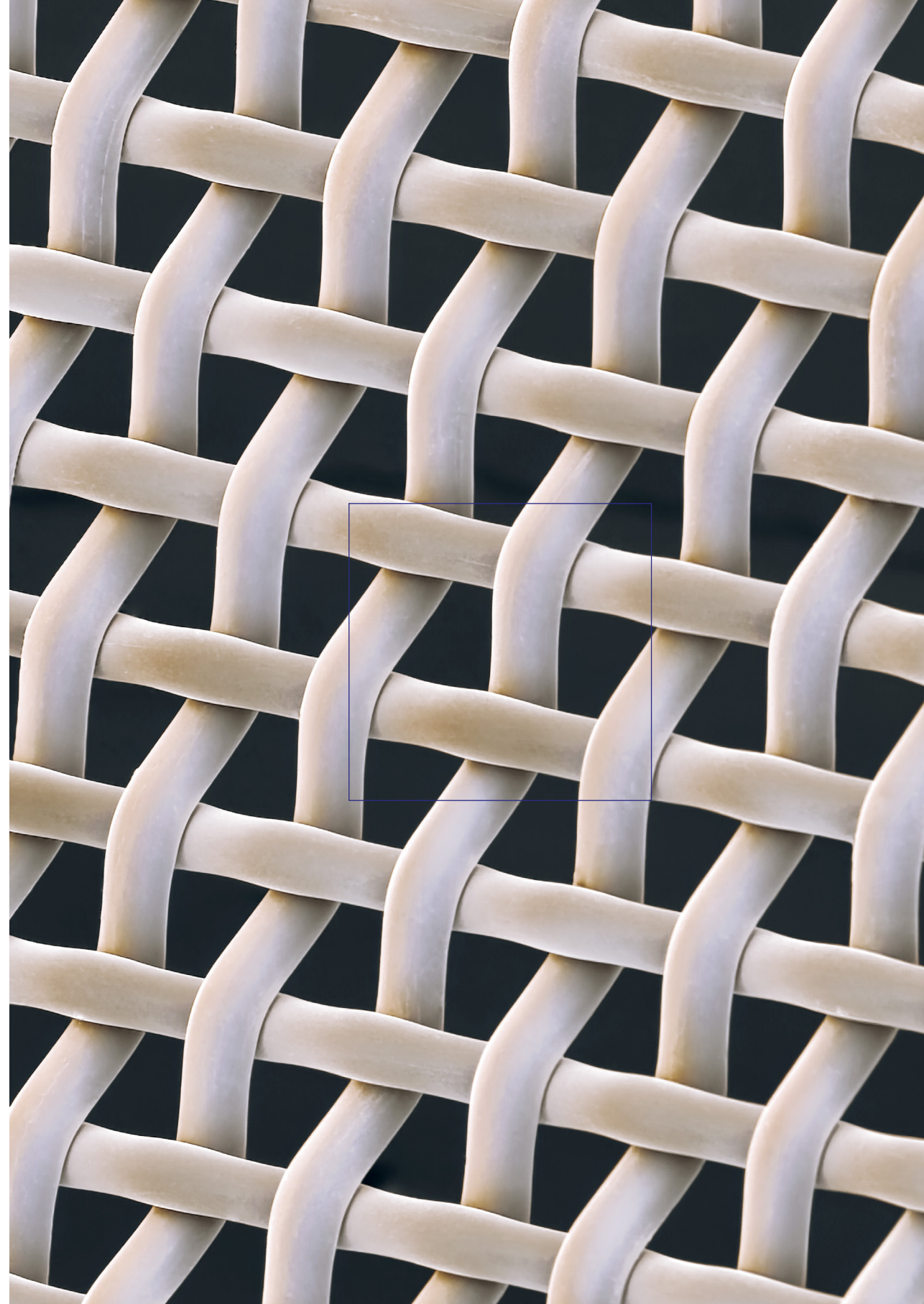
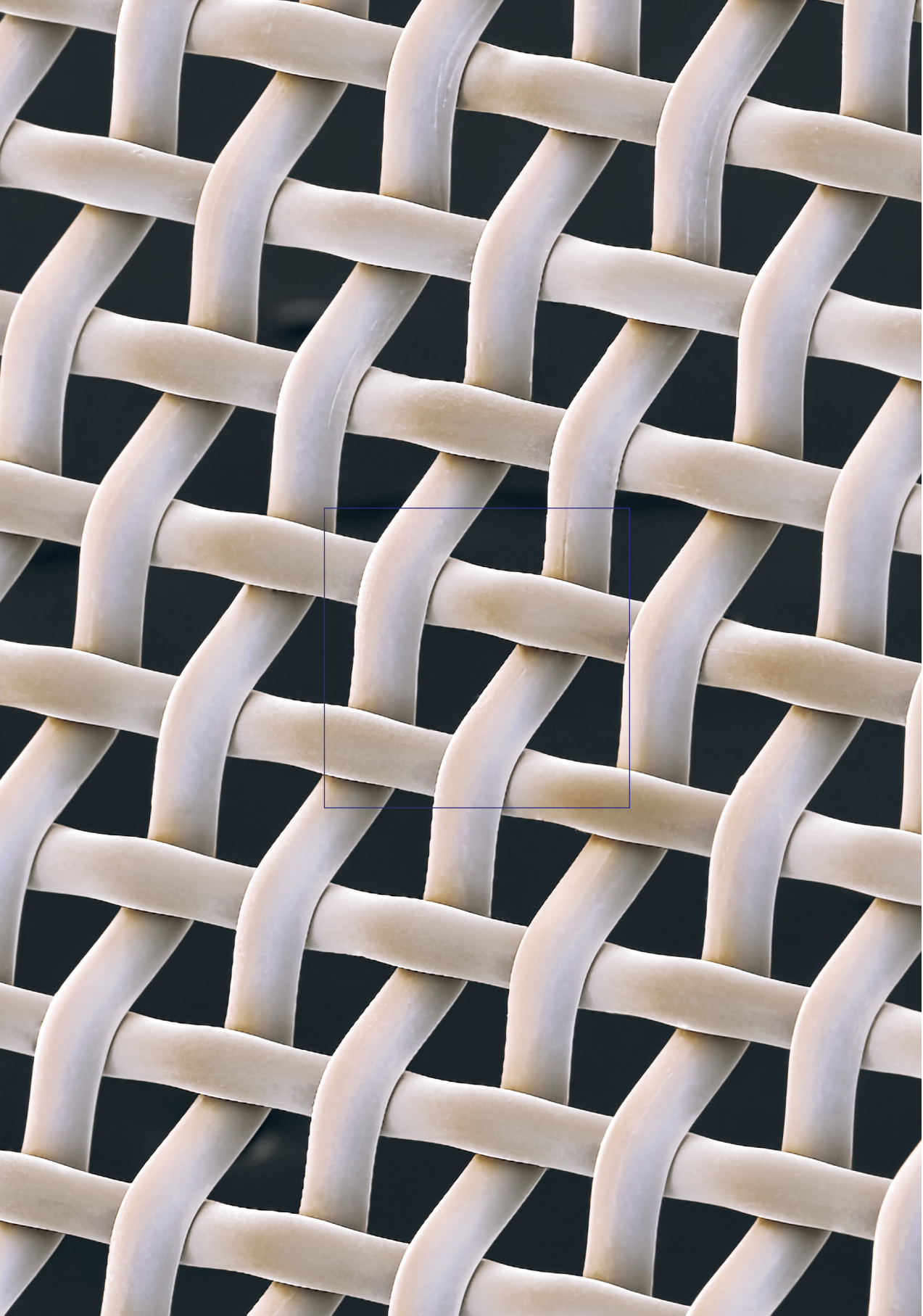




X E P O S
X E P O S

ANNUAL REPORT — COMPANY NUMBER: 08684474



XEROS TECHNOLOGY
GROUP PLC
ANNUAL REPORT

FOR THE YEAR ENDING
31 DECEMBER 2021

COMPANY NUMBER: 08684474

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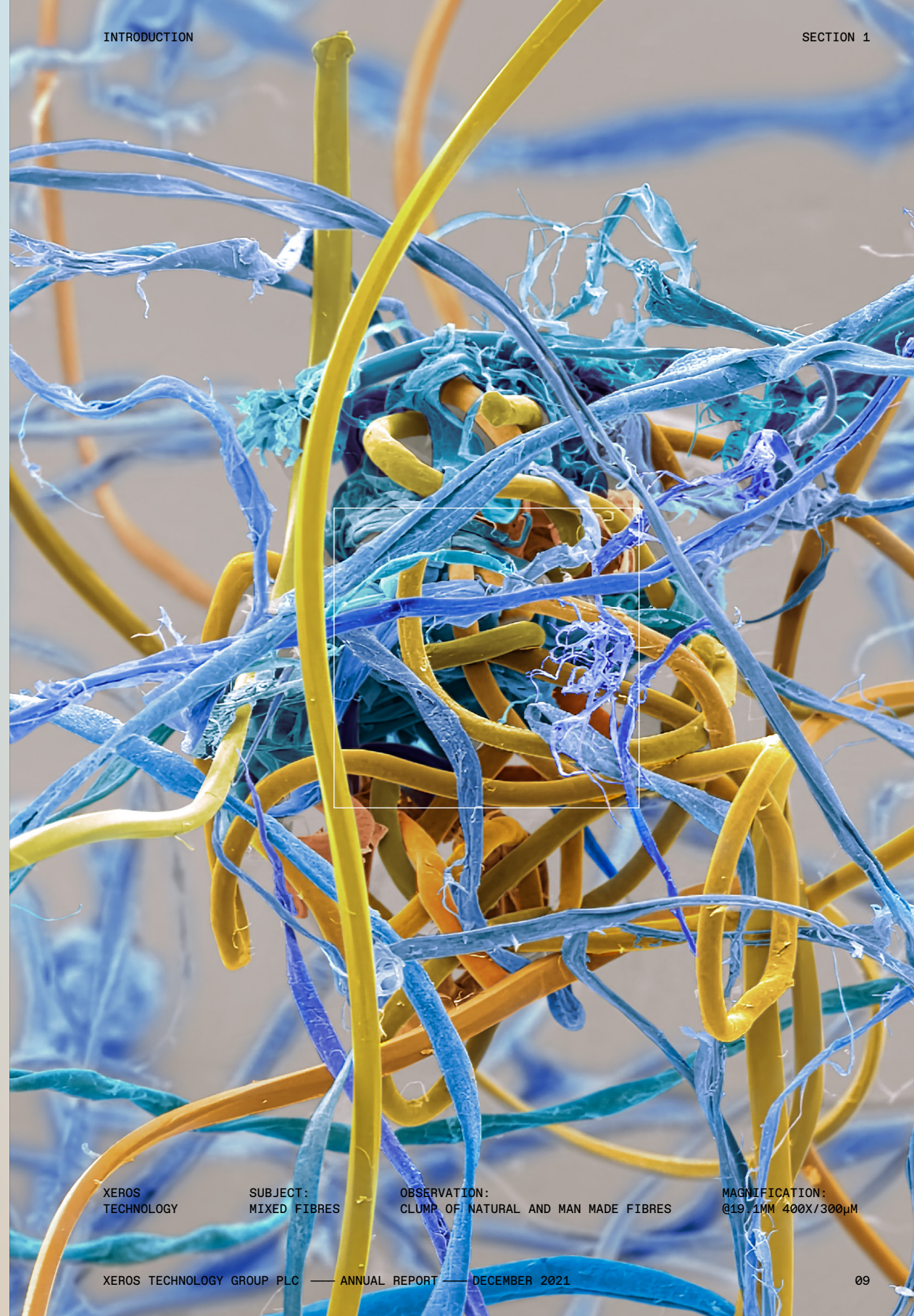
01

INTRODUCTION

Xeros
to the power
of change

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A collective of innovators, delivering visible solutions for the invisible issues facing our planet.



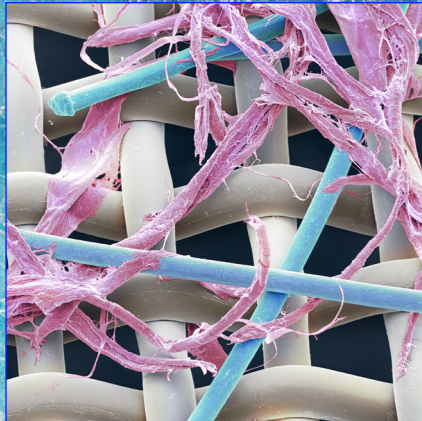
XEROS
TECHNOLOGY

SUBJECT:
MIXED FIBRES

OBSERVATION:
CLUMP OF NATURAL AND MAN MADE FIBRES

MAGNIFICATION:
@19.1MM 400X/300µM

FOR THE PROBLEMS WE CAN'T SEE, A DIFFERENCE WE CAN



Microplastics in the sea. Aquifers deplete faster than they recharge. Sometimes the biggest problems are the ones we can't see. We shed light on issues that are affecting our planet, and the big ideas it takes to solve them.

We are a collective of innovators who believe in a future where limited resources are no longer limited. So far, our technology has saved millions of litres of water and could prevent billions of microfibres from ending up in our oceans.

Launching our textiles technologies is just the beginning of our long-term mission to reduce waste wherever possible.

We show what's possible, and our partners make it scalable. Through our technologies, we welcome a world of profound possibility.

OUR TECHNOLOGIES

Filtration, Care, Finish

Xeros is revolutionising the way we make and care for our clothes.

Our textile technologies have been developed as part of our ongoing mission to innovate new solutions to reduce waste wherever possible.

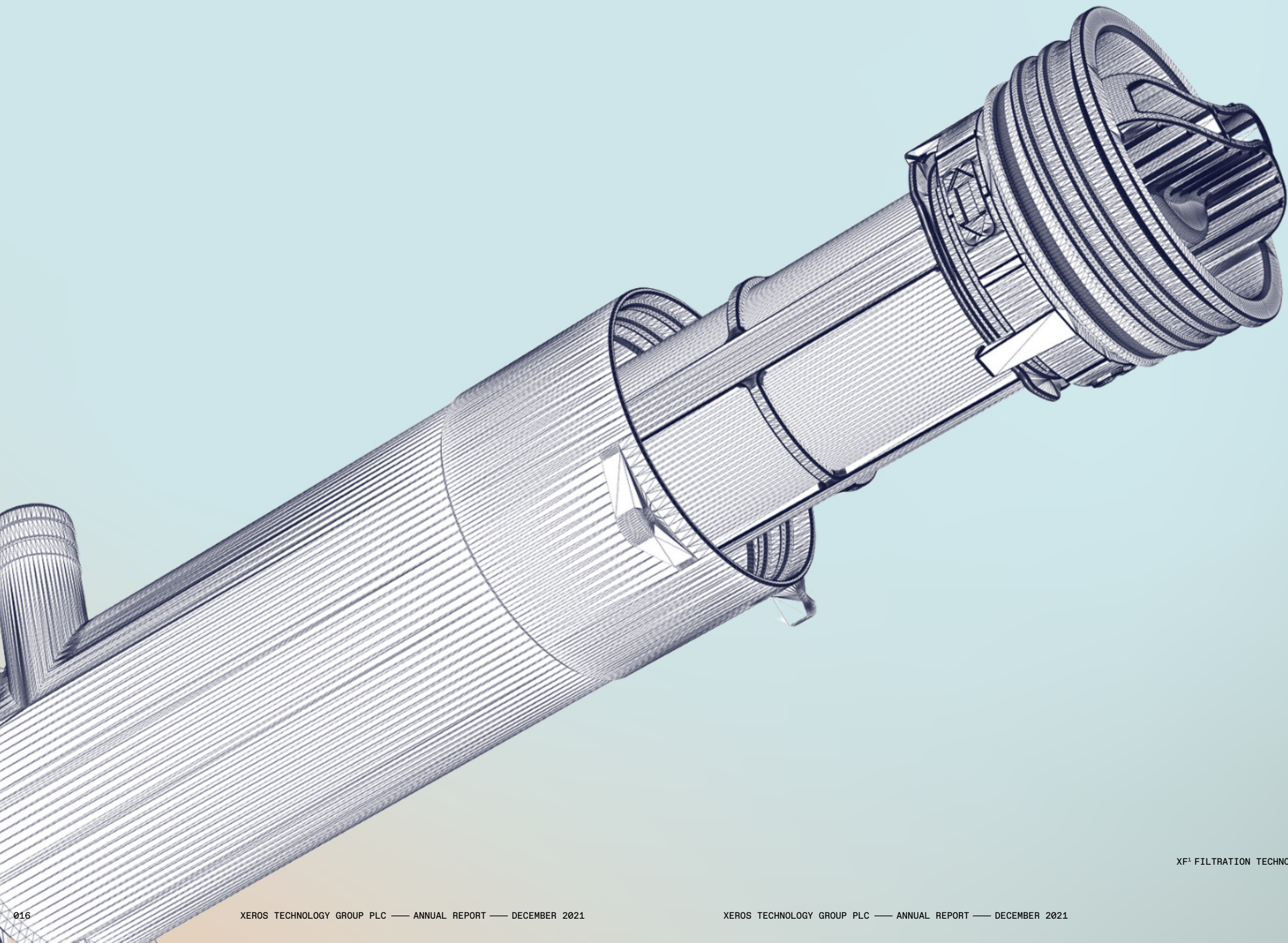
XF

Xeros Filtration



Even on an eco-setting, washing our clothes releases 700,000 microfibres with every wash. Those tiny fibres can have a lasting impact. They end up in our oceans, in our food chain and our water supply.

Our Filtration technology, XFilter, can be integrated into a washing machine for the home, or built at a large scale for industry. It stops over 90% of microfibres from ever entering our oceans.



XF² FILTRATION TECHNOLOGY

XC

Xeros Care

What if we told you that you can do your laundry using less water? Using only half the energy and half the chemicals? And that the fabric would look newer, lasting half its lifetime again in your wardrobe.

Our Care technology uses XOrbs, reusable polymer spheres, to wash and care for clothes. It's scalable from domestic washes to heavy industrial use, and it's designed to save 10's of millions of litres of water every year.

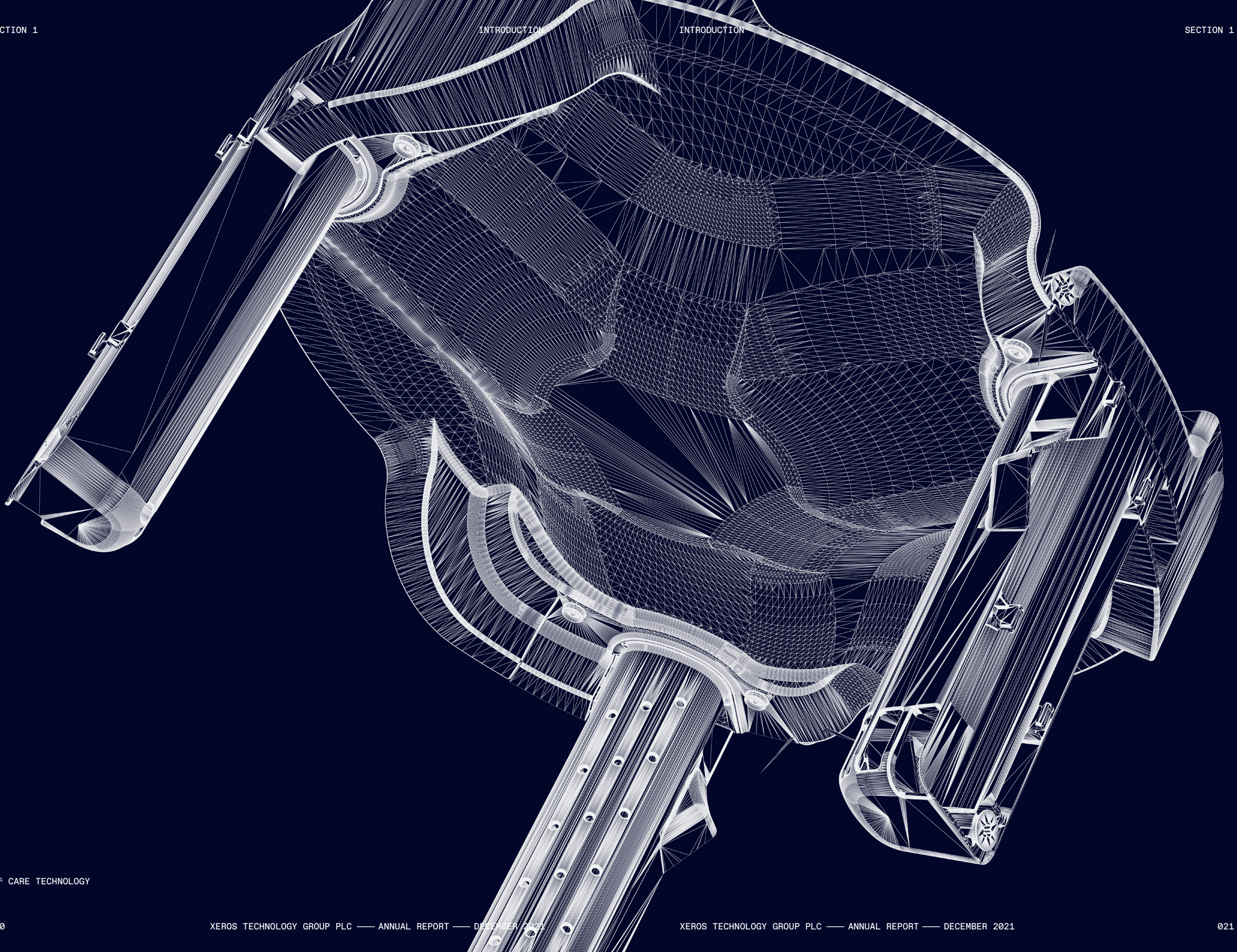


XEROS
TECHNOLOGY

SUBJECT:
WOOL

OBSERVATION:
KNITWEAR IN XORB WASH

MAGNIFICATION:
GF 120MM *f*/4.0



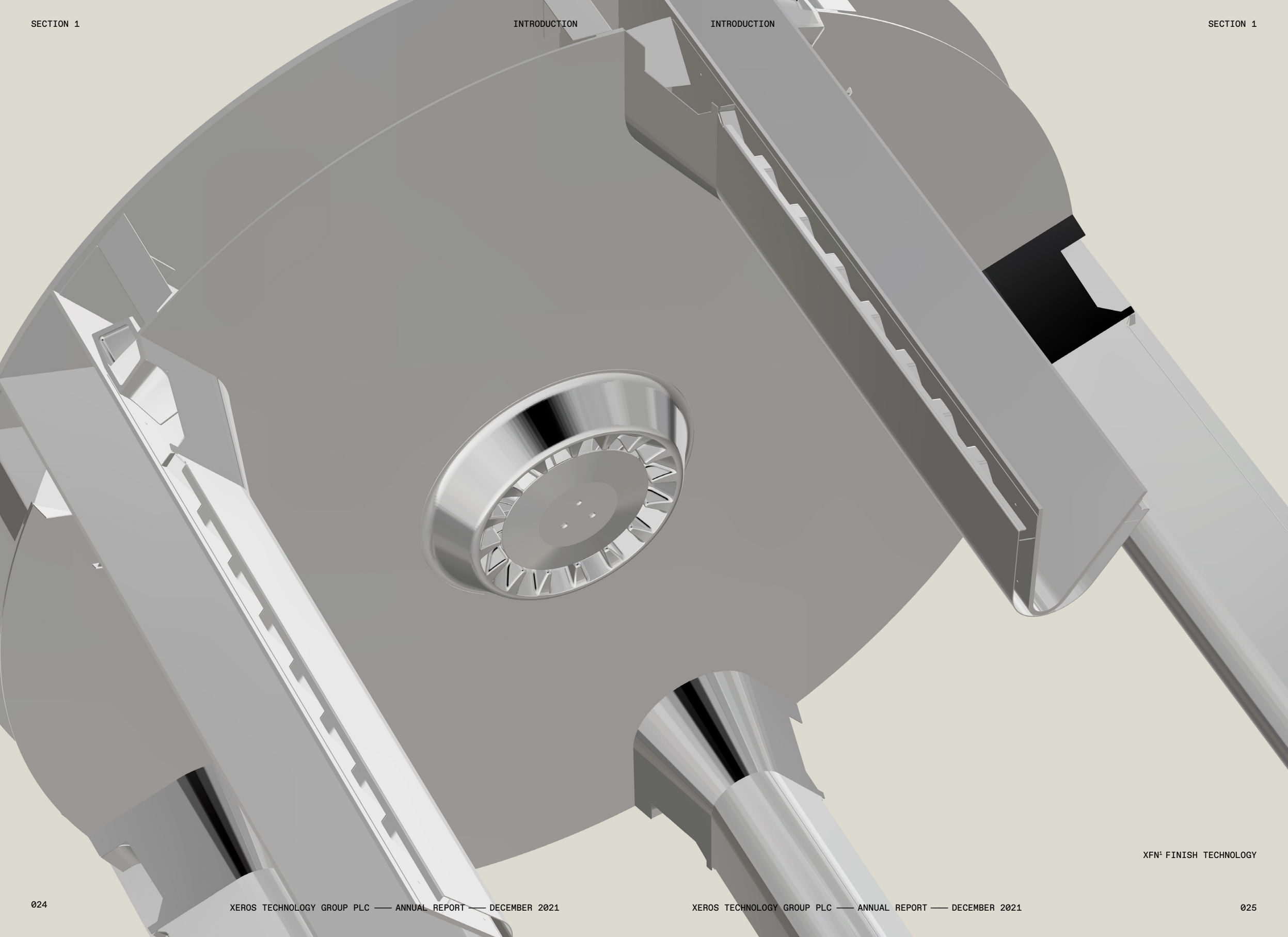
XFN

Xeros Finish

Making one pair of jeans can use up to 10 years worth of drinking water for one person. Chemicals used in the process escape with wastewater polluting our planet. Today, jeans are still made using pumice stones, which constantly need replacing and create chemically contaminated sludge.

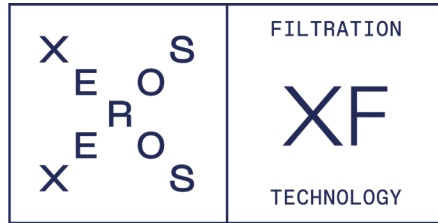
Our XFN technology uses patented reusable XOrbs to replace pumice, and reduces water and chemistry use by up to 50%.

XEROS
TECHNOLOGYSUBJECT:
XORBS AND DENIMOBSERVATION:
JEANS IN XORB WASHMAGNIFICATION:
GF 120MM f/4.0

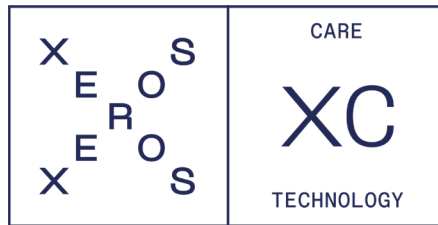


XFN¹ FINISH TECHNOLOGY

FILTRATION



CARE

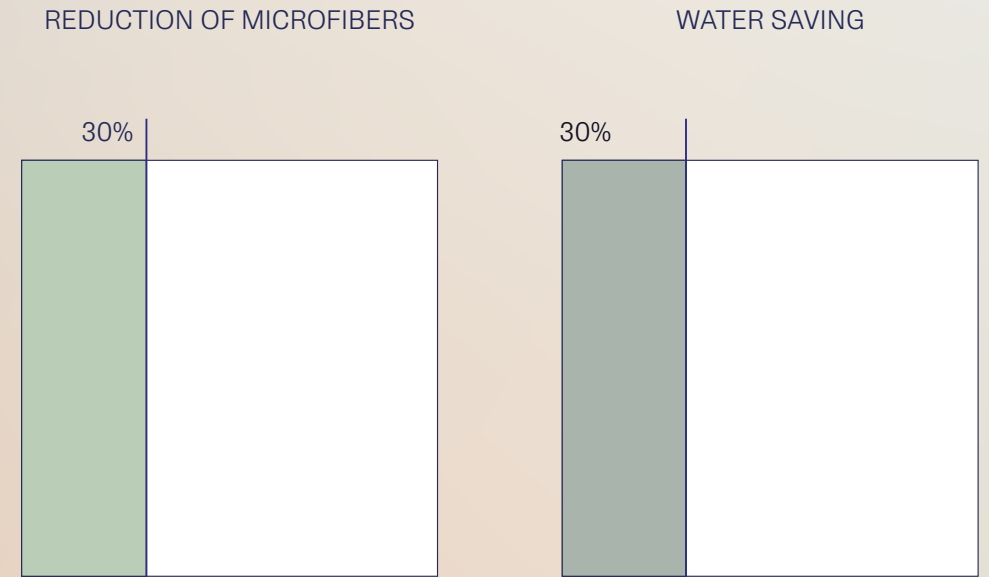
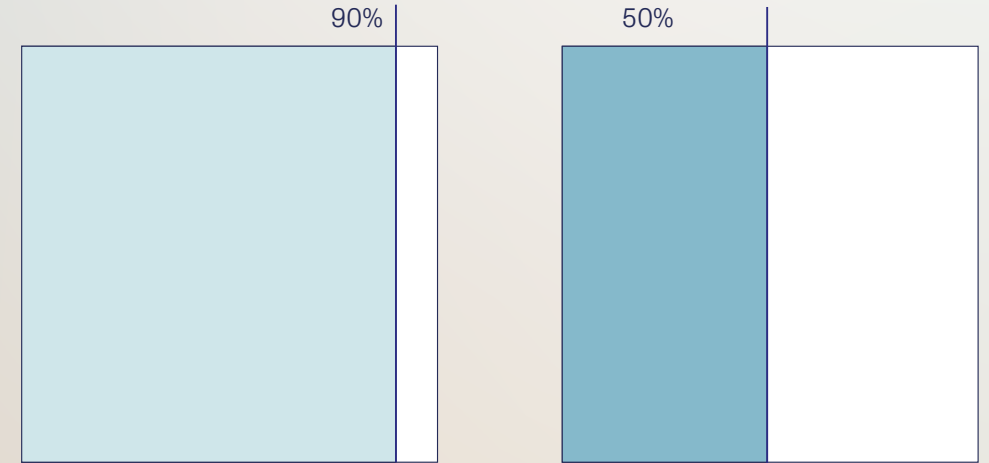


FINISH



XF XC XFN

A Journey To Better



WE ARE CONSTANTLY DEVELOPING OUR TECHNOLOGY. SO FAR, THESE ARE THE RESULTS FROM FILTRATION, FINISH AND CARE TECHNOLOGIES.

ALL PERCENTAGES ARE UP TO FIGURES



02

REPORTS

CHAIRMAN'S STATEMENT

Dear Shareholder,

In Amazon's 2000 Annual Report, Jeff Bezos mused about the total disconnect between the progress of Amazon's business and the trajectory of its share price. Today I observe the same at Xeros. Amazon's share price was down 80% YoY, whereas the business had made very significant progress on all main metrics. Today, Xeros' shares are showing a similar trend, yet the Company has made tremendous progress over the past 12 months. The analogy with Amazon is, however, far from perfect. Amazon was able to communicate quantifiable financial and commercial metrics, whereas, in the case of Xeros, most of the progress, although substantial, is less quantifiable, and we are not in a position to communicate specifics (yet).

Long term trends do remain very favourable for Xeros. France has legislated for mandatory in-machine filtration devices from 2025 and in the UK similar legislation is in preparation. Expectation is that the EU and the US (led by California) will follow. In parallel, the unsustainable ecological footprint of the fashion/apparel industry is coming under increasing public scrutiny. And finally, the shift towards ESG investing will continue in spite of issues around greenwashing.

The nearer term external environment, however, remains out of our control, very challenging and unpredictable: Covid continues to disrupt operations in China, there is a major war going on in Europe, supply chains remain stretched, and we have rampant inflation. In 2021, Xeros' partners in India and China continued to suffer significant delays in their efforts to commercialise Xeros' technology, with very little ability for Xeros to support those partners on the ground. This has negatively impacted our pathway to profitability.

XEROS
TECHNOLOGY

SUBJECT:
WATER AND DENIM

OBSERVATION:
JEANS IN LOW WATER WASH

MAGNIFICATION:
GF 120MM *f/4.0*

For me personally, the main commercial highlights over the past 12 months were:

- IFB launching in commercial laundry
- Signing of first XFilter licensing deal with Hanning
- Continued progress with IFB towards their domestic laundry launch in 2022, with much better visibility of their timelines
- Start of commercial use of Xeros' denim Finishing technology by two suppliers in Bangladesh serving two different global high street brands

I also want to highlight the refresh of Xeros' purpose, brand and positioning, which we undertook to strengthen our external presence and visibility to help widen and accelerate the market adoption of our portfolio of solutions. This work has also re-energised the entire company internally following the challenges resulting from Covid.

In addition to ongoing commercial execution, two important areas of focus for the board in 2022 are funding and company leadership. As is clear from our announcement on 31 March 2022, the Company will require further financing before the anticipated breakeven in 2024. The board decided not to initiate a fundraise immediately following that announcement, as it wanted to provide more evidence regarding the path to profitability. As it relates to leadership, in March 2022, our CEO Mark Nichols announced his desire to transition to a portfolio Career, after six and a half years at the helm of Xeros. The board is extremely grateful for Mark's leadership, under which the company transitioned to a licensing business model and created the XFilter platform, for his ongoing commitment to the business and for the amount of notice provided, which should give ample time to attract a suitable successor to guarantee a seamless transition.

Finally, a thank you to all our staff, management, Directors, shareholders and commercial partners for supporting us during two challenging years dominated by Covid. Your support has been and will remain critical to bring these important solutions to market at scale.

KLAAS DE BOER, CHAIRMAN — 24 JUNE 2022





CHIEF EXECUTIVE OFFICER'S REVIEW

2021 was a year of mixed fortunes for Xeros with Covid related lockdowns delaying the commercial progress of our existing licensees in contrast with the rapid development of prospective licenses of our filtration technology. Encouragingly, our South Asian partners are now free of lockdowns but not so our Chinese partner. Both regions continue to suffer major supply chain shortages and long lead times. Thus, our licensing revenues are behind where we planned them to be but importantly our prospects are unchanged in terms of achieving wide geographic take-up of all our technologies. Technologies which improve the cost and environmental sustainability performance of the apparel industry which is one of the most resource consuming and polluting industries in the world.

The voices of stakeholders, including consumers, to reduce the impact of our clothing on our planet have continued to grow louder. Demands for reduced water usage, lower energy consumption and less microplastic pollution from the manufacture and cleaning of clothes have increased to the point that these secular trends are now mainstream with brands conspicuous if they are not genuinely making improvements. COP26 gave further impetus to calls to action for every enterprise to become accountable with hard measures.

A key theme for Xeros over recent years has been learning how to navigate and then convert the significant global enterprises that will ultimately be the drivers of widespread adoption of our technology. Whether we are addressing the very largest apparel retailers or the very largest washing machine manufacturers in the world, the challenges of how our team of 45 people can educate, influence and change the behaviour of some of the world's largest companies is one that we have wrestled with. We have seen very clearly that it takes time, patience and resilience on our part but ultimately the clear evidence of the benefits of our technology does win through and we have made strong progress in the level of engagement with these organisations during the year.

In 2021, Xeros raised £9.0m, before expenses, from strategic and financial investors with the funds applied to winning and executing license contracts for our two platform technologies, XTend (the combination of XOrbs used in an XDrum) and XFilter. During 2021 and the first half of 2022, the business has invested in a new visual identity to boldly reflect the clear and compelling purpose of the Company and why we do what we do. This new visual identity is embodied in the new style Annual Report and allows us to confidently present ourselves to the outside world. Multiple stakeholders, including apparel brands, washing machine manufacturers, garment finishing machine manufacturers, environmental activists, government regulators and, above all, consumers, will be able to get a clear picture of the solutions brought to the world by Xeros' technologies and to increasingly demand them.

These solutions are now presented under three product names:

- Care (XC): this covers Xeros' XTend cleaning technologies in domestic and commercial laundry markets and highlights the emphasis on garment and fabric life extension brought by our technology.
- Finish (XFN): this covers Xeros' XTend garment Finishing technology as currently used in the denim Finishing market.
- Filtration (XF): this covers Xeros' XFilter filtration technology used to capture over 90% of microfibre pollution from laundry processes.



CARE BUSINESS REVIEW

COMMERCIAL LAUNDRY

The Commercial Laundry market has traditionally been the proving ground of our Care technology platform, and we initially targeted India and China as the territories for its deployment, given that both countries have a great need and receptivity for water saving technology. Whilst the evidence and the environmental, performance and economic benefits have been verified both by independent testing agencies and by initial customers, the Covid pandemic had a major impact on the near-term sales of our licensees in the year.

Xeros addresses the commercial laundry market through two channels; firstly, through OEM license partners manufacturing and selling XC machines directly to their customers in nominated territories (i.e. India and China) and secondly, in other parts of the world, through licensed distributors who sell XC machines purchased from our OEM license partners. Xeros sells XOrbs to OEM license partners and licensed distributors.

As regards our OEM license partners, both Jiangsu SeaLion Technology Developments Company (“SeaLion”) in China and IFB Industries Limited (“IFB”) in India have launched two sizes of XC machines in their markets with plans to add a third to each of their ranges. The market segments they plan to address include hospitality, which will likely continue to be impacted by Covid until travel returns to previous levels in their respective countries. Their response is to address other sectors offering high growth opportunities including the performance workwear market, industrial linen launderers and dry cleaners. The current and additional machine sizes address these opportunities directly.

In February 2022, Georges SAS (“Georges”) in France renewed their contract with us to purchase commercial laundry machines from IFB and XOrbs from us. IFB XC machines are now working in a number of their sites with additional machine orders expected to meet the requirements of SNCF. Georges services the nationwide fleet of SNCF’s workwear along with contracts with Air France and other large French workwear garment users.

During the remainder of 2022, we plan to initiate further licensing discussions in the commercial laundry market on a selective geographic basis.



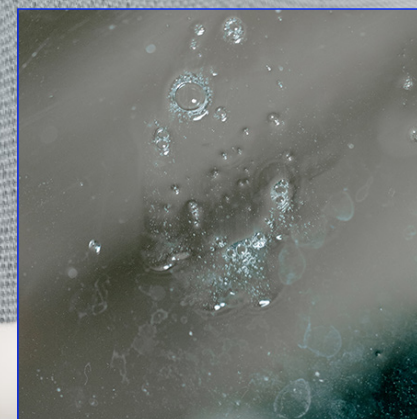
CARE BUSINESS REVIEW

DOMESTIC LAUNDRY

We address the domestic laundry market using a scaled down version of the same XC technologies used in the commercial laundry market. Whilst the 100 million domestic machines sold each year are used far less often than industrial equivalents, consumers have very high expectations in terms of their ease of use, performance and increasingly, their environmental impact. In addition to reducing the water, energy and detergent used in the washing of clothes, studies have demonstrated that Xeros' Care laundry technology also makes them look better and last longer. This enables consumers to extend the life of their garments, allowing consumers to choose to reduce the environmental impact of buying new clothes.

Our first license partner for this application is IFB in India, the second largest domestic washing machine company in India by sales volume, with over 500 consumer appliance stores across the country as well as its own online operation. Prior to Covid, IFB had planned to commence selling XC front-loading washing machines in 2021. IFB's plans are now that this will occur in Q4 of 2022. Prior to this market launch, IFB will place an order for XOrbs with Xeros to meet their market entry needs with. BASF will produce these in Germany in Q3.

A successful launch in India of our domestic XC technology will be a pivotal moment for Xeros, not just in giving a clear line of sight to a significant future revenue stream but, as importantly, it will be key to unlocking wider adoption by the industry and we continue our engagement with other major manufacturers with a view to increasing the number of licenses for this application in the course of 2023.



XEROS
TECHNOLOGY

SUBJECT: WATER IN
WASHING MACHINE

OBSERVATION:
CLOSE UP OF WATER

MAGNIFICATION:
GF 120MM *f*/4.0

FINISHING BUSINESS REVIEW

DENIM FINISHING

The denim market is of global scale with 1.2 billion pairs of jeans manufactured each year, with many different finishes required to meet consumer demand. Each pair of jeans exacts a heavy toll in terms of high levels of water consumption with many still made using pumice stone, which has a significant environmental impact during the manufacturing process. Xeros' solution simplifies the finishing process by completing all finishing steps within one machine eradicating the use of pumice and using less chemistry and water with a commensurate reduction in effluent. Our solution thereby meets the secular trends of this industry to make the manufacturing process of these garments greener, quicker and cheaper.

Since our last Annual Report was published, the Xeros team has been working with our OEM license partner, Ramsons Garment Finishing Equipments PVT Ltd ("Ramsons") and Aba Group, a manufacturer of denim jeans for some of the world's largest retail brands, based in Bangladesh. This work, much of it conducted remotely during Covid lockdowns, has seen the team successfully complete a series of trials of Xeros' technology in "real world" production environments.

In early 2022, Xeros and Ramsons extended these trials to a number of other leading denim manufacturers in Bangladesh, and, to date, Xeros' technology has successfully been used in the production of jeans for two of the world's largest retail brands, with these jeans deemed to have been manufactured at sufficiently high quality to be sold to consumers by the retail brands. These trials not only validated the quality of denim finishing for retail brands but also validated all our stated resource and cost reductions. Currently, Xeros is producing denim samples for a third major global retailer. Whilst not yet significant in terms of volumes, there are now denim jeans manufactured with Xeros' Finish technology being sold to consumers.

Our main focus now is to work with the major brands, across their production, sustainability and procurement teams, to elicit a positive brand endorsement of our technology with the end goal of a brand advocating the use of Xeros Finish technology across their supply chains. The investment in our brand and messaging is clearly aimed at raising awareness of our solutions across the apparel industry.

With this market validation of our technology, our intention is to initiate discussions for additional license contracts during 2022 and beyond as part of our ambition to eradicate all pumice from denim manufacturing.

LEATHER TANNING

An additional application of this technology is found in the leather tanning market. In 2019 Xeros spun off the leather tanning business to the then management team, operating under the Qualus brand. Since 2019, the Qualus team have successfully attracted external investment to their business and are now operating in Mexico, Brazil, India and markets in Asia with initial revenues flowing. Under the terms of the original sale of the business in 2019, Xeros will receive royalty income based on Qualus' revenue from 2022 and, whilst not expected to be material in the short term, it is encouraging to see this application of our technology making progress through adoption in a scale industry.

FILTRATION BUSINESS REVIEW

The world now understands and is reacting to the threat caused by microfibres entering the world's rivers and oceans, with its largest source being the washing of clothes at home. Our proprietary XFilter product design is over 90% efficient in collecting synthetic and natural fibres from all sizes of machines with the resultant filtrate disposed of easily and simply into commercial or household solid waste, thereby removing them from water-borne waste which ultimately ends up in rivers and oceans.

Since January 2021, Xeros has achieved a number of major milestones towards fulfilling its ambition for XFilter to become the microfibre Filtration technology of choice for the washing machine industry. The first milestone was the completion in the middle of the year of a product design which meets consumer performance requirements in terms of efficiency, cost and usability. This design has been used to engage with multiple parties with the result that in July 2021, Xeros signed a Testing and Trials agreement with one of the world's largest domestic washing machine manufacturers headquartered in Asia. The contractual programme of work with this manufacturer is progressing as planned. As part of this programme, Hohenstein, a highly respected testing institute for the textile industry, has accredited Xeros' Filtration device, XFilter, with the highest level of performance, capturing over 99% of microplastics released in a wash cycle.

Also in July 2021, a Co-operation Agreement was signed with Hanning Elektro-Werke GmbH & Co. KG ("Hanning") who are a major supplier of machine parts to the appliance industry. Progress under this agreement led to the signature of our first Technology Licensing agreement in June 2022 whereby Hanning will market, produce and sell XFilter units on a global, non-exclusive basis to washing machine manufacturers. Hanning will pay Xeros a royalty for each unit sold. Xeros is also engaged with a number of additional large brands with a view to their adoption of XFilter within their washing machines.

In June 2021, Xeros signed a license agreement for its commercial washing machine version of the XFilter technology with Girbau S.A. under which they will pay a royalty per device for sales on an exclusive basis in territories including Europe and North America and with non-exclusive rights for certain other territories. We anticipate their entering the markets with XFilter products in mid-2023 with products manufactured for them by a licensed third party.



XEROS
TECHNOLOGY

SUBJECT: SYNTHETIC
MICROFIBRES

OBSERVATION:
CLUMPS OF UNNATURAL FIBRES

MAGNIFICATION:
GF 120MM *f*/4.0

We have provided governments with scientific advice on effective microfibre filtration.

In parallel to these activities, our filtration scientists have been working closely with the UK government advising on microfibres, their filtration in laundry environments and appropriate standards for their capture from effluent streams. Legislation is expected to be put in place for the mandatory fitting of filters within domestic and commercial machines sold in the UK from the beginning of 2025, the same timescale as French legislation.

INTELLECTUAL PROPERTY

The IP-rich and asset-light commercialisation business model is founded upon a strong and defensible patent portfolio which provides freedom to operate and protection for us and for our license partners. Our technologies are protected by close to 40 patent families which are in application or have been granted with key patent lives extending through mid to late 2030s. Our policy is to file patents in countries with large potential markets and where we believe we can successfully defend our intellectual property. In overall terms, our core patents are filed in countries which represent 90% of global GDP. During 2021, the majority of new patent filing activities were in the area of XFilter, the design of which has been enhanced significantly to cover methods of integration within washing machines. We also filed a limited number of patents to protect a position in areas of future potential interest which are consistent with our business mission to reduce the impact of clothing on our planet.

In order to have the financial capacity to defend its patent portfolio, Xeros carries significant levels of patent defence and litigation insurance.

OUTLOOK

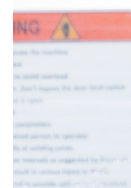
2021 was a year in which our license and development partners made continued progress in spite of the ongoing impacts of the Covid pandemic in their countries. In June 2022 we achieved a notable landmark with our XFilter technology being licensed for the first time into the domestic washing machine market. With the evidence from our licensing of both our Care and Filtration platforms, Xeros plans to increase the number of license agreements in countries with great need of the benefits that our intellectual property bestows.

The £9.0m funds raised in an oversubscribed placing and open offer in March 2021 continue to be applied to winning additional contracts in each of our application areas with the expectation that a number of new agreements will be signed in 2022. Our marketing investment will amplify the reach of our proposition and accelerate new license agreements.

Whilst it is difficult to predict with certainty the timeframe to cash breakeven due to the nature of our business model whereby our revenue is effectively entirely in the hands of third parties, we estimate that with existing and targeted contracts, Xeros will achieve EBITDA profitability and cash breakeven in 2024. Key to this is the assumption that the impact of Covid, especially in South Asia, is significantly below that experienced in 2020 and 2021.

As of 31 May 2022, the Group held cash of £4.3m. In our trading update published on 31 March 2022 we stated that we expect to require further investment to fund the business through to cash breakeven and the board is currently working on plans to achieve this investment.

MARK NICHOLS, CHIEF EXECUTIVE OFFICER — 24 JUNE 2022



XEROS
TECHNOLOGY

SUBJECT:
WOOL

OBSERVATION:
KNITWEAR IN XORB WASH

MAGNIFICATION:
GF 120MM *f*/4.0

CHIEF FINANCIAL OFFICER'S REVIEW

The financial results in 2021 reflect the first full year of operating as a pure-play licensing business, having completed the disposal of directly operated businesses in 2020. Whilst the impact of Covid restrictions in India and China adversely affected the ability of our license partners to sell commercial laundry and denim Finishing machines incorporating the Group's technology, license partner sales were made in the second half of the year, driving revenue growth and margin increase.

Future revenue growth is dependent on the pace of commercial adoption of products incorporating the Group's technology platforms in their respective markets. The Group's licensing business model does not require administrative expenses to increase in line with revenue growth, thereby creating future operating leverage to drive the business to profitability as revenue increases in future years. The Group's current view is that licensing partners will generate sufficient revenue to deliver Group profitability in 2024.

Further information on these financial results is provided below.

Group revenue increased by 23.1% to £0.5m in the year ended 31 December 2021 (2020: £0.4m). With the implementation of the Group's licensing model, the revenue mix is changing with revenue now derived from two principal sources:

1. Licensing revenue: reflecting royalty payments from license partners and up-front fees for access to group intellectual property.
2. Sale of goods: reflecting sales of XOrbs to license partners and sales of machines in Europe on behalf of license partners.



Group revenue was generated as follows:	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Service Revenue	190	314
Licensing Revenue	124	58
Sale of Goods	155	8
Other	5	5
Total Revenue	474	385

The group continues to receive service revenue related to the retained estate of commercial laundry machines in the UK and Europe. As the licensing model grows, this service revenue is expected to become a smaller part of the overall revenue mix.

Licensing revenue in the period was £0.1m (2020: £0.1m), a growth of 113.8%; revenue from sale of goods was £0.2m in the period (2020: £0.0m), a growth of 1,837.5%. With the change in revenue mix, service revenue in the period was £0.2m (2020: £0.3m), a reduction of 39.5%.

The change in revenue mix towards licensing drove an increase in gross profit in the period to £0.3m (2020: £0.0m), resulting in a gross margin of 59.3% (2020: -12.7%).

The group reduced its adjusted EBITDA loss by 7.1% to £6.3m (2020: loss £6.8m).

Gross profit/loss and adjusted EBITDA are considered the key financial performance measures of the group as they reflect the true nature of our trading activities. Adjusted EBITDA is defined as the loss on ordinary activities before interest, tax, share-based payment expense, depreciation and amortisation.

Administrative expenses, reduced by 4.8% to £7.2m (2020: £7.6m). This reflects a 16.7% reduction in headcount during the year with the average number of operational staff in the year to 31 December 2021 falling to 40 (2020: 48).

The Group reported an operating loss of £6.9m (2020: loss £7.6m), a reduction of 9.1%. The loss per share was 28.11p (2020: loss 44.88p).

Net cash outflow from operations reduced to £5.8m (2020: £6.3m) from a combination of reduced cash used in operations, £6.3m (2020: £6.9m) and the receipt of £0.5m R&D tax credits from HMRC relating to 2020. Cash utilisation was in line with the Board's expectations.

The Group had existing cash resources, including cash on deposit, as at 31 December 2021 of £7.8m (2020: £5.2m) and remains debt free. Group cash as at 31 May 2022 was £4.3m. The Going Concern statement on page 82 draws attention to the Directors' views on the uncertainty of future funding and the key assumptions behind the preparation of these accounts on a going concern basis.

PAUL DENNEY, CHIEF FINANCIAL OFFICER — 24 JUNE 2022

STRATEGIC REPORT

Principal Activity: Xeros Technology Group plc (LN: XSG) has developed textile technologies as part of an ongoing mission to innovate new solutions to reduce waste wherever possible.

Our Care and Finish technologies use patented, reusable XOrbs™ housed in our engineered XDrum™ for minimum disruption. Together, these components significantly reduce the amount of water and chemistry used in the dyeing, finishing or laundering of garments and fabrics. They increase the efficiency of these processes which require molecules to be either affixed or removed from substrates. In the case of laundry, they are proven to significantly increase the life of clothes and fabrics. The results being major improvements in economic, operational, product and environmental outcomes.

The Group has signed multiple license agreements for its Care and Finish technologies with leading OEMs in major commercial and domestic markets.

XFilter™ is the Company's proprietary washing machine Filtration technology which prevents harmful microfibres including microplastics, generated during washing cycles, from being released into the world's rivers and oceans. Microfibres released into the environment from clothing and fabrics during their laundering, being a major source of pollution in the environment and contamination in the food chain.

The Company is incorporated and domiciled in the UK.

BUSINESS MODEL

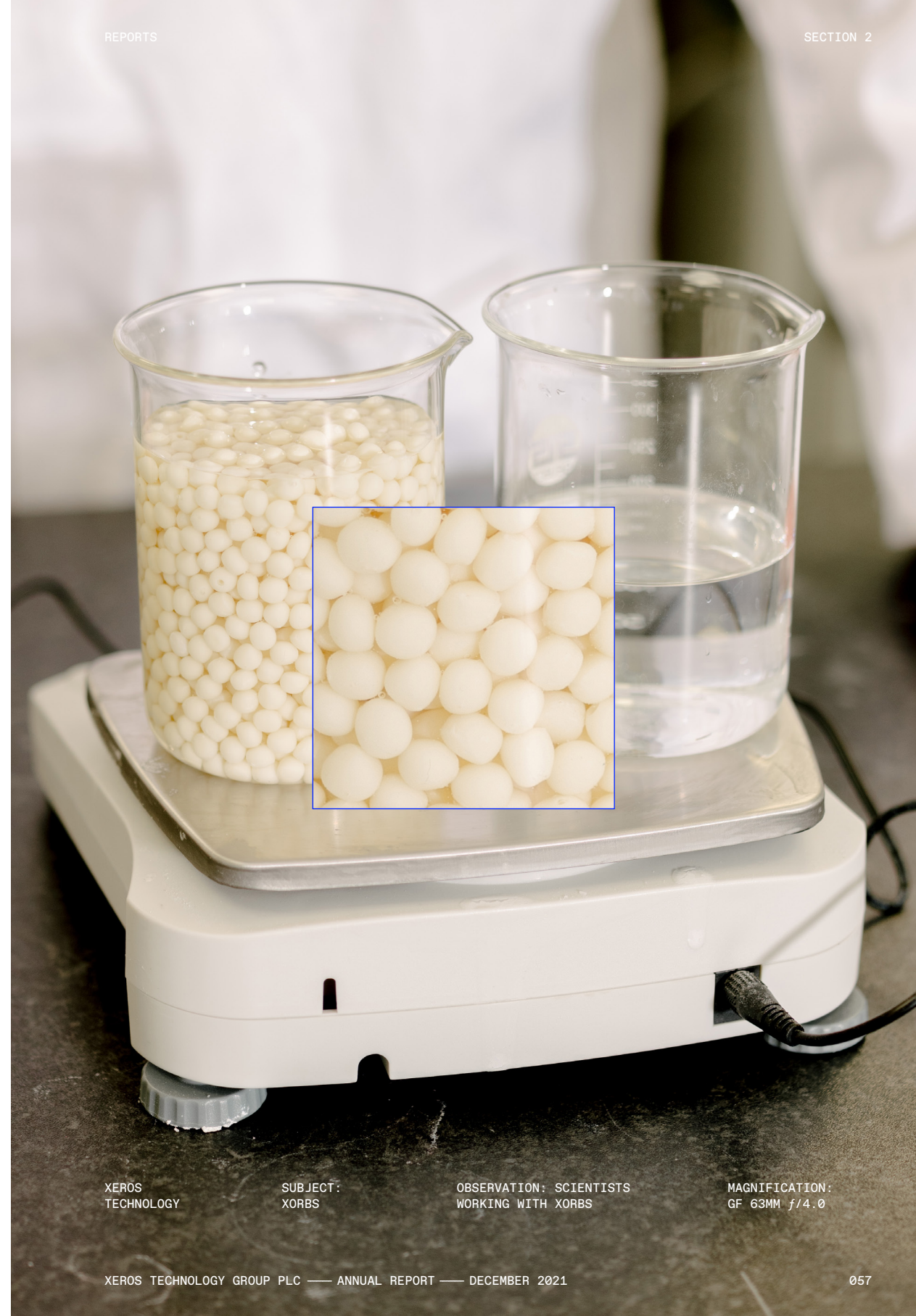
A description of the Group's activities and how it seeks to create added value is included in the Chairman's statement, Chief Executive Officer's review and Chief Financial Officer's review on pages 35-55.

BUSINESS REVIEW AND RESULTS

A review of the Group's performance and future prospects is included in the Chairman's statement, Chief Executive Officer's review and Chief Financial Officer's review on pages 31-55. The loss for the year attributable to equity holders was £6.4m (2020: £7.0m). The Directors do not recommend the payment of a dividend (2020: nil).

KEY PERFORMANCE INDICATORS

As the Group is in the process of commercialising its platform technologies, the Directors consider the key quantitative performance indicators to be: the level of cash and deposits held in the business of £7.8m (2020: £5.2m), gross profit/loss and adjusted EBITDA. Adjusted EBITDA is defined as the loss on ordinary activities before interest, tax, share-based payment expense, depreciation and amortisation. Adjusted EBITDA is discussed in more detail in the Chief Financial Officer's review on pages 50-55. The board performs regular reviews of actual results against budget, and monitors cash balances on a regular basis to ensure that the business has sufficient resources to enact its current strategy. Certain qualitative measures, such as the performance of commercial initiatives, are also monitored on a regular basis. The board will continue to review the KPIs used to assess the business as it grows.



XEROS
TECHNOLOGY

SUBJECT:
XORBS

OBSERVATION: SCIENTISTS
WORKING WITH XORBS

MAGNIFICATION:
GF 63MM *f*/4.0

KEY RISKS

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

INTELLECTUAL PROPERTY

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

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

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

THIRD PARTY INTELLECTUAL PROPERTY

Although the board believes that the Group's current products, products in development and processes do not infringe the intellectual property rights of any third parties, it is impossible to be aware of all third party intellectual property. No assurance can be given that third parties will not in the future claim rights in or ownership of the patents and other proprietary rights from time to time held by the Group. As detailed above, substantial costs (both financially and in management time) may be incurred if the Group is required to defend its intellectual property.

RESEARCH AND DEVELOPMENT RISK

The Group is involved in new product and applications development. Although the Group has now developed a number of commercial and marketable products and applications, some of the Group's technology and intellectual property portfolio is at an early stage of commercial development and there is no guarantee that the Group will continue to be successful in commercialising its products and applications development. The Group may not be able to develop and exploit its earlier stage technology sufficiently to enable it to license its technologies. Furthermore, the Group may not be able to develop new applications or identify additional market needs that can be addressed by the Group's technology.

RISK OF COMPETING TECHNOLOGY

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

ACCEPTANCE OF THE GROUP'S PRODUCTS

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

COMMERCIALISATION RISK

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

EARLY STAGE OF OPERATIONS

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

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

COMPETITION RISK

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

THIRD PARTY RISK

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

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

DEPENDENCE ON KEY EXECUTIVES AND PERSONNEL AND THE ABILITY TO ATTRACT AND RETAIN APPROPRIATELY QUALIFIED PERSONNEL

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

ECONOMIC CONDITIONS, CURRENT ECONOMIC WEAKNESS AND GEOPOLITICAL RISKS

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

As a UK domiciled business, the Group is exposed to the risks associated with the UK's decision to leave the EU ("Brexit"). The board expects future revenues from the commercialisation of its technology in the EU to be in the form of royalties on its intellectual property. The international patent laws that apply to the protection of intellectual property are not affected by the status of the UK's membership of the EU and, therefore, the board does not view Brexit as posing a material risk to the Group's future revenues.

Travel restrictions and the associated disruption of Covid have caused a significant level of economic uncertainty on a global basis. Any continued disruption may have a negative impact upon the Group's ability to work closely with international license partners.

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

FOREIGN EXCHANGE RISK

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

FUTURE DEVELOPMENTS

Future developments are described in the Chairman's statement, Chief Executive Officer's review and Chief Financial Officer's review on pages 31-55.

STATEMENT IN RESPECT OF SECTION 172 OF THE COMPANIES ACT 2006

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

- i. the likely consequences of any decision in the long term;
- ii. the interests of the Company's employees;
- iii. the need to foster the Company's business relationships with suppliers, customers and others;
- iv. the desirability of the Company maintaining a reputation for high standards of business conduct; and
- v. the need to act fairly between members of the Company.

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

- Long-term strategic planning and budgeting to allow the Group to project a path to creating value for shareholders;
- Continued emphasis on health and safety, with regular and comprehensive dialogue with employees;
- Open and fair dealings with partners, customers, and suppliers, leading to long-term mutually beneficial relationships;
- A group built on improving sustainability, with innovative technologies serving a range of industries.; and
- Consideration of the Group's operations on the community and the environment.

The strategic report starting on page 55 was approved by the board and is signed on its behalf.

MARK NICHOLS, CHIEF EXECUTIVE OFFICER — 24 JUNE 2022

DIRECTORS' REPORT

The Directors hereby present their annual report and audited consolidated and parent company financial statements for the year ended 31 December 2021.

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 except where noted otherwise:

- Klaas de Boer
- David Armfield
- David Baynes
- Paul Denney
- Mark Nichols
- Rachel Nooney (appointed 20 July 2021)

Directors' interests in the shares of the Company, including family interests are included in the Directors' Remuneration Report on pages 72-75.

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.



RACHEL NOONEY, NON-EXECUTIVE DIRECTOR



KLAAS DE BOER, CHAIRMAN

DIRECTORS

KLAAS DE BOER, Chairman

Klaas joined Xeros as chairman in January 2020. In June 2021 he left Entrepreneurs Fund, where he had served as managing partner since 2008. Klaas holds numerous board positions with international companies including SmartKem, Inc., General Fusion, Inc. and Vasopharm GmbH. Klaas began his Career with McKinsey & Company before transitioning to venture capital with Baan Investment more than 20 years ago. He holds an MSc in applied physics from Delft University of Technology and an MBA from INSEAD. Klaas is chair of the Nominations Committee.

MARK NICHOLS, Chief Executive Officer

Mark joined Xeros as chief executive officer in September 2015. His background is in business development, finance and operations with global enterprises including Total, Laing O'Rourke and BOC. Prior to joining Xeros, Mark led a number of technology start-ups in the clean energy and bio-polymers sectors.

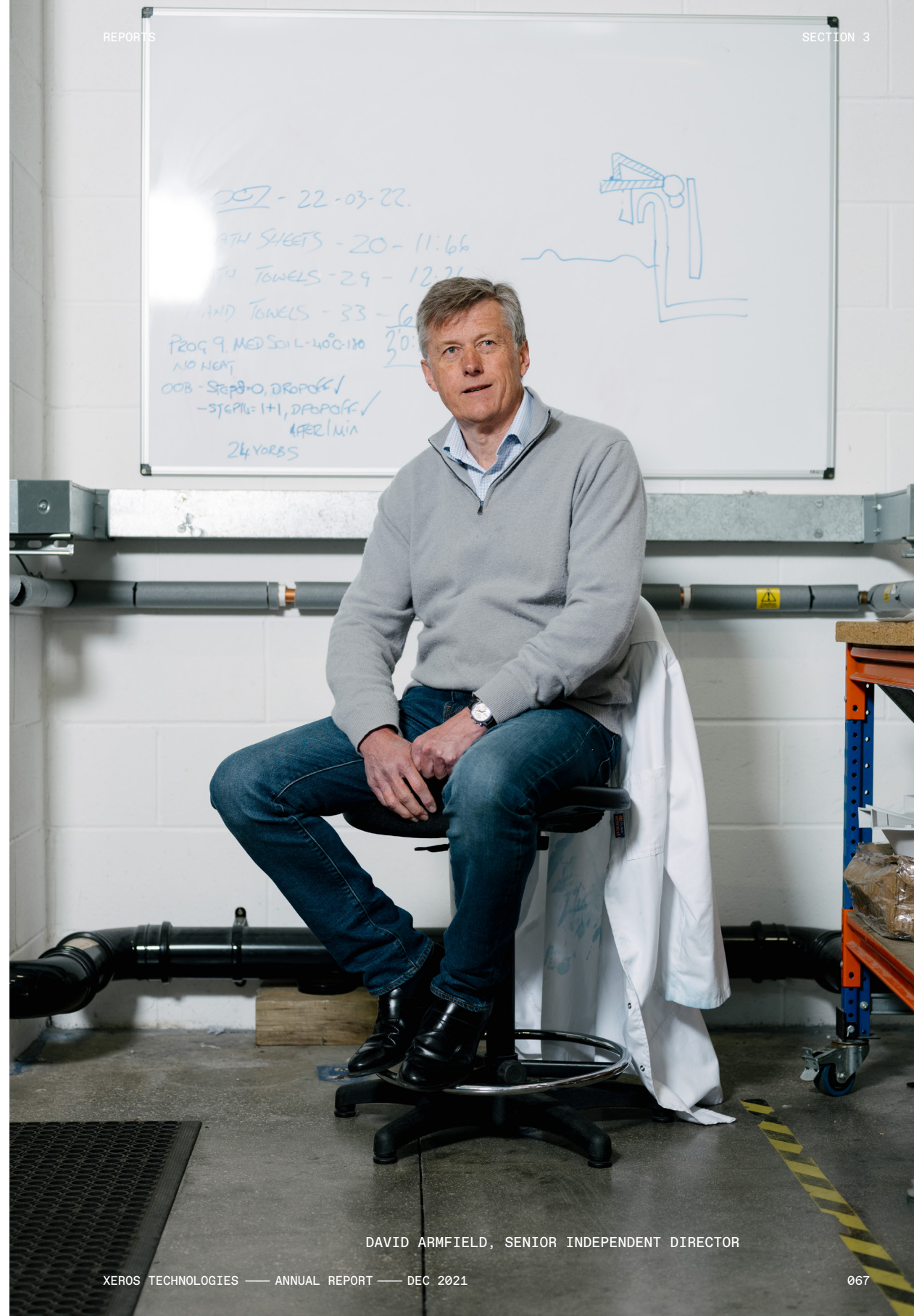
In March 2022, it was announced that the Group CEO, Mark Nichols, will stand down during 2022. Mark will remain with the business until 30 September 2022 to oversee the Group's ongoing commercialisation process and has committed to a comprehensive and orderly handover to his successor, for whom a search process is now underway.

**PAUL DENNEY, Chief Financial Officer
and Company Secretary**

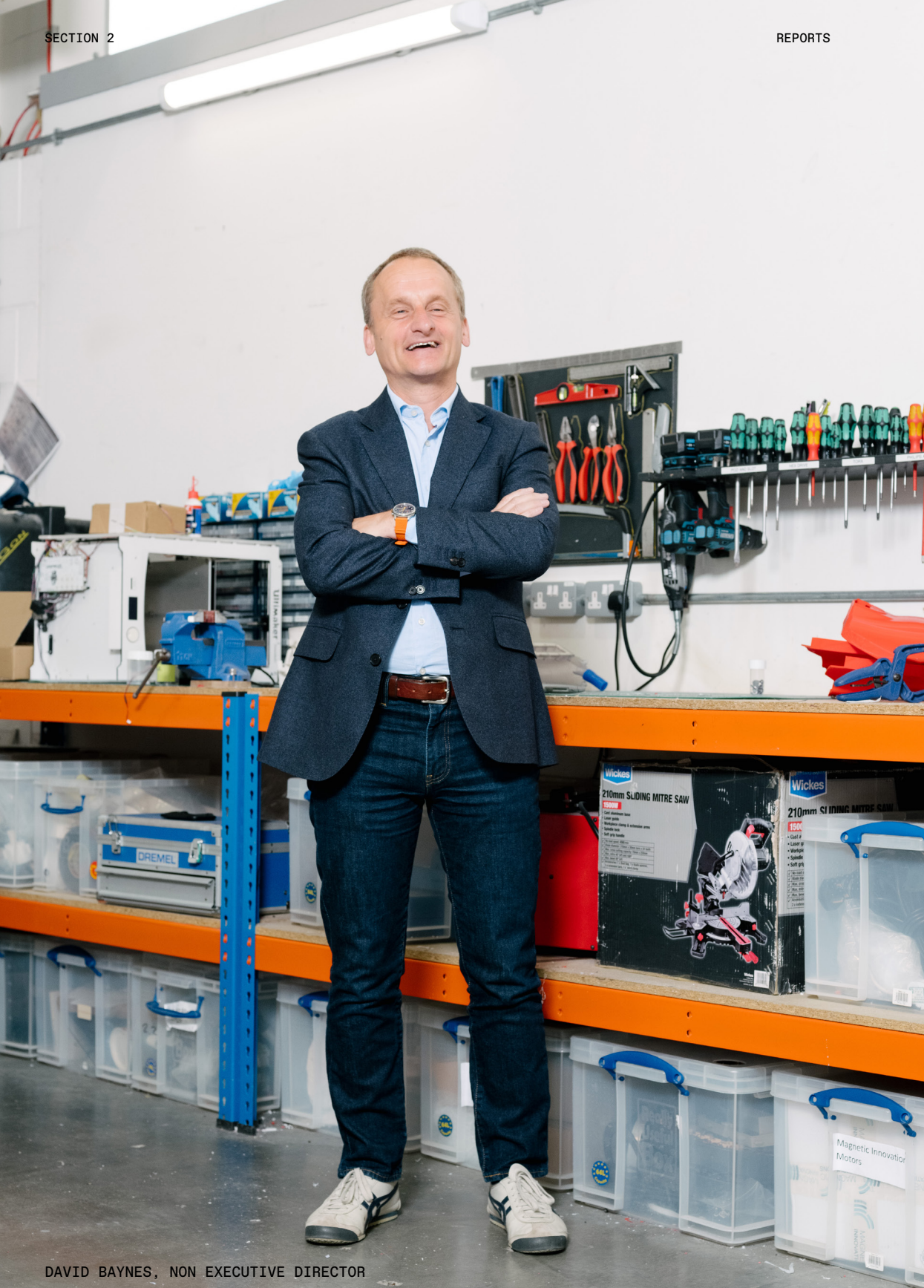
Paul joined Xeros as chief financial officer in October 2016. He has a background in international corporate finance working for companies such as Electronic Data Systems Inc., Experian plc and Callcredit Information Group. He is a qualified accountant, holding an MBA from the London Business School.

DAVID ARMFIELD, Senior Independent Director

David joined Xeros in July 2018. His background is in corporate finance, having previously worked for Lehman Brothers as its co-head of European industrial coverage. He has also served as a partner at PwC, and as the firm's national head of industrial products. He is a founding partner of Kinetix Critchleys Corporate Finance LLP, which provides advisory services to companies in the Clean Technology and Resource Efficiency industries. David is chair of the Remuneration Committee.



DAVID ARMFIELD, SENIOR INDEPENDENT DIRECTOR



DAVID BAYNES, NON EXECUTIVE DIRECTOR

DAVID BAYNES, Non-Executive Director

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

RACHEL NOONEY, Non-Executive Director

Rachel joined Xeros in July 2021. Her background is in brand development, strategy, marketing planning, and creative. She has held senior head of brand and marketing roles at Marks and Spencer plc and New Look, where she was responsible for leading brand development, marketing campaigns, digital and retail marketing, talent, creative and production. Rachel has worked both client and agency side in marketing, and is the founder and principal consultant of shoreseven, a brand and strategic marketing consultancy. Rachel is a member of CIM and has provided mentorship for marketeers and young people wanting to develop and break into the creative industries with both CIM and Creative Mentor Network.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2021, shareholders holding more than 3% of the share capital of Xeros Technology Group plc were:

Name of shareholder	Number of shares	% of voting rights
Entrepreneurs Fund LP	5,767,534	24.3
Lombard Odier Investment Managers	3,305,900	13.9
IP Group	2,557,629	10.8
Canaccord Genuity Wealth Management	2,259,794	9.5
Dermot Keane	1,600,000	6.7
Richard Griffiths/Ora Ventures	1,449,902	6.1

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.

DISCLOSURE OF RISKS

The Group's exposure to price risk, credit risk, liquidity risk and cash flow risk are discussed in note 17 to the Financial Statements.

RESEARCH AND DEVELOPMENT

The Group is engaged in research and development in respect of current and future applications of its technologies, improving both existing processes and developing new ones where appropriate.

KEY DEVELOPMENTS FOLLOWING THE YEAR END

In June 2022, the Group signed its first Domestic XFilter licensing agreement with Hanning Elektro-Werke GmbH & Co.KG, a leading manufacturer of components for the appliance industry.

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, there is no relevant audit information of which the auditor is unaware. Each of the Directors have confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

AUDITOR

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

ON BEHALF OF THE BOARD
MARK NICHOLS, CHIEF EXECUTIVE OFFICER -
24 JUNE 2022

UNIT 2, EVOLUTION
ADVANCED MANUFACTURING PARK
WHITTLE WAY, CATCLIFFE
ROTHERHAM, S60 5BL

DIRECTORS' REMUNERATION REPORT

This remuneration report is not intended to comply with the quoted company remuneration reporting requirements in company law and is provided in order to meet the requirements of AIM rule 19.

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 practicable, given the current size and development of the Company.

REMUNERATION COMMITTEE

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

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

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

BASIC ANNUAL SALARY (INCLUDING DIRECTORS' FEES)

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

DISCRETIONARY ANNUAL BONUS

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 business performance and commercial progress, along with financial results.

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 15 pence and 30,500 pence and the vesting period is generally three 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.

TABLE 1 - DIRECTORS' REMUNERATION

The remuneration of the main board Directors' of Xeros Technology Group plc who served from 1 January 2021 (or date of appointment if later) to 31 December 2021 (or date of resignation if earlier) was:

	Salary and Fees £'000	Bonus Payments £'000	Benefits £'000	Total year ended 31 December 2021 £'000	Total year ended 31 December 2020 £'000
Klaas de Boer (note 1)	70	-	-	70	58
Mark Nichols	273	59	3	335	364
Paul Denney	206	45	2	253	247
David Armfield	35	-	-	35	31
David Baynes (note 2)	35	-	-	35	30
Rachel Nooney (note 3)	16	-	-	16	-
Total	635	104	5	744	730

Note 1: Klaas de Boer was appointed as a Director on 13 January 2020.

Note 2: Directors fees for David Baynes are payable to IP Group plc (see note 24 for further details).

Note 3: Rachel Nooney was appointed as a Director on 20 July 2021

TABLE 2 - DIRECTORS' SHAREHOLDINGS

The interests of the Directors holding office at 31 December 2021 in the shares of the Company, including family interests were:

Ordinary shares of 15p each

	2021 Number	2021 %
Klaas de Boer	250,000	1.05
David Armfield	50,000	0.21
Mark Nichols	87,482	0.37
Paul Denney	75,000	0.32
David Baynes	-	-
Rachel Nooney	-	-

TABLE 3 - 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 15 pence each in the Company at 31 December 2021 were:

	At 1 January 2021	Granted during the period	Exercised during the period	Forfeited/lapsed during the period	At 31 December 2021	Exercise price
Mark Nichols (note 1)	11,401	-	-	-	11,401	22,500.0 pence
Mark Nichols (note 2)	2,500	-	-	-	2,500	21,000.0 pence
Mark Nichols (note 2)	5,000	-	-	-	5,000	22,500.0 pence
Mark Nichols (note 3)	45	-	-	-	45	15 pence
Mark Nichols (note 4)	213,543	-	-	-	213,543	70 pence
Mark Nichols (note 5)	22,000	-	-	-	22,000	70 pence
Mark Nichols (note 7)	-	109,703	-	-	109,703	175 pence
Paul Denney (note 6)	5,000	-	-	-	5,000	21,000.0 pence
Paul Denney (note 6)	3,000	-	-	-	3,000	22,500.0 pence
Paul Denney (note 4)	150,195	-	-	-	150,195	70 pence
Paul Denney (note 7)	-	81,770	-	-	81,770	175 pence

NOTE 1:

There were employment conditions in relation to 1,000,000 options granted on 12 November 2015 which allowed for vesting in three annual instalments between 14 September 2016 and 14 September 2018, and a further 250,000 options granted on 16 December 2015 which allowed for vesting in three annual instalments between 16 December 2016 and 16 December 2018. As part of the Group's share capital reorganisation during 2020, the numbers of options in issue were reduced by a factor of 100 and the exercise price increased by a factor of 100, leaving the overall value of the options unchanged.

NOTE 2:

There were employment conditions in relation to 750,000 options granted on 25 January 2017 which allowed for vesting in three annual instalments between 25 January 2018 and 25 January 2020. As part of the Group's share capital reorganisation during 2020, the numbers of options in issue were reduced by a factor of 100 and the exercise price increased by a factor of 100, leaving the overall value of the options unchanged.

NOTE 3:

There are no performance conditions attached to 4,504 options granted on 26 January 2018 which vested immediately upon grant. As part of the Group's share capital reorganisation during 2020, the numbers of options in issue were reduced by a factor of 100 and the exercise price increased by a factor of 100, leaving the overall value of the options unchanged.

NOTE 4:

There were employment and performance conditions in relation to the 21,354,350 and 15,019,500 options issued on 14 May 2020 which allowed for vesting in three equal proportions on or after the Company's share price reaching 133 pence per share, 267 pence per share and 400 pence per share. As at 31 December 2021, the first of these performance conditions had been met.

ON BEHALF OF THE BOARD

DAVID ARMFIELD, CHAIRMAN OF THE REMUNERATION COMMITTEE - 24 JUNE 2022

As part of the Group's share capital reorganisation during 2020, the numbers of options in issue were reduced by a factor of 100 and the exercise price increased by a factor of 100, leaving the overall value of the options unchanged. The performance condition targets were also increased by a factor of 100.

NOTE 5:

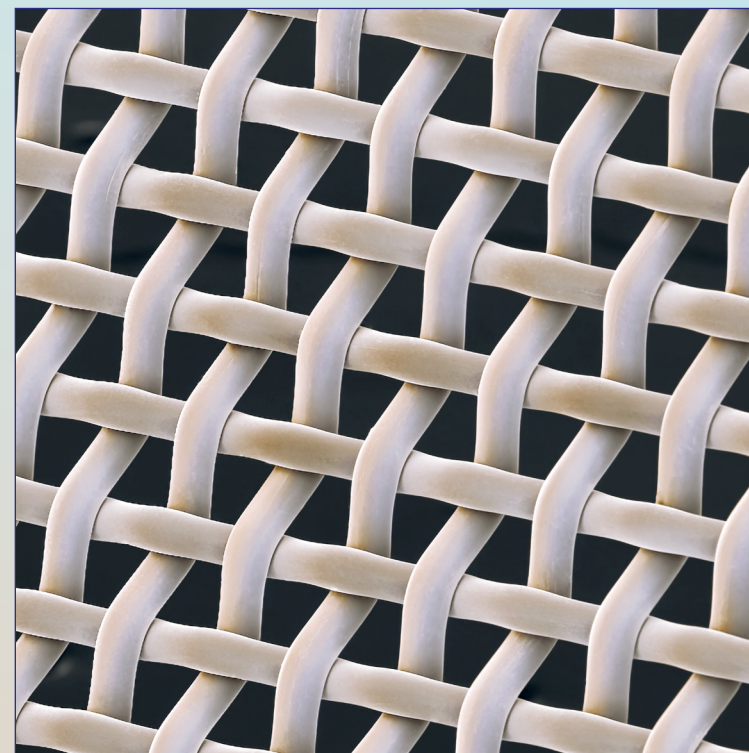
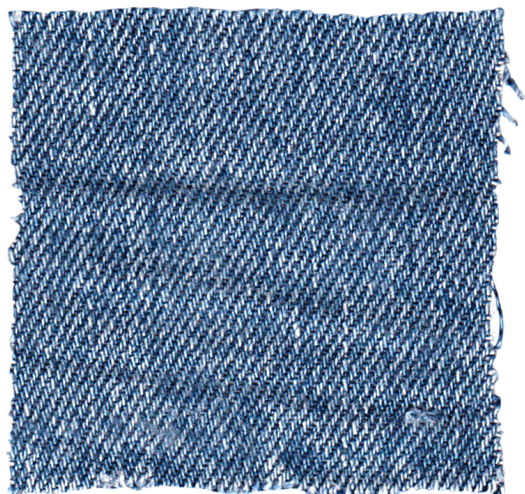
There were employment and performance conditions in relation to the 22,000 options issued on 1 December 2020 which allowed for vesting in three equal proportions on or after the Company's share price reaching 133 pence per share, 267 pence per share and 400 pence per share. As at 31 December 2021, the first of these performance conditions had been met.

NOTE 6:

There were employment conditions in relation to 800,000 options granted on 18 January 2018 which allowed for vesting in three annual instalments between 18 January 2019 and 18 January 2021. As part of the Group's share capital reorganisation during 2020, the numbers of options in issue were reduced by a factor of 100 and the exercise price increased by a factor of 100, leaving the overall value of the options unchanged. The performance condition targets were also increased by a factor of 100.

NOTE 7:

There were employment conditions in relation to the 109,703 and 81,770 options issued on 1 January 2021 which allowed for vesting in three equal proportions on or after the Company's share price reaching 275 pence per share, 375 pence per share and 475 pence per share. As at 31 December 2021, none of these performance targets had been met.



XEROS
TECHNOLOGY

SUBJECT:
MESH FILTER

OBSERVATION:
FINE LATTICE STRUCTURE

MAGNIFICATION:
@20.7MM 400X/300µM

CORPORATE GOVERNANCE REPORT

In April 2018, the Quoted Companies Alliance released a new version of its code for small and mid-sized quoted companies (the “Code”). The board fully supports the underlying principles contained within the Code, has reviewed the Code in detail and complies with parts of the Code where it deems it appropriate for the size and operations of the Group.

The responsibility for ensuring compliance and accurate reporting of Corporate Governance resides with the board. Corporate Governance will be continually monitored and reviewed by the board at least annually, as part of the Annual Report and Accounts process each year.

The board sets out its view on compliance with the corporate governance principles as detailed in the following Code:

PRINCIPLE ONE:

ESTABLISH A STRATEGY AND BUSINESS MODEL WHICH PROMOTE LONG-TERM VALUE FOR SHAREHOLDERS

The Group’s strategy is to develop into an IP-rich, capital-light licensor of polymer-based water saving solutions to multiple scale industries, all of which deploy the same Xeros core technologies. Given the scale of the markets in which the Group operates, the strategy is to commercialise the Xeros technology with partners who already have strong international market positions and who also demonstrate a strategic intent to deliver increased levels of sustainability.

PRINCIPLE TWO:

SEEK TO UNDERSTAND AND MEET SHAREHOLDER NEEDS AND EXPECTATIONS

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

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

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

The board as a whole is updated on these relationships, including any views or

concerns held by shareholders, by the executive Directors on a regular basis. Analyst reports are also circulated to the board as and when they are produced.

PRINCIPLE THREE

TAKE INTO ACCOUNT WIDER STAKEHOLDER AND SOCIAL RESPONSIBILITIES AND THEIR IMPLICATIONS FOR LONG-TERM SUCCESS

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

EMPLOYEES

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

SUPPLIERS

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

CUSTOMERS

As the medium and long-term strategy of the business evolves into the IP-rich, capital-light licensor of water saving solutions, relationships with licensees become longer-term and more co-operative. These key relationships are managed by the appropriate members of the Group’s senior management, with board support

where necessary. The board is updated on key relationships on a regular basis.

PRINCIPLE FOUR:

EMBED EFFECTIVE RISK MANAGEMENT, CONSIDERING BOTH OPPORTUNITIES AND THREATS, THROUGHOUT THE ORGANISATION

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

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

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

The board has ultimate responsibility for the Group's system of internal control and the effectiveness thereof. Any such system can only mitigate partially against the risk of material misstatement or loss to the Group. The board considers that the internal control environment in place within the Group is appropriate for the size, complexity and risk profile of the Group. A formal risk management document is reviewed by the board on a regular basis, alongside updates on the functioning of the environment on an ad hoc basis.

PRINCIPLE FIVE:

MAINTAIN THE BOARD AS A WELL-FUNCTIONING, BALANCED TEAM LED BY THE CHAIR

The board comprises the non-executive chairman, two executive Directors and three non-executive Directors. The board believes that the non-executive chairman and the non-executive Directors are classified as independent.

The board believes that the make-up of the Directors provides a balance between

independence and knowledge of the Group which allows them to discharge their responsibilities effectively, alongside the relevant board committees. The board members are expected to commit time for a minimum of eight board meetings a year, alongside adequate preparation time. Other meetings and commitments may be required as appropriate.

PRINCIPLE SIX:

ENSURE THAT BETWEEN THEM THE DIRECTORS HAVE THE NECESSARY UP-TO-DATE EXPERIENCE, SKILLS AND CAPABILITIES

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

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

PRINCIPLE SEVEN:

EVALUATE BOARD PERFORMANCE BASED ON CLEAR AND RELEVANT OBJECTIVES, SEEKING CONTINUOUS IMPROVEMENT

The board, through an internal survey of board members and led by the chairman and the senior independent Director, performs an evaluation procedure at least annually. The results of this are presented to the board alongside any actions or recommendations. The board has and continues to act on the results of this evaluation where appropriate.

PRINCIPLE EIGHT:

PROMOTE A CORPORATE CULTURE THAT IS BASED ON ETHICAL VALUES AND BEHAVIOURS

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

This process is led by the board, through actions such as committing resources to projects with an ethical and societally beneficial purpose and setting a tone at the top which encourages these within the wider group. The board receives feedback on the corporate culture through regular employee surveys and employee led committees, such as the health and safety and sustainability committees.

PRINCIPLE NINE:

MAINTAIN GOVERNANCE STRUCTURES AND PROCESSES THAT ARE FIT FOR PURPOSE AND SUPPORT GOOD DECISION-MAKING BY THE BOARD

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

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

Roles of the board, chairman and chief executive officer

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

- The overall strategy for the Group
- The structure and capital of the Group
- The financial reporting and control

environment of the Group

- The Group's internal control framework
- Major contracts for the Group
- Shareholder communications
- The delegation of authority and other key Group policies

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

BOARD COMMITTEES

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

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

PRINCIPLE TEN:

COMMUNICATE HOW THE GROUP IS GOVERNED AND IS PERFORMING BY MAINTAINING A DIALOGUE WITH SHAREHOLDERS AND OTHER RELEVANT STAKEHOLDERS

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

THE BOARD

The board currently comprises two executive Directors and four non-executive Directors.

AUDIT COMMITTEE

The Audit Committee consists of David Baynes as chairman and David Armfield. Klaas de Boer and the executive Directors attend by invitation. 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 has in the year received and reviewed reports from management and the Company's auditor relating to the annual accounts and the accounting and internal control systems in use throughout the Group. The Audit Committee meets at least twice a year.

NOMINATIONS COMMITTEE

The Nominations Committee consists of Klaas de Boer as chairman, David Baynes, David Armfield and Mark Nichols. The Nominations Committee monitors the size and composition of the board and the other board committees, and is responsible for identifying suitable candidates for board membership and monitoring the performance and suitability of the current board on an ongoing basis. During the year, the committee considered the composition of the board and appointed Rachel Nooney as an additional non-executive Director. The Nominations Committee meets 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. As it is AIM listed, the Company is not required to apply the full provisions of the UK Corporate Governance Code. The board has adopted features of the QCA Corporate Governance Code where it considers it appropriate for the size and scope of the business.

Some key features of the internal control system:

- I Management accounts information, budgets, forecasts and business risk issues are regularly reviewed by the board which meets at least eight times per year;
- II The Company has operational, accounting and employment policies in place;
- III The board actively identifies and evaluates the risks inherent in the business and ensures that appropriate controls and procedures are in place to manage these risks;
- IV There is a clearly defined organisational structure; and
- V There are well-established financial reporting and control systems.

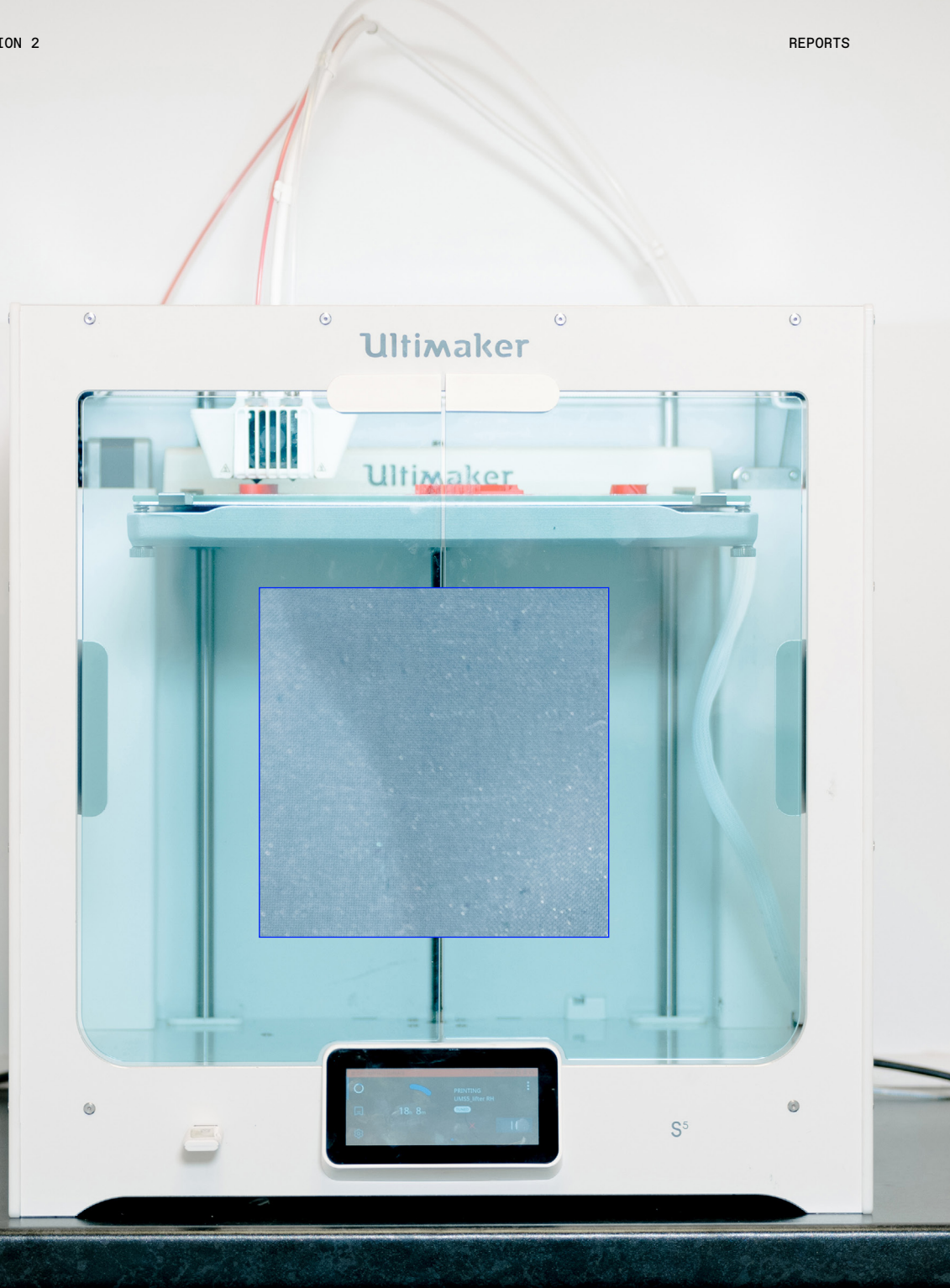
GOING CONCERN

As at 31 December 2021, the Group had £2.5m of cash and £5.3m of cash on deposit. Given the Group's stage of development, it continues to incur operating cash outflows. The Directors believe that the current levels of cash held can provide the Group with sufficient cash to meet its obligations as they fall due for at least twelve months following the date of this report, with some changes to discretionary expenditure or the proceeds of a potential fundraise, if necessary. However, given the current commercial position of the Group, the Directors acknowledge that the Group's current cash position does not provide certainty beyond this point and may not, with the current rates of cash outflow, provide the Group with the resources to reach the point at which cash generated from customer contracts covers the cost base of the Group.

The Directors consider that they have options in place that may allow them to reach this breakeven point. These include signing potential commercial agreements and the possibility of raising further investor funding. Given that these options are not certain at this stage, the Directors consider the Group's current funding position constitutes a material uncertainty as to the going concern status of the Group, as without some form of action, most likely in the form of a fundraise, the Group's cash will run out prior to the completion of commercialisation and, therefore, before cash generated from customers covers the cost

base of the Group. The Directors also believe, however, that they have sufficient options in place in order to allow the Group to continue trading in the short and medium term. Therefore, after making enquiries and considering the uncertainties as described above, the Directors have a reasonable expectation that the Group has and will have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going basis of accounting in preparing this financial information.

Note 17 to this financial information includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposure to credit, liquidity and market risk. The Directors have considered their obligation, in relation to the assessment of the going concern of the Group and each statutory entity within it and have reviewed the current budget cash forecasts and assumptions as well as the main risk factors facing the Group.



STATEMENT OF DIRECTORS' RESPONSIBILITIES

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the consolidated financial statements in accordance with UK-adopted international accounting standards and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including FRS101 'Reduced Disclosure Framework'). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK-adopted international accounting standards or United Kingdom Generally Accepted Accounting Practice have been followed, subject to any material departures disclosed and explained in the financial statements; and

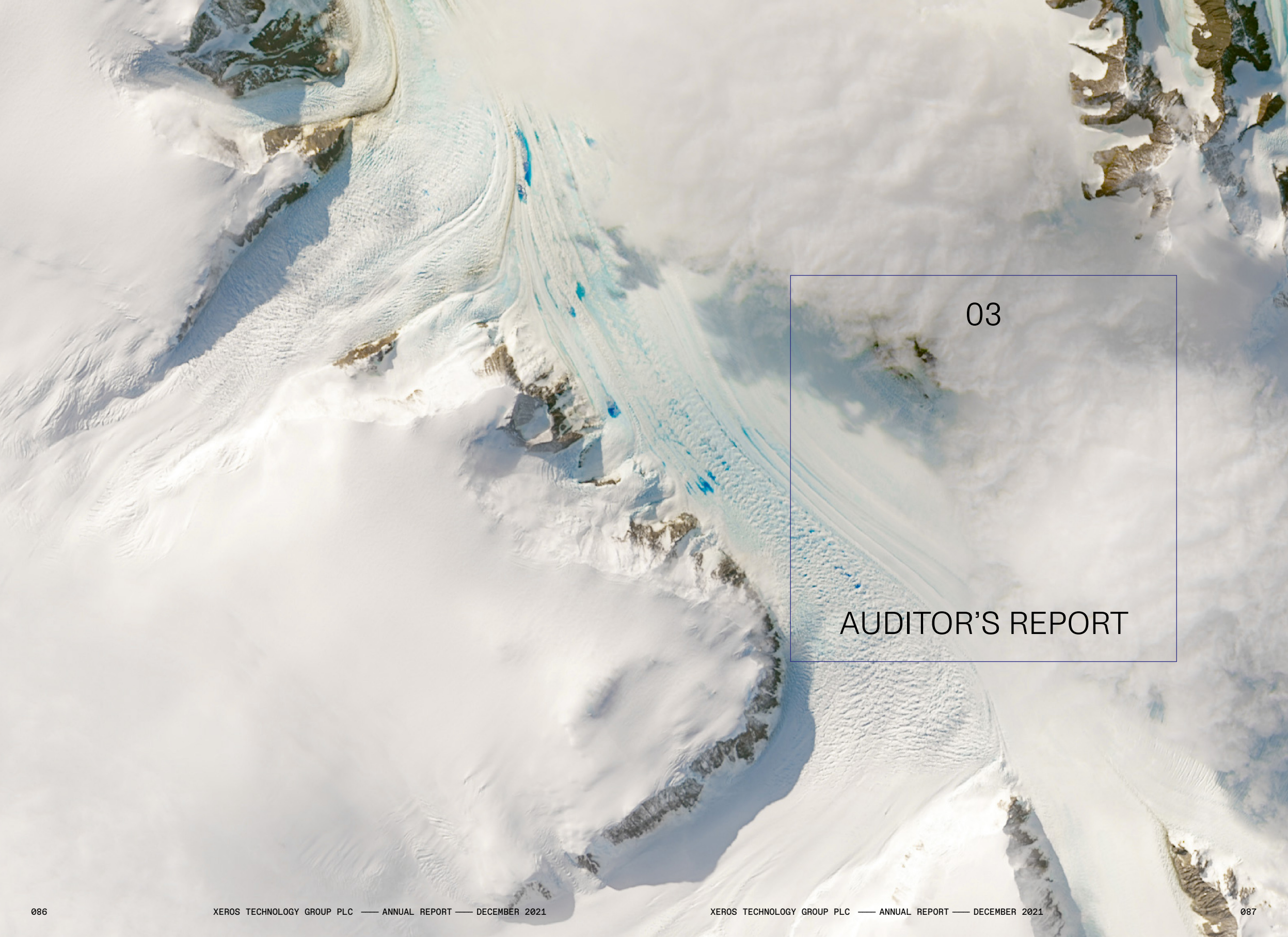
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors 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 the Company's auditor is aware of that information.

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.



03

AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

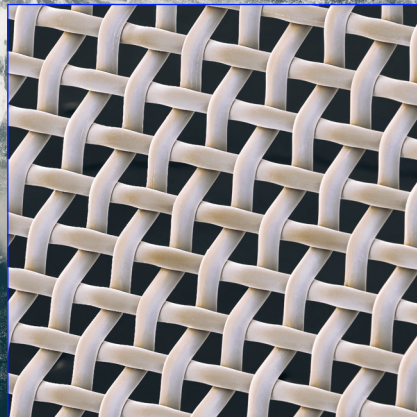
TO THE MEMBERS OF XEROS TECHNOLOGY GROUP PLC

OPINION - OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

We have audited the financial statements of Xeros Technology Group plc (the "parent company") and its subsidiaries (the "Group") for the year ended 31 December 2021 which comprise the Consolidated statement of profit or loss and other comprehensive income, the Consolidated statement of changes in equity, the Consolidated statement of financial position, the Consolidated statement of cash flows, the Company statement of changes in equity, the Company statement of financial position, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK-adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.



BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 1 in the financial statements, which indicates that the Directors believe that the current levels of cash held provide the Group with sufficient cash to meet its obligations as they fall due for at least twelve months following the date of this report, with some changes to discretionary expenditure, if necessary. However, given the current position of the Group the Directors acknowledge that the Group's current cash position does not provide certainty beyond this point and may not, with the current rates of cash outflow, provide the Group with the resources to reach a cash breakeven point. As stated in note 1, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

OUR EVALUATION OF MANAGEMENT'S ASSESSMENT OF THE ENTITY'S ABILITY TO CONTINUE AS A GOING CONCERN

Our evaluation of the Directors' assessment of the Group's and the parent company's ability to continue to adopt the going concern basis of accounting included the following audit procedures:

- Obtained the forecasts and cashflow calculations covering the period to June 2023. Assessed how these forecasts were compiled and their appropriateness by applying sensitivities to the underlying assumptions
- Obtained an understanding of the design and implementation of controls over management's going concern assessment;
- Assessed the quality of management's forecasting by comparing the reliability of past forecasts to actual results;
- Evaluated the assumptions in the revenue forecasts, particularly in relation to licensee progress, cost assumptions (including the level of fixed costs), and mitigations (including cash saving measures or successful fundraising) are likely to be achievable. Considered whether the assumptions were consistent with our understanding of the business derived from other detailed work undertaken;
- Evaluated management's forecast which demonstrated a requirement for further funding within the going concern period and challenged management regarding assumptions made, including the Group's plans to generate further cash to fund its operations; and
- Assessed the adequacy of disclosures within the Annual Report and Accounts.

In performing our audit procedures, we observed the following:

- In management's most likely outcome forecast of the period to 30 June 2023, cash balances become negative during Quarter 1 of 2023 and mitigating actions to raise further funds are required; and
- The assumptions made by management in its best-case, worse-case and most likely outcome assessments did not indicate specific bias.

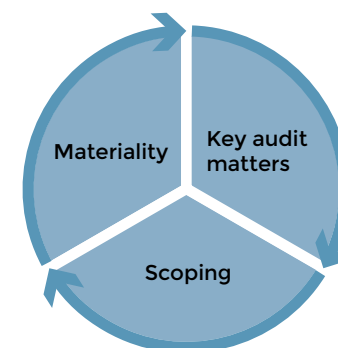
OUR RESPONSIBILITIES

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the group or the parent company to cease to continue as a going concern.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the group's and the parent company's business model including effects arising from macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the group's and the parent company's financial resources or ability to continue operations over the going concern period.

The responsibilities of the directors with respect to going concern are described in the Responsibilities of the directors for the financial statements section of this report.

OUR APPROACH TO THE AUDIT



Overview of our audit approach

Overall materiality:

Group: £511,000, which represents 7.2% of the Group's loss before taxation.

Parent company: £460,000 which was based upon 0.9% of total assets but was capped at 90% of Group materiality.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter(s) described below to be the key audit matter(s) to be communicated in our report

- Recoverability of the carrying value of investments in, and intercompany receivables due from, subsidiaries (same as prior year).

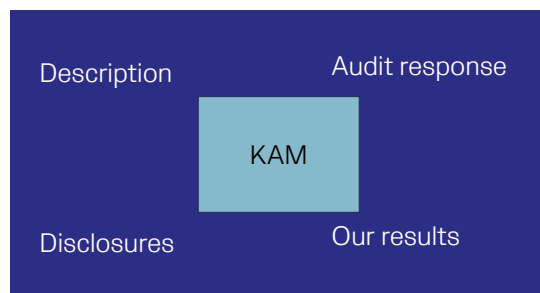
Our auditor's report for the year ended 31 December 2021 included a key audit matter that has not been reported as a key audit matters in our current year's report. This relates to revenue recognition that has not been included as recorded revenue is not material and, therefore, has not been considered a key audit matter.

We have performed the following audit work:

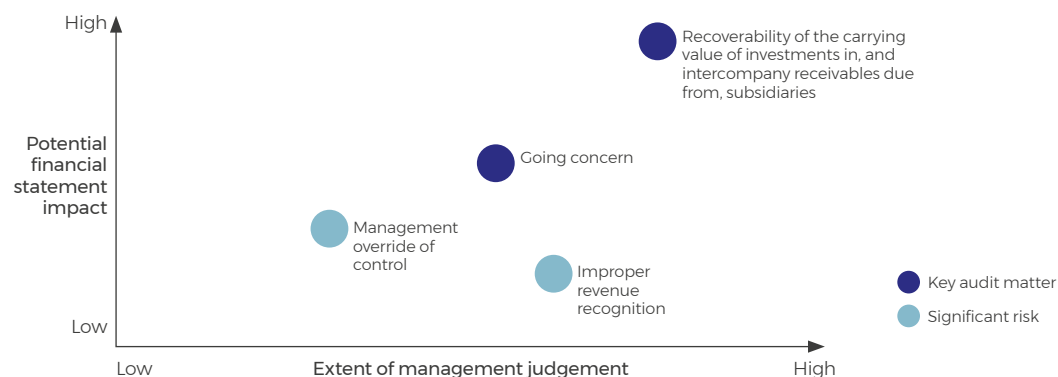
- an audit of the financial statements of the parent company and of the financial information of one of the components using component materiality (full scope audit) which represent 98% of the loss before taxation for the Group; and
- analytical procedures at group level for the remaining component in the Group during the year.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be the key audit matter to be communicated in our report.



In the graph below, we have presented the key audit matters and other significant risks relevant to the audit.



KEY AUDIT MATTER – PARENT COMPANY

RECOVERABILITY OF THE CARRYING VALUE OF INVESTMENTS IN, AND INTERCOMPANY RECEIVABLES DUE FROM, SUBSIDIARIES.

We identified recoverability of the carrying value of investments in subsidiaries and intercompany receivables as one of the most significant assessed risks of material misstatement due to error.

The process for assessing whether an impairment exists under both International Accounting Standard (IAS) 36 Impairment of Assets, when considering the carrying value of the investment in subsidiary, and International Financial Reporting Standard (IFRS) 9 Financial Instruments, when considering the recoverability of the intercompany receivables, is complex.

The group's subsidiaries are loss making and have been negatively impacted by delays in the progression of licencing revenues caused by the ongoing Covid-19 impact in key markets. Regarding its operations, management's assessment of any potential impairment is inherently subjective.

The financial statements presented for audit recorded investment balance in the parent company of £9.9m and an amount owed by it's UK subsidiary of £38.6m, the trading entity for the group, which has made a loss for the year ended 31 December 2021. As such there is an indicator of impairment.

RELEVANT DISCLOSURES IN THE ANNUAL REPORT AND ACCOUNTS 2020

The company's accounting policies on the valuation of investments and the impairment of financial assets are shown in Note 2, Summary of Significant Accounting Policies.

HOW OUR SCOPE ADDRESSED THE MATTER – PARENT COMPANY

In responding to the key audit matter, we performed the following audit procedures:

Obtained an understanding of the relevant business processes and controls around the recoverability of the carrying values and confirmed that they were implemented through review of the accounting papers prepared by management;

Obtained the forecasts that supported management's impairment paper and tested their mathematical accuracy and consistency with the forecasts provided to support the going concern assessment and assessed whether they were reasonable;

Obtained management's assessment of the expected credit losses on the intercompany loan and challenged the probability-weighted amount so determined by reference to available evidence including the group's share price, broker reports, and management forecasts;

Obtained the forecasts and assessed management's revenue assumptions for progression in licencing revenues and compared the stated stages achieved so far against our understanding of the business; and

Assessed the adequacy of the disclosure included within the financial statements for compliance with IAS 36 'Impairment of assets' and IFRS 9 'Financial Instruments' as appropriate.

OUR RESULTS

From the work performed we identified that changes in the group's strategic plans were not fully reflected within management's initial assessment of impairment.

As a result of our challenge management reperformed their assessment and determined that the £9.9m investment balance was fully impaired and that an expected credit loss provision of £28.7m should be recorded against the intercompany receivable.

Further, we identified that the intercompany receivable previously recorded as a current asset in accordance with its legal form should more properly be recorded as a non-current asset in accordance with IAS 1 'Presentation of financial statements'. The statement of financial position for the year ended 31 December 2020 has been restated as a result of this as described in note C8.

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

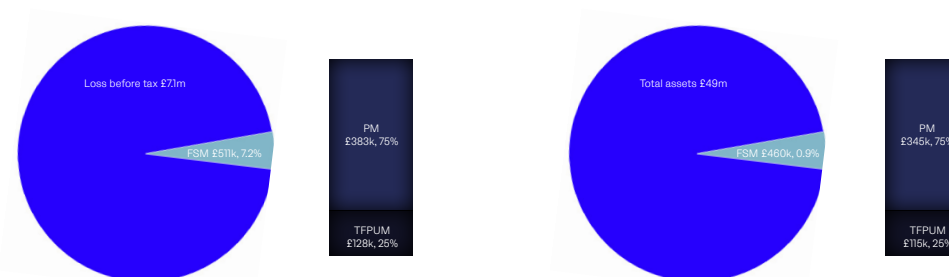
Materiality was determined as follows:

Materiality measure	Group	Parent company
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.
Materiality threshold	£511,000 which is 7.2% of the Group's loss before taxation.	£460,000 which is 0.9% of the parent company's total assets but was capped at 90% of Group materiality.
Significant judgements made by auditor in determining the materiality	In determining materiality, we made the following significant judgements: Loss before taxation is considered to be the most appropriate benchmark for the Group because it is a key performance indicator used by the Directors to report to investors on the financial performance of the Group. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2020 as we have used a higher percentage against the benchmark due to the operations in the Group being consistent with prior year and no new significant developments.	In determining materiality, we made the following significant judgements: Total assets is considered to be the most appropriate benchmark for the parent company because the parent company's principal activity is that of a holding company. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2020 as we have used a higher percentage against the benchmark due to the operations in the group being consistent with prior year and no new significant developments.
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
Performance materiality threshold	£383,000 which is 75% of financial statement materiality.	£345,000 which is 75% of financial statement materiality.
Significant judgements made by auditor in determining the performance materiality	In determining materiality, we made the following significant judgement: Our risk assessment identified a strong internal control environment and no significant issues were identified in the prior year that would have an impact on the current year audit.	In determining materiality, we made the following significant judgement: Our risk assessment identified a strong internal control environment and no significant issues were identified in the prior year that would have an impact on the current year audit.
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
Specific materiality	We determined a lower level of specific materiality for Directors' remuneration.	We determined a lower level of specific materiality for Directors' remuneration.
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the audit committee.	We determine a threshold for reporting unadjusted differences to the audit committee.
Threshold for communication	£26,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£23,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – Group

Overall materiality – Parent company



FSM: Financial statements materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatements

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our audit approach was a risk-based audit that required an understanding of the group's and the parent company's business and in particular included:

- The engagement team obtained an understanding of the Group, its environment and risk profile, including group-wide controls, and assessed the risks of material misstatement at the group level. We considered the structure of the Group, its processes and controls and the industries in which the components operate;
- In order to address the risks identified, the engagement team performed an evaluation of identified components to assess their significance and to determine the planned audit response based on a measure of materiality, calculated by considering the component's significance as a percentage of the Group's total assets, revenue and loss before taxation.

- Of the Group's three components, we identified two which, in our view, required an audit of their financial information (full scope audit), either due to their size or their risk characteristics. As a result of this, we performed an audit of the financial statements of the parent company and of the financial information of one of the components using component materiality. We performed analytical procedures at group level over the remaining component. These procedures, together with the additional procedures outlined above, performed at the group level gave us the audit evidence we needed for our opinion on the Group financial statements as a whole. All audit work has been undertaken by the Group engagement team; and
- We identified the recoverability of the carrying value of the parent company's investment in, and the intercompany receivables due from, the subsidiary as a key audit matter and the audit procedures performed in respect of this has been included in the key audit matters section of our report.

OTHER INFORMATION

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

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

OUR OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006 IS UNMODIFIED

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

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

MATTER ON WHICH WE ARE REQUIRED TO REPORT UNDER THE COMPANIES ACT 2006

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

EXPLANATION AS TO WHAT EXTENT THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the company, and the industry in which it operates, this was achieved through inquiries with management and a review of board minutes and papers provided to the Audit Committee. We determined that the following laws and regulations were most significant; UK-adopted international accounting standards, Companies Act 2006 and the Alternative Investment Market rules. In addition we concluded that there are certain laws and regulations that may have an effect on the determination of the amount and disclosures in the financial statements and those laws and regulations that relate to health and safety.
- We obtained an understanding of how the parent company and the Group is complying with those legal and regulatory frameworks by making inquiries of management and those responsible for legal and compliance procedures. We corroborated our inquiries through our review of board minutes and papers provided to the Audit Committee.
- We enquired of management whether there were any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected fraud. We corroborated the results of our enquiries to supporting documentation such as board minutes reviews and papers provided to the Audit Committee. From the procedures performed we did not identify any material matters relating to non-compliance with laws and regulation or matters in relation to fraud.

To assess the potential risks of material misstatement, we obtained an understanding of:

The Group's operations, including the nature of its revenue sources, expected financial statements disclosures and business risks that may result in a risk of material misstatement; and

The Group's control environment including the adequacy of procedures for authorisation of transactions.

- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the engagement team included:

Evaluating the processes and controls established to address the risks related to irregularities and fraud;

Testing manual journal entries, in particular journal entries relating to management estimates and journals entries deemed to relate to unusual transactions;

Challenging assumptions and judgement made by management in its significant accounting estimates; and

Identifying and testing related party transactions.

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- Team communications in respect of potential non-compliance with laws and regulations and fraud included the potential for fraud in revenue recognition and appropriate application of the going concern assumptions.

- The engagement partner has assessed the appropriateness of the collective competence and capabilities of the engagement team, including consideration of the engagement team's knowledge and understanding of the industry in which the client operates, and its practical experience through training and participation with audit engagements of a similar nature. All team members are considered to have sufficient knowledge and experience of companies of a similar size and complexity, appropriate to their role within the team.

USE OF OUR REPORT

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

Mark Overfield, BSc FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Leeds

24 June 2022

04

FINANCIAL
STATEMENTS

CONSOLIDATED STATEMENT
OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

NOTES

YEAR ENDED
31 DECEMBER 2021

£'000

YEAR ENDED
31 DECEMBER 2020

£'000

CONTINUING OPERATIONS

REVENUE	3
Cost of sales	-
GROSS PROFIT/(LOSS)	-
Administrative expenses	6
ADJUSTED EBITDA*	-
Share based payment expense	23
Depreciation of tangible fixed assets	12
OPERATING LOSS	-
Net finance income	8
LOSS BEFORE TAX	-
Taxation	9
LOSS AFTER TAX FROM CONTINUING OPERATIONS	-
Loss from discontinued operations	7
LOSS FOR THE PERIOD	-
OTHER COMPREHENSIVE (EXPENSE)/INCOME:**	
Foreign currency translation differences - foreign operations	-
TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD	
LOSS PER SHARE	
Basic and diluted on loss from continuing operations	10
Basic and diluted on total loss for the period	10

474	385
(193)	(434)
281	(49)
(7,225)	(7,586)
(6,281)	(6,761)
(463)	(653)
(200)	(221)
(6,944)	(7,635)
14	3
(6,930)	(7,632)
492	698
(6,438)	(6,934)
-	(37)
(6,438)	(6,971)
(1)	44
(6,439)	(6,927)
(28.11)p	(44.88)p
(28.11)p	(45.12)p

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

** Items that are or may be reclassified to profit or loss

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021	SHARE CAPITAL £'000	SHARE PREMIUM £'000	MERGER RESERVE £'000	FOREIGN CURRENCY TRANSLATION RESERVE £'000	RETAINED EARNINGS DEFICIT £'000	TOTAL £'000
BALANCE AT 31 DECEMBER 2019	1,176	109,226	15,443	(2,246)	(118,468)	5,131
Loss for the year	-	-	-	-	(6,971)	(6,971)
Other comprehensive income	-	-	-	41	-	41
Loss and total comprehensive expense for the period	-	-	-	41	(6,971)	(6,930)
Transactions with owners, recorded directly in equity:						
Issue of shares following placing and open offer	1,800	4,200	-	-	-	6,000
Exercise of share options	21	74	-	-	-	95
Costs of share issues	-	(427)	-	-	-	(427)
Share based payment expense	-	-	-	-	653	653
Total contributions by and distributions to owners	1,821	3,847	-	-	653	6,321
AT 31 DECEMBER 2020	2,997	113,073	15,443	(2,205)	(124,786)	4,522
Loss for the year	-	-	-	-	(6,438)	(6,438)
Other comprehensive expense	-	-	-	(1)	-	(1)
loss and total comprehensive expense for the year	-	-	-	(1)	(6,438)	(6,439)
Transactions with owners, recorded directly in equity:						
Issue of shares following placing and open offer	562	8,438	-	-	-	9,000
Exercise of share options	9	32	-	-	-	41
Costs of share issues	-	(525)	-	-	-	(525)
Share based payment expense	-	-	-	-	463	463
Total contributions by and distributions to owners	571	7,945	-	-	463	8,979
AT 31 DECEMBER 2021	3,568	121,018	15,443	(2,206)	(130,761)	7,062

CONSOLIDATED STATEMENT
OF FINANCIAL POSITION
31 DECEMBER 2021

Notes	At 31 December 2021 £'000	At 31 December 2020 £'000
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ASSETS

Non-current assets

Property, plant and equipment	12	114	204
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Right of use assets	12	14	68
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Trade and other receivables	14	30	63
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TOTAL NON-CURRENT ASSETS		158	335
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Current assets

Inventories	13	108	96
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Trade and other receivables	14	346	475
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Cash on deposit	15	5,323	-
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Cash and cash equivalents	16	2,483	5,158
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TOTAL CURRENT ASSETS		8,260	5,729
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TOTAL ASSETS		8,418	6,064
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LIABILITIES

Non-current liabilities

Right of use liabilities	18	-	(19)
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Deferred tax	19	(38)	(38)
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TOTAL NON-CURRENT LIABILITIES		(38)	(57)
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Current liabilities

Trade and other payables	18	(1,318)	(1,485)
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TOTAL CURRENT LIABILITIES		(1,318)	(1,485)
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TOTAL LIABILITIES		(1,356)	(1,542)
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NET ASSETS		7,062	4,522
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Notes	At 31 December 2021 £'000	At 31 December 2020 £'000
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EQUITY

Share capital	20	3,568	2,997
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Share premium	20	121,018	113,073
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Merger reserve	20	15,443	15,443
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Foreign currency translation reserve	21	(2,206)	(2,205)
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Accumulated losses	21	(130,761)	(124,786)
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TOTAL EQUITY		7,062	4,522
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Approved by the board of Directors and authorised for issue on 24 June 2022.

Klaas de Boer
Chairman

Paul Denney
Chief Financial Officer

Company number: 08684474

CONSOLIDATED STATEMENT
OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER

Notes

Year ended
31 December
2021
£'000

Year ended
31 December
2020
£'000

OPERATING ACTIVITIES

Loss before tax		(6,930)	(7,632)
Adjustment for non-cash items:			
Depreciation of property, plant and equipment	12	200	221
Share based payment	23	463	653
(Increase)/decrease in inventories	13	(12)	246
Decrease in trade and other receivables	14	161	3
Decrease in trade and other payables	18	(184)	(342)
Finance income	8	(17)	(9)
Finance expense	8	3	6
Cash used in operations		(6,316)	(6,854)
Tax receipts	9	492	698
Cashflow from discontinued operations	7	-	(195)
Net cash outflow from operations		(5,824)	(6,351)

Notes

Year ended
31 December
2021
£'000

Year ended
31 December
2020
£'000

INVESTING ACTIVITIES

Finance income	8	17	9
Finance expense	8	(3)	(6)
Purchases of property, plant and equipment	12	(56)	(13)
Cash placed on deposit		(5,323)	-
Cashflow from discontinued operations	7	-	193
Net cash inflow/(outflow) from investing activities		(5,365)	183

FINANCING ACTIVITIES

Proceeds from issue of share capital, net of costs	20	8,515	5,667
Net cash inflow from financing activities		8,515	5,667
(Decrease) in cash and cash equivalents		(2,674)	(501)
Cash and cash equivalents at start of year/period		5,158	5,625
Effect of exchange rate fluctuations on cash held		(1)	34
CASH AND CASH EQUIVALENTS AT END OF YEAR	16	2,483	5,158

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1) BASIS OF PREPARATION

Xeros Technology Group plc is a public limited company domiciled in the United Kingdom. The financial statements of Xeros Technology Group plc are audited consolidated financial statements for the year ended 31 December 2021. These include comparatives for the year ended 31 December 2020. The level of rounding for financial information is to 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 UK-adopted international accounting standards.

BUSINESS COMBINATIONS AND BASIS OF CONSOLIDATION

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

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

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

The cost of an acquisition is measured as the fair value of the assets given, equity

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

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

GOING CONCERN

As at 31 December 2021, the Group had £2.5m of cash and £5.3m of cash on deposit. Given the Group's stage of development, it continues to incur operating cash outflows. The Directors believe that the current levels of cash held provide the Group with sufficient cash to meet its obligations as they fall due for at least twelve months following the date of this report, with some changes to discretionary expenditure or the proceeds of a potential fundraising, if necessary. However, given the current commercial position of the Group, the Directors acknowledge that the Group's current cash position does not provide certainty beyond this point and may not, with the current rates of cash outflow, provide the Group with the resources to reach the point at which cash generated from customer contracts covers the cost base of the Group.

The Directors consider that they have options in place that may allow them to reach this breakeven point. These include signing

potential commercial agreements and the possibility of raising further investor funding. Given that these options are not certain at this stage, the Directors consider the Group's current funding position indicates a material uncertainty exists that may cast significant doubt as to the Group's ability to continue as a going concern. Without some form of action, most likely in the form of a fundraising, the Group's cash will run out prior to the completion of commercialisation and, therefore, cash breakeven. The Directors also believe, however, that they have sufficient options in place in order to allow the Group to continue trading in the short and medium term. Therefore, after making enquiries and considering the uncertainties as described above, the Directors have a reasonable expectation that the Group has and will have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going basis of accounting in preparing this financial information.

Note 17 to this financial information includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposure to credit, liquidity and market risk. The Directors have considered their obligation, in relation to the assessment of the going concern of the Group and each statutory entity within it and have reviewed the current budget cash forecasts and assumptions as well as the main risk factors facing the Group.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive Officer's review on pages 2 to 5. The financial position of the Company, its cash flows, and liquidity position are described in the Chief Financial Officer's Review on pages 6 to 7. In addition, notes 2 to 25 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

2) SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied are set out below.

REVENUE RECOGNITION

Licence revenue

When the Group receives payments in the form of upfront payments or technology fees, the Group assesses those payments against the contracts in accordance with the provisions of IFRS15, and allocates the revenue against the performance obligations accordingly. Where licence revenue is based on sales of equipment by the licensee, the Group recognises revenue at the time of that sale.

Sale of goods

Where the Group sells either equipment or consumables to a customer directly, revenue is recognised when the product in question is delivered to the customer, and, if required, any installation or setup of the equipment has been performed.

Service contracts

Where the Group has a service contract in place, revenue is recognised in line with the profile of the delivery of the service to the customer on an outputs basis.

Linked contracts

When the Group sells equipment, services and consumables in a package under a single contract, the Group assesses the contract against the five steps of IFRS15. This process includes the assessment of the performance obligations within the contract and the allocation of contract revenue across these performance obligations once identified. Revenue is allocated according to the value of consideration expected to be received for the transfer of the relevant goods or services to the customer. This consideration is calculated on an inputs basis using cost data and an appropriate margin.

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

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

FOREIGN CURRENCIES

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

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

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

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

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

translation reserve relating to the operation that is being sold.

EXCEPTIONAL ITEMS

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

RESEARCH AND DEVELOPMENT

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

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

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

The costs of an internally generated intangible asset comprise all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Directly attributable costs include employee costs incurred on technical development, testing and certification,

materials consumed and any relevant third-party cost. The costs of internally generated developments are recognised as intangible assets and are subsequently measured in the same way as externally acquired intangible assets. However, until completion of the development project, the assets are subject to impairment testing only.

No development costs to date have been capitalised as intangible assets as it was deemed that the probability of future economic benefit was uncertain at the time the costs were incurred.

LEASES

As a lessee. Where the Group enters a new contract, the Group considers whether this contract is, or contains, a lease. A lease is defined as "a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration". To apply this definition, the Group assesses whether the contract meets three key evaluations, which are whether:

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

Measurement and recognition of leases as a lessee

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

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

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

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

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

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

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

On the statement of financial position, right-of-use assets are shown separately and are included in property, plant and equipment notes for disclosure purposes. Lease liabilities are shown separately.

As a lessor. If the Group transfers substantially all the risks and benefits of ownership of the asset, a receivable is recognised for the initial direct costs of the lease and the present value of the minimum lease payments. As payments fall due, finance income is recognised in the income statement so as to achieve a constant rate of return on the remaining net investment in the lease.

INTANGIBLE ASSETS AND GOODWILL

Recognition and measurement

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

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

Amortisation

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

Leasehold improvements – over the term of the lease on a straight-line basis

Plant and machinery – 20% on cost on a straight-line basis

Fixtures and fittings – 20% on cost on a straight-line basis

Computer equipment – 33% on cost on a straight-line basis

Vehicles – 20% on cost on a straight-line basis

The gain or loss arising from 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 NON-CURRENT ASSETS

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

INVENTORIES

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

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

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

CASH ON DEPOSIT

Bank deposits where maturity is greater than three months from the date of investment, the Group cannot access the funds prior to the

maturity date and the Group is not relying on the funds to meet its short term operating requirements are disclosed as cash on deposit.

SHARE BASED PAYMENTS

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

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

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

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

FURLOUGH CREDITS

Where the Group has claimed a credit in respect of employees furloughed in accordance with the relevant government support schemes, the credit is recognised in the statement of profit or loss and other comprehensive income in the period to which the credit relates and is netted off against staff costs.

FINANCIAL ASSETS AND LIABILITIES

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

Financial liabilities are de-recognised when the obligation specified in the contract is discharged, cancelled or expired.

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

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

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

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

Trade receivables

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

Cash and cash equivalents

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

Equity instruments

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

Trade and other payables

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

Impairment of financial assets

The Group accounts for impairment of financial

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

TAXATION

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

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

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

Credit is taken in the accounting period for research and development tax credits, which have been claimed from HM Revenue and Customs, in respect of qualifying research and development costs incurred. Research and development tax credits are recognised on an accruals basis with reference to the level of certainty regarding acceptance of the claims by HMRC. The Group accounts for R&D tax credits as an investment tax credit accounted for on a flow through basis – R&D tax credits, while investment tax credits, are not considered to be substantially different from other tax credits and they are recognised when the conditions required to receive the credit are met and they are claimed on the Group's tax return.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited in the statement of profit or loss and other comprehensive income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the profit nor the accounting period.

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

DISPOSAL GROUPS AND DISCONTINUED OPERATIONS

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

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

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

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

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

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. The point listed below is considered to be an area of judgement.

Research and development costs

Careful judgement by the Directors is applied when deciding whether the recognition requirements for capitalising development costs have been met.

This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems. Judgements are based on the information available at each reporting date which includes the progress with testing and certification and progress on, for example, establishment of commercial arrangements with third parties.

Specifically, the Directors consider production scale evidence of commercial operation of the Group's technology. In addition, all internal activities related to research and development of new products are continuously monitored by the Directors. To date, no development costs have been capitalised.

ACCOUNTING STANDARDS AND INTERPRETATIONS NOT APPLIED

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

Amendments to IAS 1, IAS 8 and IAS 21
1 January 2023

Amendments to IFRS 17
1 January 2023

3) SEGMENTAL REPORTING

The financial information by segment detailed below is frequently reviewed by the Chief Executive Officer, who has been identified as the Chief Operating Decision Maker ("CODM"). The Group's transition to a licencing organisation has led to a change to how the results of the Group are reviewed internally. The results are no longer split by segment but are reviewed in terms of the type of revenue. As such the analysis below does not split the Group's results into separate operating segments and instead reports results as one single segment.

An analysis of revenues by type is set out below:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Sale of goods	160	13
Rendering of services	190	314
Licencing revenue	124	58
Total	474	385

The Group's largest customer was responsible for 19% of Group revenue in the year to 31 December 2021.

During the year ended 31 December 2020 the Group's largest customer was responsible for 19% of Group revenue.

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

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Europe	271	230
North America	61	145
Rest of the World	142	10
Total	474	385

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

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Europe	158	272
North America	-	-
Total	158	272

4) LOSS FROM OPERATIONS

Loss from operations is stated after charging to administrative expenses:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Foreign exchange losses	7	60
Depreciation of plant and equipment (note 12)	200	221
Operating lease rentals - land and buildings	42	40
Staff costs (excluding share-based payment charge)	3,711	4,010
Research and development	316	144

Auditor's remuneration

Audit of these financial statements	24	21
Audit of financial statements of subsidiaries	23	20
All other services	4	4
Total auditor's remuneration	51	45

5) STAFF NUMBERS AND COSTS

The average monthly number of persons (including Directors) employed by the Group during the year was:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Directors	6	5
Operational staff	40	48
Total	46	53

The aggregate remuneration, including Directors, comprised:

Wages and salaries	3,278	3,675
Social security costs	335	367
Pension contributions	88	90
Share based expense (note 23)	463	653
Furlough credit	(15)	(122)
Total costs	4,149	4,663
Directors' remuneration comprised: Emoluments for qualifying services	744	730

Directors' emoluments disclosed above include £335,000 paid to the highest paid Director (Year ended 31 December 2020: £364,000). There are no pension benefits for Directors. Please see Directors' Remuneration Report on pages 14 to 16 for further information on Directors' emoluments.

6) EXPENSES BY NATURE

The administrative expenses charge by nature is as follows:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Staff costs, recruitment and other HR	3,908	4,235
Share-based payment expense	463	653
Premises and establishment costs	150	176
Research and development costs	316	144
Patent and IP costs	476	635
Engineering and operational costs	-	2
Legal, professional and consultancy fees	910	895
IT, telecoms and office costs	213	458
Depreciation charge	200	221
Travelling, subsistence and entertaining	124	130
Advertising, conferences and exhibitions	299	63
Bad debt expense	161	52
Other expenses	13	(16)
Foreign exchange losses/(gains)	7	60
Furlough credit	(15)	(122)
Total administrative expenses	7,225	7,586

7) DISCONTINUED OPERATIONS

During the year ended 31 December 2020, the Marken sites operated by the Group were closed and as a result the results for this operating segment were presented as a discontinued operation in accordance with IFRS 5. The disposal of the segment was completed in the year ended 31 December 2020. The loss for the year ended 31 December 2021 related to discontinued operations was £nil (2020: £37,000).

FINANCIAL PERFORMANCE AND CASH FLOW INFORMATION

The results of the discontinued operations are shown below for the year ended 31 December 2021 and the year ended 31 December 2020.

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Revenue	-	238
Expenses	-	(507)
Impairment of assets held for sale	-	-
Profit on sale of assets	-	116
Gain on termination of lease	-	116
Loss before and after income tax from discontinued operation	-	(37)
Exchange differences on translation of discontinued operations	-	14
Other comprehensive income from discontinued operations	-	14
Net cash outflow from operating activities	-	195
Net cash inflow/(outflow) from investing activities	-	193
Net cash inflow from financing activities	-	-
Net decrease in cash generated by the subsidiary	-	(2)

DETAILS OF THE SALE OF THE BUSINESS UNIT

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Cash received	-	193
Total consideration	-	193
Carrying amount of assets sold	-	(77)
Profit on sale	-	116

THE CARRYING AMOUNTS OF ASSETS AND LIABILITIES
AS AT THE DATE OF SALE WERE:

30 May
2020
£'000

Assets classified as held for sale	
Property, plant and equipment	191
Inventories	77
Total assets held for sale	268
Liabilities directly associated with assets classified as held for sale	
Right of use lease liabilities	(191)
Total liabilities associated with assets held for sale	(191)

There were no assets or liabilities classified as held for sale as at 31 December 2021 or 31 December 2020.

8) NET FINANCE INCOME

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Bank interest receivable	12	-
Finance expense in relation to right-of-use assets	(3)	(6)
Finance income from lease receivables	5	9
Net finance income	14	3

9) TAXATION

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Tax on loss on ordinary activities		
Current tax:		
UK Tax credits received in respect of prior periods	(505)	(698)
Foreign taxes paid	13	-
Deferred tax:	(492)	(698)
Origination and reversal of temporary timing differences	-	-
Tax credit on loss on ordinary activities	(492)	(698)

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

Factors affecting the current tax charges

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

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'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	(6,929)	(7,669)
Tax at the standard rate of corporation tax 19% (2020: 19%)	(1,317)	(1,457)
Effects of:		
Expenses not deductible for tax purposes	88	124
Research and development tax credits receivable	(505)	(698)
Unutilised tax losses for which no deferred tax asset is recognised	1,229	1,333
Employee share acquisition adjustment	-	-
Foreign taxes paid	13	-
Tax credit for the year/period	(492)	(698)

The Group accounts for Research and Development tax credits where there is certainty regarding HMRC approval. The Group has received a tax credit in respect of the year ended 31 December 2020. There is no certainty regarding the claim for the year ended 31 December 2021 and as such no relevant credit or asset is recognised.

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.

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Total loss from continuing operations	(6,438)	(6,934)
Total loss from discontinued operations	-	(37)
Total loss attributable to the equity holders of the parent	(6,438)	(6,971)
Weighted average number of ordinary shares in issue during the year	No. 22,898,879	No. 15,449,084
Loss per share		
Basic and diluted on loss from continuing operations	(28.11)p	(44.88)p
Basic and diluted on loss from discontinued operations	-	(0.24)p
Basic and diluted on total loss for the year	(28.11)p	(45.12)p

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

The 2020 calculation assumes the 100:1 share consolidation performed in the year ended 31 December 2020 was in place throughout that year.

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Issued ordinary shares at 1 January 2021/1 January 2020	19,976,090	7,837,621
Effect of shares issued for cash	2,922,789	7,611,462
Weighted average number of shares at 31 December	22,898,879	15,449,084

The Company has issued employee options over 2,087,895 (31 December 2020: 1,447,324) 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) INTANGIBLE ASSETS AND GOODWILL

	Goodwill £'000	Customer £'000	Brand £'000	Software £'000	Total £'000
Cost					
As at 31 December 2019	458	682	329	19	1,488
Foreign currency differences	(16)	(23)	(11)	(1)	(51)
As at 31 December 2020	442	659	318	18	1,437
Foreign currency differences	2	3	2	1	8
As at 31 December 2021	444	662	320	19	1,445
Accumulated amortisation and impairment losses					
As at 31 December 2019	458	682	329	19	1,488
Foreign currency differences	(16)	(23)	(11)	(1)	(51)
As at 31 December 2020	442	659	318	18	1,437
Foreign currency differences	2	3	2	1	8
As at 31 December 2021	444	662	320	19	1,445
Net book value					
At 31 December 2021	-	-	-	-	-
At 31 December 2020	-	-	-	-	-
At 31 December 2019	-	-	-	-	-
Tax credit for the year/period	-	-	-	-	-

Amortisation and impairment

No amortisation or impairment have been charged in the year.

Impairment testing for CGUs containing goodwill

Goodwill has previously been allocated to the Group's High Performance Workwear operating division. Given the completion of the disposal of this operating division in the period, there has been no change in the value of the impairment previously recognised.

15) CASH ON DEPOSIT

	31 December 2021 £'000	31 December 2020 £'000
Bank deposits maturing between 3 and 12 months	5,323	-
	5,323	-

At 31 December 2021, the Group held £5,323,000 (2020 £nil) in 95 day deposit accounts. This balance is denominated in pound sterling (£). The Directors consider that the carrying value of cash and cash equivalents approximates to their fair value. For details of credit risk management, see note 17.

16) CASH AND CASH EQUIVALENTS

	31 December 2021 £'000	31 December 2020 £'000
A+	1,427	-
A	1,005	5,122
BBB+	49	34
Held outside banking institutions	2	1
Cash and cash equivalents	2,483	5,157

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

All of the Group's cash and cash equivalents at 31 December 2020 are at floating interest rates. Balances are denominated in UK sterling (£), US dollars (\$) and euros (€) as follows:

	31 December 2021 £'000	31 December 2020 £'000
Denominated in pound sterling	2,323	4,972
Denominated in US dollars	52	36
Denominated in euros	108	149
Cash and cash equivalents	2,483	5,157

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

17) FINANCIAL INSTRUMENTS

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

(a) Fair Values of Financial Assets and Financial Liabilities

Derivative Financial Instruments – Fair Value Hierarchy

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

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

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

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

The Group considers any forward foreign exchange contracts to be Level 2 in the fair value hierarchy should it enter into any. The Group has not entered into any such contracts in either the current or the prior year. 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 cash, both bank deposits and cash held on deposit, in the event of failure of the respective banks. The Group attempts to mitigate this risk through ongoing monitoring of the credit ratings of those banks. Further details are set out in note 16. At 31 December 2021, the Directors were not aware of any factors affecting the recoverability of the Group's bank balances.

Exposure to Credit Risk

At 31 December 2021, the Group had gross trade receivables outstanding of £182,000 (2020: £363,000). The Directors have considered the recoverability of outstanding balances at 31 December 2021 and have made provisions for bad and doubtful debts amounting to £72,000 (2019: £247,000). The Group had gross lease receivable balances outstanding of £109,000 (2020: £153,000) and provision in place in respect of these lease receivables of £45,000 (2020: £nil).

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

	31 December 2021 £'000	31 December 2020 £'000
United Kingdom	372	217
United States of America	4	299
	376	516

(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.

Non-derivative financial liabilities

	31 December 2021 £'000	31 December 2020 £'000
Due within one year		
Trade and other payables	458	539

(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 makes ad hoc decisions at its regular board meetings, as to whether to hold funds in instant access accounts or longer-term deposits. All accounts are held with reputable banks.

These policies are considered to be appropriate to the current stage of development of the Group and will be kept under review in future years.

Foreign Currency Risk

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

The Group had no forward currency contracts in place as at either 31 December 2021 or 31 December 2020.

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

At 31 December 2021

	Sterling £'000	US Dollar £'000	Euro £'000	Chinese Yuan £'000	Total £'000
Cash and cash equivalents	2,323	52	107	-	2,482
Cash on deposit	5,323	-	-	-	5,323
Trade and other receivables	323	10	44	-	377
Trade and other payables	(1,182)	(85)	2	(2)	(1,267)
Balance sheet exposure	6,787	(23)	153	(2)	6,915
Net exposure	-	(23)	153	(2)	128

At 31 December 2020

	Sterling £'000	US Dollar £'000	Euro £'000	Total £'000
Cash and cash equivalents	4,972	36	149	5,157
Trade and other receivables	413	125	-	538
Trade and other payables	(1,428)	(71)	(4)	(1,503)
Balance sheet exposure	3,957	90	145	4,192
Net exposure	-	90	145	235

Sensitivity Analysis

A 10% weakening of the following currencies against the pound sterling at 31 December 2021 would have increased equity and profit or loss by the amounts shown below. The calculation assumes that the change occurred at the balance sheet date and had been applied to the risk exposure existing at that date.

This analysis assumes that all other variables, in particular, other exchange rates and interest rates remain constant. The analysis is performed on the same basis for the period ended 31 December 2020.

	Equity		Profit or Loss	
	31 December 2021 £'000	31 December 2020 £'000	31 December 2021 £'000	31 December 2020 £'000
US Dollars	(2)	(9)	(2)	(9)
Euros	(15)	(15)	(15)	(15)

A 10% strengthening of the above currencies against the pound sterling at 31 December 2021 would have had the equal but opposite effect on the above currencies to the amounts shown above on the basis that all other variables remain constant.

Interest Rate Risk

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

	31 December 2021 £'000	31 December 2020 £'000
FIXED RATE INSTRUMENTS		
Financial assets	5,323	-
Financial liabilities	-	-
	-	-
VARIABLE RATE INSTRUMENTS		
Financial assets - cash	2,482	5,157
Financial liabilities	-	-
	2,482	5,625

Based on the Group's above balances at 31 December 2021, 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 £124,000 with a corresponding increase in the Group's net assets. If the interest rate had reduced to 0%, there would have been no effect on the reported loss or on the Group's net assets.

(e) Capital Management

The Group's capital is made up of share capital, share premium and retained losses, totalling £7,062,000 at 31 December 2021 (31 December 2020: £4,522,000).

The Group's objectives when managing capital are:

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

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

18) TRADE AND OTHER PAYABLES

	31 December 2021 £'000	31 December 2020 £'000
Trade payables	439	436
Taxes and social security	110	2
Other creditors	38	67
Accruals and deferred income	661	895
Right of use liabilities	19	103
	1,267	1,503
Current	1,267	1,484
Non-current	-	19
	1,267	1,503

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

	31 December 2021 £'000	31 December 2020 £'000
Sterling	398	366
US dollars	41	66
Euros	(2)	4
Chinese yuan renminbi	2	-
Trade payables	439	436

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 relevant credit timeframe and no interest has been charged by any suppliers as a result of late payment of invoices during the period.

19) DEFERRED TAX

	31 December 2021 £'000	31 December 2020 £'000
Accelerated depreciation for tax purposes	38	38
Deferred tax credit/(expense) for the period	-	-

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
At beginning of year	38	38
Tax expense	-	-
At end of year	38	38

As at 31 December 2021, the Group had unrecognised deferred tax assets totalling approximately £12,664,000 (31 December 2020: £22,223,000), which primarily relate to losses and the IFRS 2 share-based payment charge. The Group has not recognised this as an asset in the Statement of Financial Position due to the uncertainty in the timing of its crystallisation.

20) SHARE CAPITAL

	Number	Share capital £'000	Share	Merger reserve £'000	Total £'000
Total ordinary shares of 0.15p each as at 31 December 2019	783,762,131	1,176	109,226	15,443	125,845
Issue of ordinary shares following placing and open offer	1,200,000,000	1,800	4,200	-	6,000
Issue of ordinary shares on exercise of share options prior to share consolidation	10,325,966	16	55	-	71
Issue of shares immediately prior to share consolidation	3	-	-	-	-
Effect of share consolidation	(1,974,147,219)	-	-	-	-
Issue of ordinary shares on exercise of share options after the share consolidation	35,209	5	19	-	24
Costs of share issues	-	-	(427)	-	(427)
Total ordinary shares of 15p each as at 31 December 2020	19,976,090	2,997	113,073	15,443	131,513
Issue of ordinary shares following placing and open offer	3,749,919	562	8,438	-	9,000
Issue of ordinary shares on exercise of share options	58,474	9	32	-	41
Costs of share issues	-	-	(525)	-	(525)
Total Ordinary shares of 15p each as at 31 December 2021	23,784,483	3,568	121,018	15,443	140,029

The Group undertook a share capital reorganisation exercise during the year ended 31 December 2020, reducing the number of shares in issue by a factor of 100 and increasing the nominal value of the share by an equivalent factor.

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

The following is a summary of the changes in the issued share capital of the Company during the period ended 31 December 2021:

- I 3,749,919 ordinary shares of 15p per share were allotted at a price of 240p per share, for total cash consideration of £9,000,000 upon the placing and open offer of the Company's shares in March 2021.
- II 58,474 ordinary shares of 15p per share were allotted at a price of 70p per share, upon the exercise of share options granted in the Company's share option schemes.

At 31 December 2021, the Company had only one class of share, being ordinary shares of 15p each.

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

21) MOVEMENT IN ACCUMULATED LOSSES AND FOREIGN CURRENCY TRANSLATION RESERVE

	Accumulated losses £'000	Foreign currency translation reserve £'000
AT 31 DECEMBER 2019	(118,468)	(2,246)
Loss for the period	(6,971)	-
Other comprehensive expense – Foreign currency translation differences – foreign operation	-	41
Shared based payment charge	653	-
AT 31 DECEMBER 2020	(124,786)	(2,205)
Loss for the period	(6,438)	-
Other comprehensive expense – Foreign currency translation differences – foreign operation	-	(1)
Shared based payment charge	463	-
AT 31 DECEMBER 2021	(130,761)	(2,206)

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

22) LEASES

The Group has leases for office buildings and associated warehousing and operational space. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see note 12).

Leases of buildings end within one year. Lease payments are generally fixed.

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by

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

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

Right-of-use asset	No. of right-of-use assets leased	Remaining range of term	Average remaining lease term	No. of leases with extension options
Land and buildings	1	3 months	3 months	-

Right-of-use assets

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

	Land and buildings £'000
Balances as at 31 December 2019	283
Depreciation charged in the year	(54)
Disposals in the year	(164)
Foreign exchange differences	3
Balance as at 31 December 2020	68
Depreciation charged in the year	(54)
Balance as at 31 December 2021	14

Lease liabilities

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

	31/12/21 £'000	31/12/20 £'000
Current	19	84
Non-current	-	19
	19	103

There are no leases with termination options and no leases with extension options. Following the year end, the Group has signed a new lease on its current premises for a five-year term commencing in April 2022, with an annual commitment of £92,000.

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of the lease liabilities at 31 December 2021 is as follows:

	Within 1 year	1-2 years	2-3 years	3-4 years	5+ years	Total
Lease payments	(20)	-	-	-	-	(20)
Finance charges	1	-	-	-	-	1
Net present value	19	-	-	-	-	(19)

Lease payments not recognised as a liability

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

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

	£'000
Short term leases	42
	42

At 31 December 2021 the Group was committed to short term leases and the total commitment at that date was £21,000 (2020: £19,000).



	EMI options	Unapproved options
AT 31 DECEMBER 2019	5,572,626	5,237,360
Granted in the period	132,163,079	14,406,101
Exercised in the year	(10,056,721)	(278,696)
Forfeited/lapsed in the year	(713,757)	(370,399)
Effect of share consolidation	(125,708,204)	(18,804,019)
AT 31 DECEMBER 2020	1,257,013	190,256
Granted in the period	593,450	149,007
Exercised in the period	(52,664)	(5,810)
Forfeited/lapsed in the period	(42,017)	(1,395)
AT 31 DECEMBER 2021	1,755,792	332,058

	Deferred Annual Bonus plan	Total	Weighted average exercise price per share (£)
	78,251	10,888,237	0.957
	-	146,569,089	0.007
	(25,758)	(10,361,175)	(0.010)
	-	(1,084,156)	(0.402)
	(52,448)	(144,564,671)	6.949
	45	1,447,324	7.501
	-	742,457	1.75
	-	(58,474)	(0.70)
	-	(43,412)	(8.49)
	45	2,087,895	5.62

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. Options issued in 2019 and later have vesting conditions based upon the share price meeting certain targets.

The number and weighted average exercise prices of share options are in the table above. There were 214,921 share options outstanding at 31 December 2021 which were eligible to be exercised. The remaining options were not eligible to be exercised as these are subject to employment period and market-based vesting conditions, some of which had not been met at 31 December 2021. Options have a range of exercise prices from 15 pence per share to 30,500 pence per share and have a weighted average contractual life of 8.48 years (31 December 2020: 5.56 years).

	Unapproved options granted in January 2021	EMI options granted in January 2021	EMI Options granted in June 2021
Options granted in the period			
Dividend yield	0%	0%	0%
Expected volatility*	41.00%	41.00%	41.00%
Risk free interest rate (%)	0.26%	0.26%	0.26%
Expected vesting life of options (years)	3	3	3
Weighted average share price (pence)	175.0	175.0	231.5
Fair value of an option (pence per share)**	86.0	86.0	130.0

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

**Those options issued prior to the share consolidation have been updated to reflect their post-consolidation value.

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

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

	31 December 2021 £'000	31 December 2020 £'000
Share options	463	653

24) RELATED PARTY TRANSACTIONS

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

Related party	Relationship	Purchases from related party 31/12/21 £000	Amounts owed to related party 31/12/21 £000	Purchases from related party 31/12/20 £000	Amounts owed to related party 31/12/20 £000
IP Group plc	Fund manager	30	13	30	48

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

Terms and conditions of transactions with related parties

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

Transactions with Key Management Personnel

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

Directors' remuneration:

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

	Year ended 31/12/21 £'000	Year ended 31/12/20 £'000
Short-term employment benefits*	744	730

*In addition, certain Directors hold share options in the Company for which a fair value share based charge of £153,000 has been recognised in the consolidated statement of profit or loss and other comprehensive income (year ended 31 December 2020: £155,000).

The highest paid Director in the year received a total remuneration of £335,000 (year ended 31 December 2020: £364,000). During the year ended 31 December 2021, the Company entered into numerous transactions with its subsidiary companies which net off on consolidation – these have not been shown above.

25) EVENTS OCCURRING AFTER THE REPORTING PERIOD

Board changes

In March 2022, it was announced that the Group CEO, Mark Nichols, will stand down during 2022. Mark will remain with the business until 30 September 2022 to oversee the Group's ongoing commercialisation process and has committed to a comprehensive and orderly handover to his successor, for whom a search process is underway.

Attributable to the equity holders of the Company

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

Share capital	Share premium
£000	£000

AT 31 DECEMBER 2019	1,176	109,226
Total expense and other comprehensive loss for the period	-	-
Transactions with owners, recorded directly in equity:		
Issue of placing shares	1,800	4,200
Exercise of share options	21	74
Costs of share issues	-	(427)
Share based payment expense	-	-
Share based payment expense in respect of services provided to subsidiary undertaking	-	-
Total contributions by and distributions to owners	1,821	3,847
AT 31 DECEMBER 2020	2,997	113,073
Total expense and other comprehensive loss for the period	-	-
Transactions with owners, recorded directly in equity:		
Issue of placing shares	562	8,438
Exercise of share options	9	32
Costs of share issues	-	(525)
Share based payment expense	-	-
Share based payment expense in respect of services provided to subsidiary undertaking	-	-
Total contributions by and distributions to owners	571	7,945
AT 31 DECEMBER 2021	3,568	121,018

Merger reserve	Retained earnings reserve	Total
£000	£000	£000

6,625	(81,945)	35,082
-	(828)	(828)
Transactions with owners, recorded directly in equity:		
-	-	6,000
-	-	95
-	-	(427)
-	155	155
-	498	498
-	653	6,321
6,625	(82,120)	40,575
-	(39,759)	(39,759)
Transactions with owners, recorded directly in equity:		
-	-	9,000
-	-	41
-	-	(525)
-	123	123
-	340	340
-	(613)	8,979
6,625	(121,416)	9,795

COMPANY STATEMENT OF
FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER

Notes

At
31 December
2021

£'000

Restated At
31 December
2020

£'000

ASSETS

Non-current assets

Investments	C4		9,513
Intercompany loan balance	C5	9,853	26,738
Total non-current assets		9,853	9,513
Current assets			
Trade and other receivables	C6	32	7
Cash and cash equivalents		279	4,587
Total current assets		311	4,594
TOTAL ASSETS		10,164	40,845

LIABILITIES

Current liabilities

Trade and other payables	C7	(369)	(270)
TOTAL LIABILITIES		(369)	(270)
NET ASSETS		9,795	40,575

EQUITY

Share capital	20	3,568	2,997
Share premium	20	121,018	113,073
Merger reserve		6,625	6,625
Retained earnings		(112,416)	(82,120)
TOTAL EQUITY		9,795	40,575

The Company reported a loss for the year ended 31 December 2020 of £39,759,000 (2020: £828,000). The accounting policies and notes on pages 67 to 69 form part of these Financial Statements.

Approved by the Board of Directors and authorised for issue on 21 June 2022.

Klaas de Boer
Chairman

Paul Denney
Chief Financial Officer

Company number: 08684474

C1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

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

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

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

- The following paragraphs of IAS 1 "Presentation of Financial Statements"
- 10f Requirement to present a statement of financial position as at the beginning of the preceding period in the event of a retrospective restatement;
- 16 (statement of compliance with all IFRS); and
- 134-136 (capital management disclosures)
- IFRS 9 "Financial Instruments: Disclosures";
- IAS 24 (paragraphs 17 and 18a) "Related Party Disclosures" (key management compensation); and
- IAS 24 "Related Party Disclosures" - the requirement to disclosure related party transactions between two or more members of a group.

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

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

CRITICAL ACCOUNTING ESTIMATES AND AREAS OF JUDGEMENT

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

CARRYING VALUE OF INVESTMENTS AND INTERCOMPANY LOAN BALANCES

Xeros Technology Group has significant balances held as investments in subsidiaries and intercompany loan balances. The Directors consider the valuation and recoverability of these balances based on the potential future cashflows from utilisation of the Xeros technology. The Directors consider all available evidence in making their judgements on the recoverability of these balances, including both internal and external valuations of the Group, the likelihood and extent of any Group funding requirements and the anticipated timescale to recovery of the balances. During the year, a provision of £38,683,000 was made against both the investment in Xeros Ltd and the outstanding intercompany loans from Xeros Ltd, reducing the carrying value of the investment in Xeros Ltd to nil and the carrying value of the intercompany loans receivable from Xeros Ltd to £9,853,000. The Group does not in any case expect the intercompany loans to be repaid within the next twelve months.

C2. COMPANY RESULTS

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company's statement of profit or loss and other comprehensive income. The parent company's result for the year ended 31 December 2021 was a loss of £39,759,000 (year ended 31 December 2020: loss of £828,000).

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

C3. STAFF NUMBERS AND COSTS

	Year ended 31 December 2021	Year ended 31 December 2020
	Number	Number
The average monthly number of persons (including Directors) employed by the Group during the year was:	6	5
	6	5
	£ '000	£ '000
The aggregate remuneration, including Directors, comprised:		
Wages and salaries	685	679
Social security costs	92	99
Share based expense (note 22)	123	154
	900	932
Directors' remuneration comprised: Emoluments for qualifying services	744	730

Directors' emoluments disclosed above include £335,000 paid to the highest paid Director (Year ended 31 December 2020: £364,000). There are no pension benefits for Directors. Please see Directors' Remuneration Report on page 72 for further information on Directors' emoluments.

C4. INVESTMENT IN SUBSIDIARY COMPANIES

At 31 December 2021, the Company held the following investments in subsidiaries;

Undertaking	Sector	Share of issued capital and voting rights 2021
Xeros Limited	Research, development and commercialisation of polymer technology alternatives to traditional aqueous based technologies	100%
Xeros Inc*	Commercialisation of polymer technology alternatives to traditional aqueous based technologies	100%
Xeros Environmental Protection Technology (Shanghai) Co. Ltd*	Commercialisation of polymer technology alternatives to traditional aqueous based technologies	100%

* Held through Xeros Limited

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

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

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

Cost and net book value	£000
At 31 December 2019	9,014
Additions	499
At 31 December 2020	9,513
Additions	340
Impairment	(9,853)
At 31 December 2021	-

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

C5. INTERCOMPANY LOANS

	31 December 2021 £000	31 December 2020 £000
Intercompany loan	9,853	26,738

Loans comprise a loan of £9,853,000 (31 December 2020: £26,738,000) to Xeros Limited. No interest was payable on this loan. All intercompany loans are repayable on demand.

C6. TRADE AND OTHER RECEIVABLES

	31 December 2021 £000	31 December 2020 £000
Prepayments	33	1
Other debtors	(1)	6
	32	7

C7. TRADE AND OTHER PAYABLES

	31 December 2021 £000	31 December 2020 £000
Trade payables	166	26
Social security and other taxes	28	26
Accruals	175	218
	369	270

C8. PRIOR YEAR RESTATEMENT

In the current year the decision has been taken to classify intercompany loan balances as non-current assets due to the anticipated timing of their repayment. As a result of the material nature of these balances, the prior year balance sheet has been restated in order to also classify the balances as at 31 December 2020 as non-current assets. This results in an intercompany loan balance of £26,738,000 which was reported within current assets in the financial statements for the year ended 31 December 2020 reclassified as non-current assets within the comparative figures in these financial statements. Given the nature of this restatement, there is no impact on either net assets as at 31 December 2020 or on the reported loss for the year ended 31 December 2020.



DIRECTORS AND OFFICERS

DIRECTORS

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

COMPANY SECRETARY

Paul Denney

COMPANY WEBSITE

<http://www.xerostech.com>

COMPANY NUMBER

08684474 (England and Wales)

REGISTERED OFFICE

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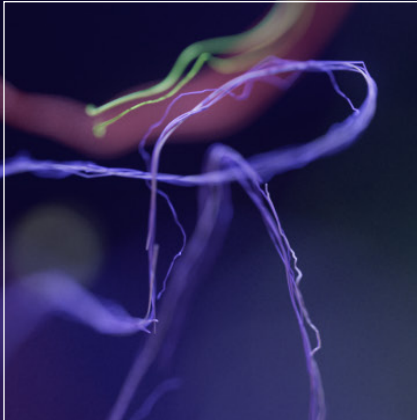
LEGAL ADVISER

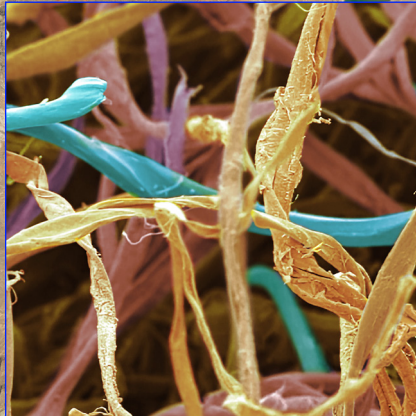
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NOMINATED ADVISER

AND BROKER

finnCap Ltd
1 Bartholomew Close
London
EC1A 7BL





XEROS
TECHNOLOGY

SUBJECT:
POLYCOTTON

OBSERVATION:
MIXED POLYMER FIBRES

MAGNIFICATION:
@15.8MM 400X/300µM