvements<br>£'000 | Plant<br>and<br>equipment<br>£'000 | Computer<br>equipment<br>£'000 | Fixtures<br>and<br>fittings<br>£'000 | Total<br>£'000 |
|------------------------------|--|------------------------------------|------------------------------------|--------------------------------|--------------------------------------|----------------|
| <b>Cost</b>                  |  |                                    |                                    |                                |                                      |                |
| <b>At 31st July 2014</b>     | -  | 91                                 | 92                                 | 57                             | 44                                   | 284            |
| Additions                    | 360                                      | 39                                 | 59                                 | 27                             | 47                                   | 532            |
| Foreign currency differences | -  | -                                  | -                                  | 1                              | -                                    | 1              |
| <b>At 31st July 2015</b>     | <b>360</b>                               | <b>130</b>                         | <b>151</b>                         | <b>85</b>                      | <b>91</b>                            | <b>817</b>     |
| Additions                    | 116                                      | 225                                | 801                                | 186                            | 53                                   | 1,381          |
| Transfers                    | (476)                                    | 476                                | -                                  | -                              | -                                    | -              |
| Foreign currency differences | -  | 11                                 | 10                                 | 6                              | 5                                    | 32             |
| <b>At 31st December 2016</b> | <b>-</b>                                 | <b>842</b>                         | <b>962</b>                         | <b>277</b>                     | <b>149</b>                           | <b>2,230</b>   |
| <b>Depreciation</b>          |  |                                    |                                    |                                |                                      |                |
| <b>At 31st July 2014</b>     | -  | 63                                 | 41                                 | 24                             | 35                                   | 163            |
| Charge for the year          | -  | 24                                 | 24                                 | 20                             | 9                                    | 77             |
| <b>At 31st July 2015</b>     | <b>-</b>                                 | <b>87</b>                          | <b>65</b>                          | <b>44</b>                      | <b>44</b>                            | <b>240</b>     |
| Charge for the period        | -  | 203                                | 81                                 | 61                             | 27                                   | 372            |
| Foreign currency differences | -  | 16                                 | 6                                  | 6                              | 2                                    | 30             |
| <b>At 31st December 2016</b> | <b>-</b>                                 | <b>306</b>                         | <b>152</b>                         | <b>111</b>                     | <b>73</b>                            | <b>642</b>     |
| <b>Net book value</b>        |  |                                    |                                    |                                |                                      |                |
| <b>At 31st December 2016</b> | <b>-</b>                                 | <b>536</b>                         | <b>810</b>                         | <b>166</b>                     | <b>76</b>                            | <b>1,588</b>   |
| <b>At 31st July 2015</b>     | 360                                      | 43                                 | 86                                 | 41                             | 47                                   | 577            |
| <b>At 31st July 2014</b>     | -  | 28                                 | 51                                 | 33                             | 9                                    | 121            |

Assets under construction comprised leasehold improvements at the Company's new Technology Centre at the Advanced Manufacturing Park. These new premises were completed in August 2015 and these costs have been transferred to leasehold improvements.

Included within plant and machinery are assets with a net book value of £506,000 (31st July 2015: £nil) which the Group leases (as lessor) to customers under a number of operating lease agreements.

## 12) Inventories

|                | 31st December<br>2016<br>£'000 | 31st July<br>2015<br>£'000 |
|----------------|--------------------------------|----------------------------|
| Finished goods | 7,005                          | 2,909                      |

In the period ended 31st December 2016, changes in finished goods recognised as cost of sales amounted to £920,000 (year ended 31st July 2015: £345,000).

**Notes to the consolidated financial statements** continued  
For the 17 month period ended 31st December 2016

**13) Other financial assets**

|   | 31st December<br>2016<br>£'000 | 31st July<br>2015<br>£'000 |
|---|--------------------------------|----------------------------|
| <b>Current</b>  |                                |                            |
| Foreign currency forward contracts designated as fair value through profit and loss | 705                            | -                          |

**14) Trade and other receivables**

|                                      | 31st December<br>2016<br>£'000 | 31st July<br>2015<br>£'000 |
|--------------------------------------|--------------------------------|----------------------------|
| <b>Due within 12 months</b>          |                                |                            |
| Trade debtors                        | 272                            | 42                         |
| Other receivables                    | 1,078                          | 159                        |
| Prepayments and accrued income       | 480                            | 377                        |
|                                      | <b>1,830</b>                   | <b>578</b>                 |
| <b>Due after more than 12 months</b> |                                |                            |
| Other receivables                    | 1,656                          | 363                        |

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 IAS 17.

The minimum lease payment is receivable as follows:

|   | 31st December<br>2016<br>£'000 | 31st July<br>2015<br>£'000 |
|---|--------------------------------|----------------------------|
| Not later than one year                       | 284                            | 50                         |
| Later than one year not later than five years | 1,185                          | 218                        |
| Later than five years                         | 471                            | 145                        |
|   | <b>1,940</b>                   | <b>413</b>                 |

Contractual payment terms with the Group's customers are typically 30 to 60 days.

The Directors considered the carrying value of trade receivables at 31st December 2016 and made a provision of £77,000 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 Board considers 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 £1,656,000 (31st July 2015: £363,000) due after more than one year comprise the long-term portion of finance leases where the Group acts as lessor.

## 15) Investments - bank deposits

|  | 31st December<br>2016<br>£'000 | 31st July<br>2015<br>£'000 |
|--|--------------------------------|----------------------------|
| Bank deposits maturing between 3 and 12 months | 9,959                          | 1,539                      |

At 31st December 2016, the Group held £9,959,000 (31st July 2015: £1,539,000) in 95 day deposit accounts. This balance is denominated in UK Sterling (£). 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.

## 16) Cash and cash equivalents

|                           | 31st December<br>2016<br>£'000 | 31st July<br>2015<br>£'000 |
|---------------------------|--------------------------------|----------------------------|
| A                         | 5,206                          | 14,200                     |
| BBB+                      | 13,769                         | 1,713                      |
| Cash and cash equivalents | 18,975                         | 15,913                     |

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 31st December 2016 are at floating interest rates. Balances are denominated in UK Sterling (£), US Dollars (\$) and Euros as follows:

|                               | 31st December<br>2016<br>£'000 | 31st July<br>2015<br>£'000 |
|-------------------------------|--------------------------------|----------------------------|
| Denominated in Pound Sterling | 16,999                         | 15,537                     |
| Denominated in US Dollars     | 1,755                          | 316                        |
| Denominated in Euros          | 221                            | 60                         |
| Cash and cash equivalents     | 18,975                         | 15,913                     |

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.

## Notes to the consolidated financial statements continued

### For the 17 month period ended 31st December 2016

#### 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, all of the 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.

##### (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 by spreading its cash deposits across different banks and through ongoing monitoring of the credit ratings of those banks. Further details are set out in note 16. At 31st December 2016, the Directors were not aware of any factors affecting the recoverability of the Group's bank balances.

###### *Exposure to credit risk*

At 31st December 2016, the Group had trade receivables outstanding of £272,000 (2015: £42,000). The Directors have considered the recoverability of outstanding balances at 31st December 2016 and have made provisions for bad and doubtful debts amounting to £77,000 (31st July 2015: £nil). The Group had lease receivable balances outstanding of £1,940,000 (2015: £413,000). No provisions have been made against these balances.

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

|                          | 31st December<br>2016<br>£'000 | 31st July<br>2015<br>£'000 |
|--------------------------|--------------------------------|----------------------------|
| United Kingdom           | 1,153                          | 486                        |
| United States of America | 2,333                          | 455                        |
|                          | <b>3,486</b>                   | 941                        |

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### (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:

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| <b>Non-derivative financial liabilities</b> | <b>31st December<br/>2016<br/>£'000</b> | <b>31st July<br/>2015<br/>£'000</b> |
|---|---|-------------------------------------|
| <b>Due within one year</b>                  |   |                                     |
| Trade and other payables                    | 1,062                                   | 313                                 |

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### (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 notes 15 and 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 Dollar (USD) and the Euro (EUR). The Group's policy is to reduce currency exposure on sales and purchasing through forward foreign currency contracts.

The following are the fair values of assets held in respect of forward foreign currency contracts:

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| <b>Derivative financial assets</b>                  | <b>31st December<br/>2016<br/>£'000</b> | <b>31st July<br/>2015<br/>£'000</b> |
|---|---|-------------------------------------|
| <b>Due within one year</b>                          |   |                                     |
| Forward foreign exchange contracts used for hedging | 705                                     | -                                   |

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## Notes to the consolidated financial statements continued

For the 17 month period ended 31st December 2016

### 17) Financial instruments continued

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

| At 31st December 2016       | Sterling<br>£'000 | US Dollar<br>£'000 | Euro<br>£'000 | Total<br>£'000 |
|-----------------------------|-------------------|--------------------|---------------|----------------|
| Cash and cash equivalents   | 16,999            | 1,755              | 221           | 18,975         |
| Investments: Cash deposits  | 9,959             | -                  | -             | 9,959          |
| Trade and other receivables | 1,153             | 2,333              | -             | 3,486          |
| Forward exchange contracts  | 705               | -                  | -             | 705            |
| Trade and other payables    | (489)             | (559)              | (14)          | (1,062)        |
| Balance sheet exposure      | 28,327            | 3,529              | 207           | 32,063         |
| Net exposure                | -                 | 3,529              | 207           | 3,736          |

| At 31st July 2015           | Sterling<br>£'000 | US Dollar<br>£'000 | Euro<br>£'000 | Total<br>£'000 |
|-----------------------------|-------------------|--------------------|---------------|----------------|
| Cash and cash equivalents   | 15,537            | 316                | 60            | 15,913         |
| Investments: Cash deposits  | 1,539             | -                  | -             | 1,539          |
| Trade and other receivables | 453               | 125                | -             | 578            |
| Trade and other payables    | (232)             | (67)               | (14)          | (313)          |
| Balance sheet exposure      | 17,297            | 374                | 46            | 17,717         |
| Net exposure                | -                 | 374                | 46            | 420            |

#### Sensitivity analysis

A 10% weakening of the following currencies against the £ sterling at 31st December 2016 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 year ended 31st July 2015.

|            | Equity                         |                            | Profit or Loss                 |                            |
|------------|--------------------------------|----------------------------|--------------------------------|----------------------------|
|            | 31st December<br>2016<br>£'000 | 31st July<br>2015<br>£'000 | 31st December<br>2016<br>£'000 | 31st July<br>2015<br>£'000 |
| US Dollars | (353)                          | (37)                       | (353)                          | (37)                       |
| Euros      | (21)                           | (5)                        | (21)                           | (5)                        |

A 10% strengthening of the above currencies against the £ sterling at 31st December 2016 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:

|                                  | 31st December<br>2016<br>£'000 | 31st July<br>2015<br>£'000 |
|----------------------------------|--------------------------------|----------------------------|
| <b>Fixed rate instruments</b>    |                                |                            |
| Financial assets                 | 9,959                          | 1,539                      |
| Financial liabilities            | -                              | -                          |
|                                  | <b>9,959</b>                   | <b>1,539</b>               |
| <b>Variable rate instruments</b> |                                |                            |
| Financial assets                 | 18,975                         | 15,913                     |
| Financial liabilities            | -                              | -                          |
|                                  | <b>18,975</b>                  | <b>15,913</b>              |

Based on the Group's above balances at 31st December 2016, if interest rates had been 5% higher, then the impact on the results for the year would be a reduction in the loss for the period of approximately £2,369,000 with a corresponding increase in the Group's net assets. If the interest rate had reduced to 0%, then the impact on the results for the period would be an increase in the loss for the year of £447,000 with a corresponding decrease in the Group's net assets.

### (e) Foreign exchange forward contracts

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur:

| Due within one year                | 31st December<br>2016<br>£'000 | 31st July<br>2015<br>£'000 |
|------------------------------------|--------------------------------|----------------------------|
| <b>Forward exchange contracts:</b> |                                |                            |
| Assets                             | 705                            | -                          |
| Liabilities                        | -                              | -                          |
|                                    | <b>705</b>                     | <b>-</b>                   |

### (f) Capital management

The Group's capital is made up of share capital, share premium and retained losses, totalling £24,976,000 at 31st December 2016 (31st July 2015: £5,850,000).

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.

## Notes to the consolidated financial statements continued

For the 17 month period ended 31st December 2016

### 18) Trade and other payables

|                              | 31st December<br>2016<br>£'000 | 31st July<br>2015<br>£'000 |
|------------------------------|--------------------------------|----------------------------|
| Trade payables               | 696                            | 287                        |
| Taxes and social security    | 116                            | 79                         |
| Other creditors              | 366                            | 26                         |
| Accruals and deferred income | 1,824                          | 671                        |
|                              | <b>3,002</b>                   | 1,063                      |

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

|                | 31st December<br>2016<br>£'000 | 31st July<br>2015<br>£'000 |
|----------------|--------------------------------|----------------------------|
| Sterling       | 400                            | 216                        |
| US Dollars     | 282                            | 56                         |
| Euros          | 14                             | 15                         |
| Trade payables | <b>696</b>                     | 287                        |

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

|   | 31st December<br>2016<br>£'000 | 31st July<br>2015<br>£'000 |
|---|--------------------------------|----------------------------|
| Accelerated depreciation for tax purposes | 39                             | 22                         |
| Deferred tax expense for the period       | 17                             | 5                          |

|                      | 17 months<br>ended<br>31st December<br>2016<br>£'000 | Year<br>ended<br>31st July<br>2015<br>£'000 |
|----------------------|--|---|
| At beginning of year | 22   | 17  |
| Tax expense          | 17   | 5   |
| At end of year       | <b>39</b>  | 22  |

As at 31st December 2016, the Group had unrecognised deferred tax assets totalling approximately £7,208,000 (31st July 2015: £4,014,000), 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<br>£'000 | Share premium<br>£'000 | Merger reserve<br>£'000 | Total<br>£'000 |
|---|------------|------------------------|------------------------|-------------------------|----------------|
| <b>Total Ordinary shares of 0.15p each as at 31st July 2014</b>     | 65,173,549 | 98                     | 28,132                 | 15,443                  | 43,673         |
| Issue of ordinary shares on exercise of share options               | 331,330    | -                      | 46                     | -                       | 46             |
| <b>Total Ordinary shares of 0.15p each as at 31st July 2015</b>     | 65,504,879 | 98                     | 28,178                 | 15,443                  | 43,719         |
| Issue of ordinary shares following placing                          | 17,777,778 | 27                     | 39,973                 | -                       | 40,000         |
| Issue of ordinary shares on exercise of share options               | 2,739,254  | 4                      | 281                    | -                       | 285            |
| Costs of share issues   | -          | -                      | (2,152)                | -                       | (2,152)        |
| <b>Total Ordinary shares of 0.15p each as at 31st December 2016</b> | 86,021,911 | 129                    | 66,280                 | 15,443                  | 81,852         |

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 31st December 2016:

- 666,499 Ordinary Shares were allotted at a price of 10.8 pence per share, for total cash consideration of £71,982, upon the exercise of share options granted in the Company's EMI share option scheme.
- 588,500 Ordinary Shares were allotted at a price of 12.0 pence per share, for total cash consideration of £70,620, upon the exercise of share options granted in the Company's EMI and Unapproved share option schemes.
- 874,499 Ordinary Shares were allotted at a price of 16.2 pence per share, for total cash consideration of £141,669, upon the exercise of share options granted in the Company's EMI share option scheme.
- 609,756 Ordinary Shares were allotted at a price of 0.15 pence per share, for total cash consideration of £915, upon the exercise of share options granted in the Company's Unapproved share option scheme.
- 17,777,778 Ordinary Shares were allotted at a price of 225 pence per share, for total cash consideration of £40,000,000 (before costs) following a placing of shares.

At 31st December 2016, the Company had only one class of share, being Ordinary Shares of 0.15p each.

## Notes to the consolidated financial statements continued

For the 17 month period ended 31st December 2016

### 21) Movement in accumulated losses and foreign currency translation reserve

|  | Accumulated<br>losses<br>£'000 | Foreign<br>currency<br>translation<br>reserve<br>£'000 |
|--|--------------------------------|--|
| <b>At 31st July 2014</b>   | (13,137)                       | (38)   |
| Loss for the year  | (10,205)                       | -  |
| Other comprehensive income – Foreign currency translation differences – foreign operation  | -                              | 16   |
| Shared based payment charge  | 916                            | -  |
| <b>At 31st July 2015</b>   | <b>(22,426)</b>                | <b>(22)</b>  |
| Loss for the period  | (20,239)                       | -  |
| Other comprehensive expense – Foreign currency translation differences – foreign operation | -                              | (1,720)  |
| Shared based payment charge  | 1,232                          | -  |
| <b>At 31st December 2016</b>   | <b>(41,433)</b>                | <b>(1,742)</b>   |

### 22) Commitments

#### Operating lease commitments

The Group leases premises under non-cancellable operating lease agreements. The future aggregate minimum lease and service charge payments under non-cancellable operating leases are as follows:

|  | 31st December<br>2016<br>£'000 | 31st July<br>2015<br>£'000 |
|--|--------------------------------|----------------------------|
| Land and buildings:                    |                                |                            |
| Amounts due within one year            | 179                            | 93                         |
| Amounts due between one and five years | 97                             | 171                        |
|  | <b>276</b>                     | 264                        |

On 19th October 2014, the Group entered into a five-year lease arrangement in respect of a property. The Group has an annual rent commitment of £17,185 on this lease. This lease expires on 18th October 2019. On the same date the Group entered into a five-year lease arrangement in respect of another property. The Group has an annual rent commitment of £25,487 on this lease. This lease also expires on 18th October 2019.

On 13th February 2015, the Group entered into an arrangement assigning to it a 10-year lease in respect of a property. The lease commenced on 2nd April 2012, expires on 1st April 2022 and contains a break clause allowing termination of the lease after five years. The Group has an annual rent commitment of £50,160 on this lease.

In addition, the group has operating lease commitments in respect of its premises in the USA for its subsidiary, Xeros Inc. These are short-term rentals with an annual rent charge of approximately £150,000.

### 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 |                    |                            | Total       | Weighted average exercise price per share (£) |
|--------------------------------|---------------------------|--------------------|----------------------------|-------------|---|
|                                | EMI options               | Unapproved options | Deferred Annual Bonus plan |             |   |
| <b>At 31st July 2014</b>       | 4,416,529                 | 1,816,060          | -                          | 6,232,589   | 0.102   |
| Granted in the year            | 92,665                    | 1,496,334          | 61,977                     | 1,650,976   | 1.490   |
| Exercised in the year          | (209,999)                 | (121,333)          | -                          | (331,332)   | (0.139)                                       |
| Forfeited/lapsed in the year   | (183,332)                 | -                  | -                          | (183,332)   | (0.120)                                       |
| <b>At 31st July 2015</b>       | 4,115,863                 | 3,191,061          | 61,977                     | 7,368,901   | 0.411   |
| Granted in the period          | 109,890                   | 2,544,548          | 115,845                    | 2,770,283   | 1.924   |
| Exercised in the period        | (2,008,165)               | (609,756)          | -                          | (2,617,921) | (0.101)                                       |
| Forfeited/lapsed in the period | (131,231)                 | (702,269)          | -                          | (833,500)   | (1.434)                                       |
| <b>At 31st December 2016</b>   | 2,086,357                 | 4,423,584          | 177,822                    | 6,687,763   | 1.032   |

There were 4,290,460 share options outstanding at 31st December 2016 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 31st December 2016. Options have a range of exercise prices from 0.15 pence per share to 225.0 pence per share and have a weighted contractual life of 5.00 years (31st July 2015: 7.78 years).

| Options granted in the period             | Options granted in November 2015 | Options granted in December 2015 | Options granted in January 2016 | Options granted in March 2016 | Options granted in July 2016 |
|---|----------------------------------|----------------------------------|---------------------------------|-------------------------------|------------------------------|
| Dividend yield                            | 0%                               | 0%                               | 0%                              | 0%                            | 0%                           |
| Expected volatility*                      | 40.00%                           | 40.00%                           | 40.00%                          | 40.00%                        | 40.00%                       |
| Risk free interest rate (%)               | 2.02%                            | 2.02%                            | 1.50%                           | 1.50%                         | 1.50%                        |
| Expected vesting life of options (years)  | 10                               | 10                               | 10                              | 10                            | 10                           |
| Weighted average share price (pence)      | 225.0                            | 225.0                            | 182.5                           | 173.0                         | 169.5                        |
| Fair value of an option (pence per share) | 118.2                            | 133.3                            | 93.4                            | 88.6                          | 86.8                         |

\* 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:

|               | 31st December 2016<br>£'000 | 31st July 2015<br>£'000 |
|---------------|-----------------------------|-------------------------|
| Share options | 1,232                       | 916                     |

## Notes to the consolidated financial statements continued

### For the 17 month period ended 31st December 2016

#### 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<br>31st December 2016<br>£000 | Amounts owed to related party<br>31st December 2016<br>£'000 | Purchases from related party<br>31st July 2015<br>£'000 | Amounts owed to related party<br>31st July 2015<br>£'000 |
|------------------------------------|--|--|--|---|--|
| Enterprise Ventures Limited        | Fund manager for certain shareholders (note 1) | 28   | -  | 10  | -  |
| Entrepreneurs' Fund Management LLP | Fund manager for a shareholder (note 2)        | 4  | -  | 10  | -  |

Note 1: Enterprise Ventures Limited provides the services of Julian Viggars as a Director for the Company and invoiced the Group for associated Director's fees.

Note 2: Entrepreneurs' Fund Management LLP provided the services of Dr Maciek Drozd, who was a Director of the Company until 11th January 2016, and invoiced the Group for associated Director's fees.

#### 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:

|  | 17 months ended<br>31st December 2016<br>£'000 | Year ended<br>31st July 2015<br>£'000 |
|--|--|---------------------------------------|
| <b>Short-term employment benefits*</b> | <b>1,209</b>                                   | <b>775</b>                            |

\*In addition, certain Directors hold share options in the Company for which a fair value share based charge of £823,466 has been recognised in the consolidated statement of profit or loss and other comprehensive income (31st July 2015: £566,470).

During the period ended 31st December 2016, the Company entered into numerous transactions with its subsidiary company which net off on consolidation - these have not been shown above.

## Company statement of changes in equity

For the 17 month period ended 31st December 2016

### Attributable to the equity holders of the Company

|   | Share capital<br>£'000 | Share premium<br>£'000 | Merger reserve<br>£'000 | Retained earnings reserve<br>£'000 | Total<br>£'000 |
|---|------------------------|------------------------|-------------------------|------------------------------------|----------------|
| <b>At 31st July 2014</b>  | <b>98</b>              | <b>28,132</b>          | <b>6,625</b>            | <b>31</b>                          | <b>34,886</b>  |
| Total expense and other comprehensive loss for the period                             | -                      | -                      | -                       | (390)                              | (390)          |
| Transactions with owners, recorded directly in equity:                                |                        |                        |                         |                                    |                |
| Exercise of share options   | -                      | 46                     | -                       | -                                  | 46             |
| Share based payment expense   | -                      | -                      | -                       | 316                                | 316            |
| Share based payment expense in respect of services provided to subsidiary undertaking | -                      | -                      | -                       | 600                                | 600            |
| Total contributions by and distributions to owners                                    | -                      | 46                     | -                       | 916                                | 962            |
| <b>At 31st July 2015</b>  | <b>98</b>              | <b>28,178</b>          | <b>6,625</b>            | <b>557</b>                         | <b>35,458</b>  |
| Total expense and other comprehensive loss for the period                             | -                      | -                      | -                       | (1,523)                            | (1,523)        |
| Transactions with owners, recorded directly in equity:                                |                        |                        |                         |                                    |                |
| Issue of placing shares   | 27                     | 39,973                 | -                       | -                                  | 40,000         |
| Exercise of share options   | 4                      | 281                    | -                       | -                                  | 285            |
| Costs of share issues   | -                      | (2,152)                | -                       | -                                  | (2,152)        |
| Share based payment expense   | -                      | -                      | -                       | 768                                | 768            |
| Share based payment expense in respect of services provided to subsidiary undertaking | -                      | -                      | -                       | 464                                | 464            |
| Total contributions by and distributions to owners                                    | 31                     | 38,102                 | -                       | 1,232                              | 39,365         |
| <b>At 31st December 2016</b>  | <b>129</b>             | <b>66,280</b>          | <b>6,625</b>            | <b>266</b>                         | <b>73,300</b>  |

## Company statement of financial position

As at 31st December 2016

|                                 | Notes | At<br>31st December<br>2016<br>£'000 | At<br>31st July<br>2015<br>£'000 |
|---------------------------------|-------|--------------------------------------|----------------------------------|
| <b>Assets</b>                   |       |                                      |                                  |
| <b>Non-current assets</b>       |       |                                      |                                  |
| Investments                     | C3    | 7,915                                | 7,451                            |
| <b>Total non-current assets</b> |       | <b>7,915</b>                         | 7,451                            |
| <b>Current assets</b>           |       |                                      |                                  |
| Trade and other receivables     | C4    | 61                                   | 44                               |
| Intercompany loan balance       | C5    | 60,541                               | 19,954                           |
| Cash and cash equivalents       |       | 5,061                                | 8,146                            |
| <b>Total current assets</b>     |       | <b>65,663</b>                        | 28,144                           |
| <b>Total assets</b>             |       | <b>73,578</b>                        | 35,595                           |
| <b>Liabilities</b>              |       |                                      |                                  |
| <b>Current liabilities</b>      |       |                                      |                                  |
| Trade and other payables        | C6    | (278)                                | (137)                            |
| <b>Total liabilities</b>        |       | <b>(278)</b>                         | (137)                            |
| <b>Net assets</b>               |       | <b>73,300</b>                        | 35,458                           |
| <b>Equity</b>                   |       |                                      |                                  |
| Share capital                   | 20    | 129                                  | 98                               |
| Share premium                   | 20    | 66,280                               | 28,178                           |
| Merger reserve                  |       | 6,625                                | 6,625                            |
| Retained earnings               |       | 266                                  | 557                              |
| <b>Total equity</b>             |       | <b>73,300</b>                        | 35,458                           |

Approved by the Board of Directors and authorised for issue on 19th April 2017.

**John Samuel**  
Chairman

**Paul Denney**  
Chief Financial Officer

Company number: 08684474

## Notes to the Company information

For the 17 month period ended 31st December 2016

### C1) Principal accounting policies

The financial statements of the Company are presented as required by the Companies Act 2006 and in accordance with IFRS. The principal accounting policies adopted are the same as for those set out in the Group's financial statements.

### 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 period ended 31st December 2016 was a loss of £1,523,000 (year ended 31st July 2015: £390,000).

The audit fee for the Company is set out in note 4 of the Group's financial statements.

### C3) Investment in subsidiary companies

At 31st December 2016, the Company held the following investments in subsidiaries:

| Undertaking   | Sector   | Share of issued capital and voting rights 2016 |
|---------------|--|--|
| Xeros Limited | Research, development and commercialisation of polymer bead alternatives to traditional aqueous based technologies | 100%   |
| Xeros Inc*    | Commercialisation of polymer bead 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. Xeros Inc's registered office is 250 Commercial Street, Suite 4002A, Manchester, New Hampshire, 03103, USA.

| Cost  | £'000        |
|---|--------------|
| At 31st July 2014                               | 6,851        |
| Additions                                       | 600          |
| <b>At 31st July 2015</b>                        | <b>7,451</b> |
| Additions                                       | 464          |
| <b>At 31st December 2016</b>                    | <b>7,915</b> |
| <b>Impairment</b>                               |              |
| At 31st July 2014                               | -            |
| <b>At 31st July 2015 and 31st December 2016</b> | <b>-</b>     |
| <b>Net book value</b>                           |              |
| <b>At 31st December 2016</b>                    | <b>7,915</b> |
| <b>At 31st July 2015</b>                        | <b>7,451</b> |

Additions comprise amounts in respect of the IFRS 2 share based payment contribution relating to options granted to employees of the Company's subsidiaries.

**Notes to the Company information** continued  
For the 17 month period ended 31st December 2016

**C4) Trade and other receivables**

|                                | <b>31st December<br/>2016<br/>£'000</b> | 31st July<br>2015<br>£'000 |
|--------------------------------|---|----------------------------|
| Prepayments and accrued income | 41                                      | 22                         |
| Other debtors                  | 20                                      | 22                         |
|                                | <b>61</b>                               | 44                         |

**C5) Current assets**

|                   | <b>31st December<br/>2016<br/>£'000</b> | 31st July<br>2015<br>£'000 |
|-------------------|---|----------------------------|
| Intercompany loan | <b>60,541</b>                           | 19,954                     |

Loans comprise a loan of £59,422,000 (31st July 2015: £19,600,000) to Xeros Limited and a loan of £1,119,000 (31st July 2015: £354,000) to Xeros Inc. No interest was payable on these loans. All intercompany loans are repayable on demand.

**C6) Trade and other payables**

|                                 | <b>31st December<br/>2016<br/>£'000</b> | 31st July<br>2015<br>£'000 |
|---------------------------------|---|----------------------------|
| Trade payables                  | 44                                      | 32                         |
| Social security and other taxes | 24                                      | 15                         |
| Accruals                        | 210                                     | 90                         |
|                                 | <b>278</b>                              | 137                        |



