XEROS TECHNOLOGY GROUP PLC ANNUAL REPORT

FOR THE YEAR ENDING 31 DECEMBER 2022

COMPANY NUMBER: 08684474

XEROS TECHNOLOGY

SUBJECT: POLYCOTTON UNDER MICROSCOPE

OBSERVATION: MIXED POLYMER FIBRES

MAGNIFICATION: @15.8MM 400X/300MM

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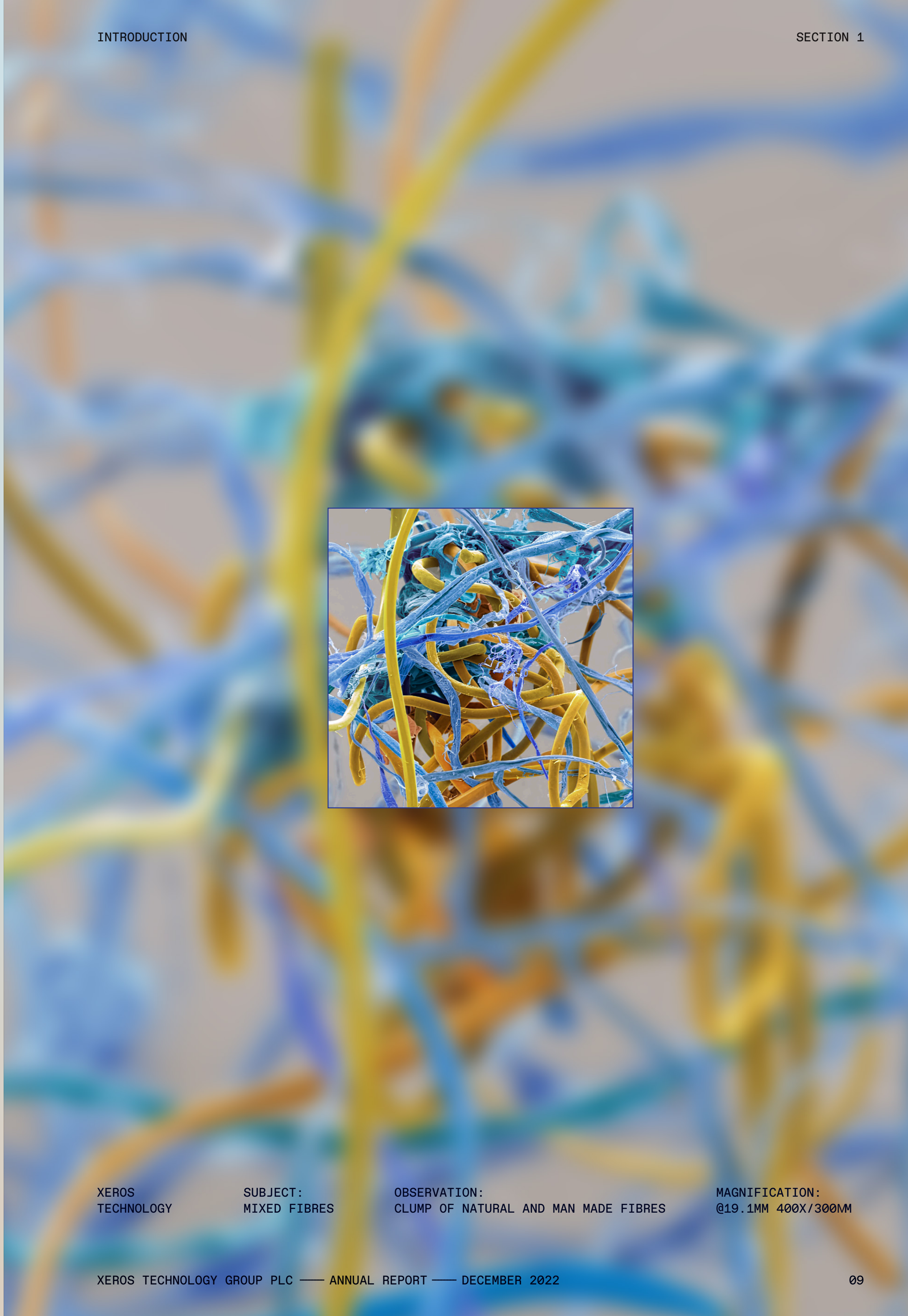
INTRODUCTION

Xeros to the power of change

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

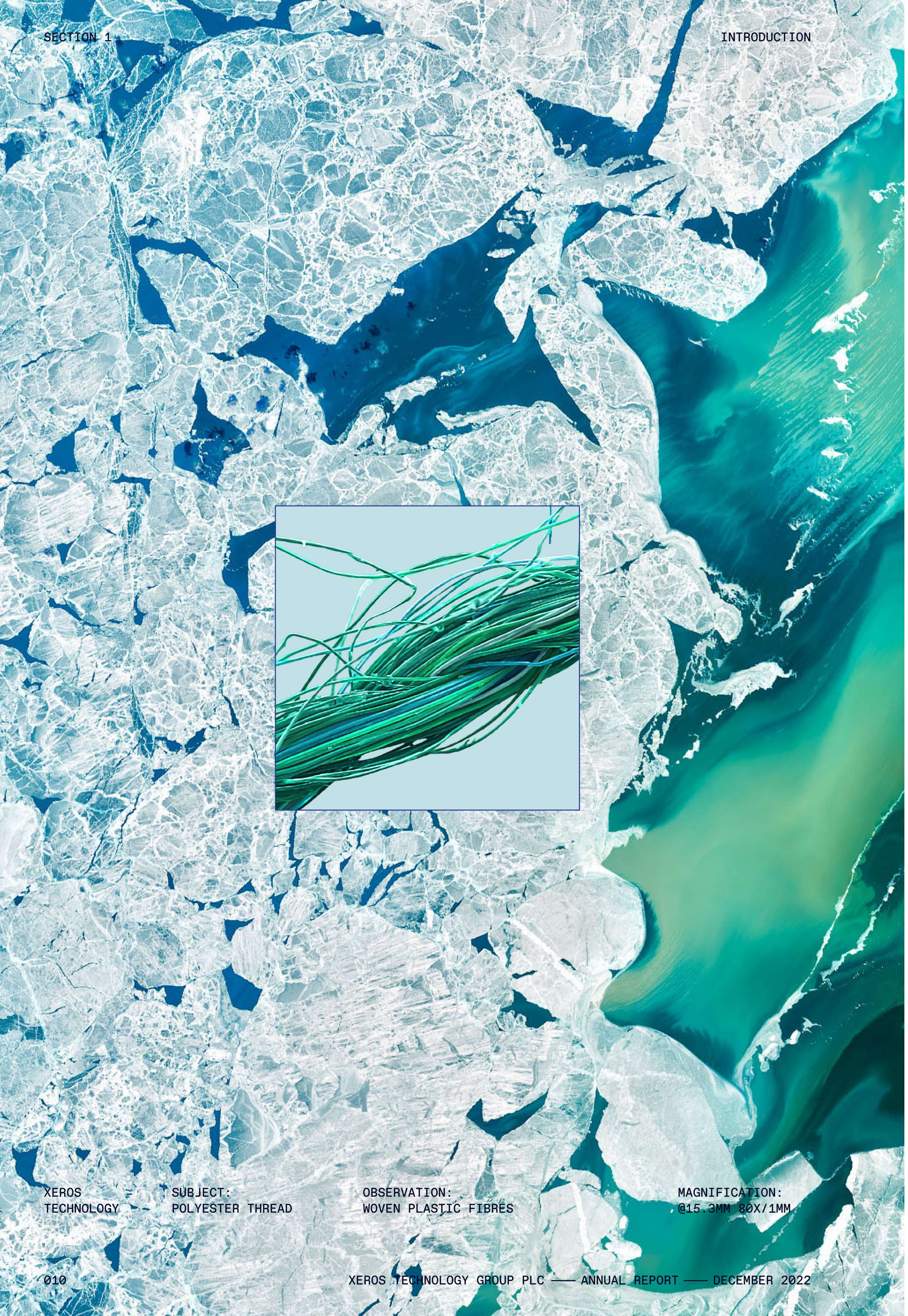


XEROS TECHNOLOGY

SUBJECT: MIXED FIBRES

OBSERVATION: CLUMP OF NATURAL AND MAN MADE FIBRES

MAGNIFICATION: @19.1MM 400X/300MM



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

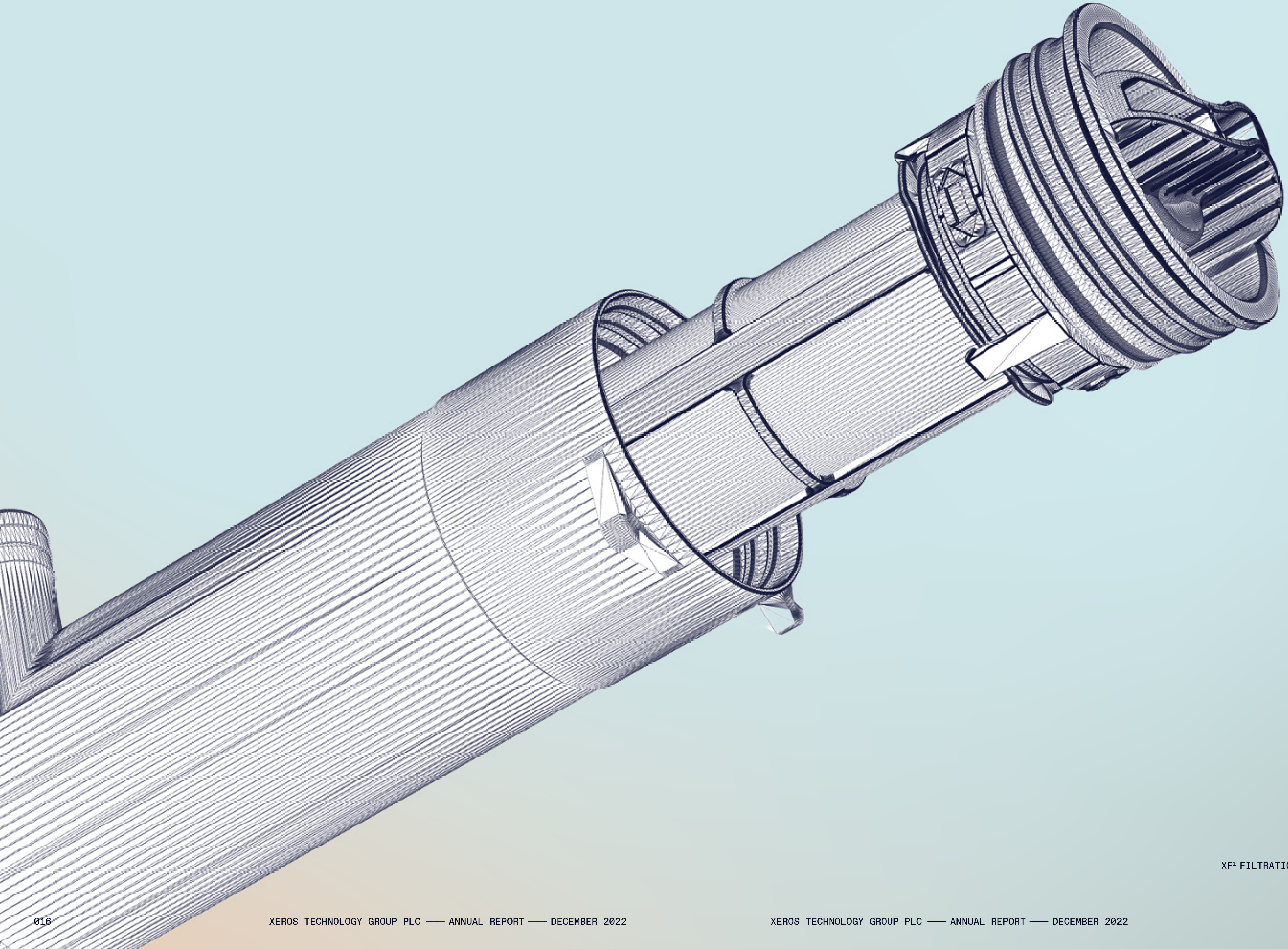
Xeros is revolutionising the way we make and care for our clothes.

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 in 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.



XF¹ 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 fabric would be cared for more gently, allowing your clothes to last much longer?

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 tens of millions of litres of water every year.

GARMENT:
DENIM SHIRT

WASHES:
10

LOAD WEIGHT:
2.5KG

XORB MASS:
4KG

XEROS TECHNOLOGY

SUBJECT: XORBS AND DENIM

OBSERVATION: JEANS IN XORB WASH

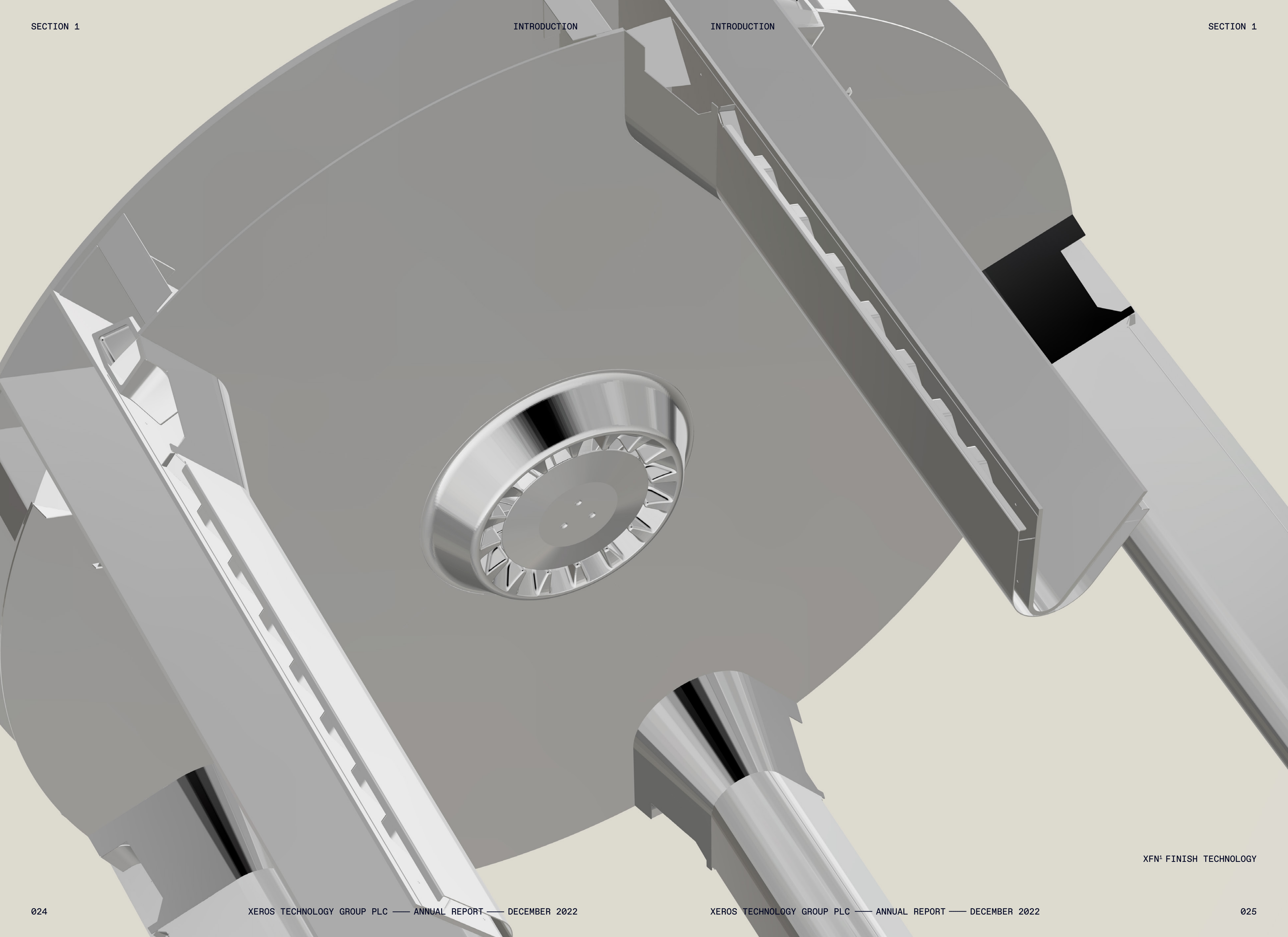
MAGNIFICATION: GF 120MM F/4.0

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%.

INTRODUCTION
SECTION 1



XFN¹ FINISH TECHNOLOGY

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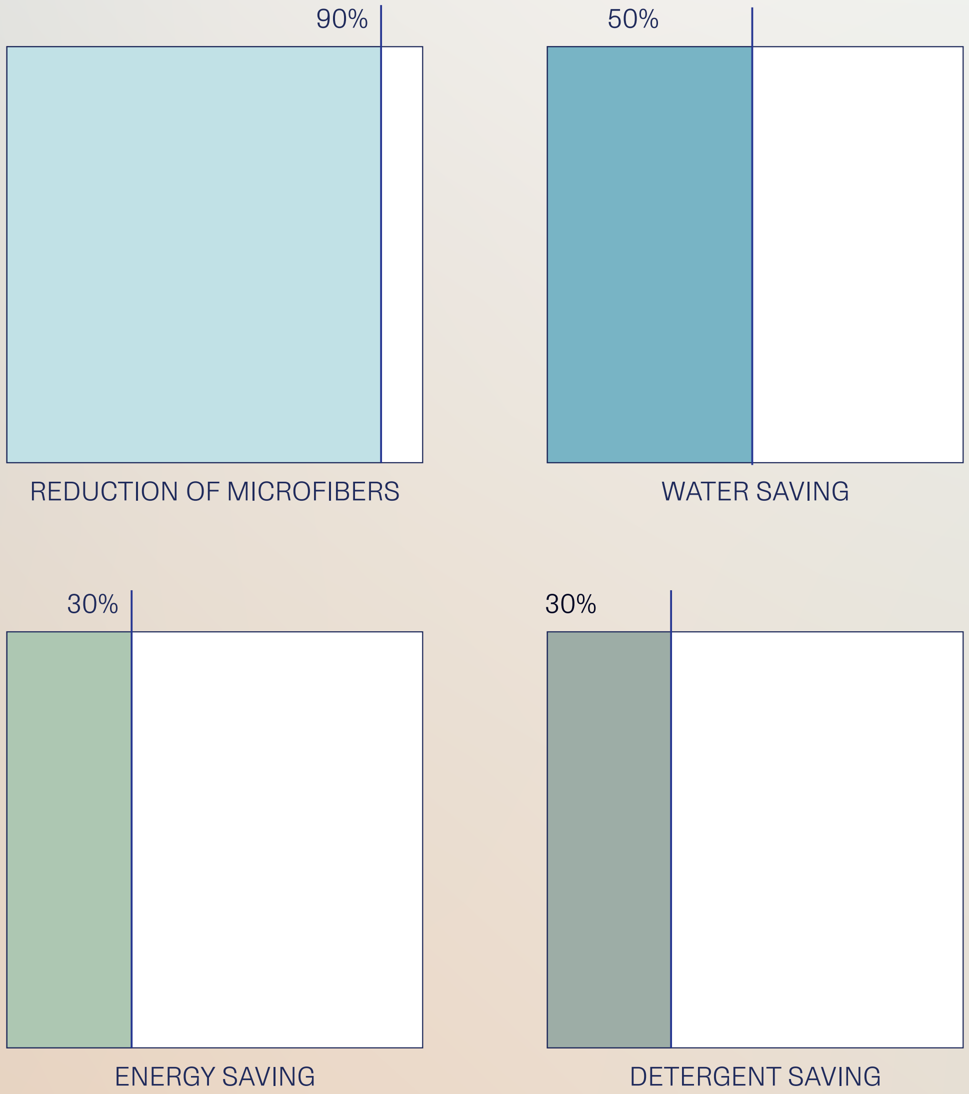
FILTRATION

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,

At the time of writing this annual statement I find myself in Paris, where the restoration of the Notre Dame is in full swing. It is very gratifying to think that the workwear used by the Paris Fire Brigade, who's heroic efforts saved much of the majestic building, is cleaned and cared for by our long-standing laundry partner Georges, with Xeros enabled machines supplied by IFB. Overcoming adversity, with the optimism of what tomorrow may bring, must be our theme for 2023.

Challenges come in many forms and looking back at 2022, it was a challenging year for Xeros. We did not yet manage to deliver tangible evidence of market adoption at scale. Consequently, we had to complete a further £6.3 million equity fundraise, during the turmoil of the disastrous UK mini-budget.

2022 was also a year of transition in the leadership team. We saw the departures of Mark Nichols, Chief Executive Officer and Paul Denney, Chief Financial Officer. I would like to thank Mark and Paul for their stewardship of the business . We are very pleased that the Company managed to attract Neil Austin to succeed Mark in August, ahead of our September financing. David Baynes, Non-Executive Director, also departed in December with a replacement expected to be announced in the course of this year. Under Neil's leadership, a further reorganisation took place in December, making Xeros now a leaner, more focused business ready to drive forwards.

Despite this challenging year for Xeros, the Company has continued to make solid progress in all major business areas, and the long-term trends, about which I have written before and will not repeat this time, remain very favourable.

— In Filtration, the Company has signed up two further licensing agreements for its domestic XFilter.

— In Care, licensing partner IFB has launched a first high-end 11kg machine into the market, and further technical progression continues on the mass-market 9kg product.

— In Finish, the Company has progressed a brand-endorsed trial with a major European fashion retailer. A Xeros-enabled machine has been installed in one of the retailers preferred denim suppliers, with the initial results showing significant water and energy savings. Commercial conversations have begun.

— In commercial Care, our licensing partner IFB has adopted the Xeros technology across four different machine sizes, and is gradually rolling out machines, as evidenced by my opening comment. We are in continuous dialogue with IFB to explore how we can support them in accelerating the commercial roll-out and adoption.

— And finally, in Finish, licensing partner Qualus (a Xeros spin-out), has started to pay first royalties for its leather finishing technology.

Thank you to everyone (shareholders, management, staff, and partners) who stayed with us or joined us during this year of transition. Over the course of this year, we will endeavour to provide sufficient evidence of commercial traction to encourage many of our warrant holders to exercise the warrants they obtained as part of the September equity raise. We truly believe Xeros has much to offer.

KLAAS DE BOER, CHAIRMAN - 17 APRIL 2023

XEROS TECHNOLOGY

SUBJECT: XFILTER

OBSERVATION: EXPLODED RENDER OF XF'

GENERATION: 01

CHIEF EXECUTIVE OFFICER'S REVIEW

As the world finally seemed ready to fully emerge from lockdown, we have collectively been faced once again with challenges due to the appalling invasion of Ukraine. Economic hardship generated by those events has been felt across the world as rising fuel prices and shortage of goods impacted the economy and people's lives. In these times of economic downturn, does the world still feel as strongly about making the changes necessary so that we can consider how our behaviour is impacting the planet? The answer seems to be a resounding 'yes'. We receive ever more encouraging signs that when it comes to their commitment to ESG issues, people have not been deterred by the economic squeeze. A recent report drawing on research from McKinsey and Nielsen IQ into FMCG purchases indicated that "Over the past five years, products making ESG-related claims accounted for 56 per cent of all growth". Indeed, The Economist suggests that rather than impeding the transition to energy efficiency and renewables deployments "the war in Ukraine may, in fact, have fast-tracked the transition by an astonishing five to ten years".

This past year has been one of change for Xeros not least with my arrival in August and a change of leadership. As well as change though has come progression. The Xeros mission to bring real environmental transformation to two of the world's largest industries is on the cusp of something significant.

This sense of purpose has been captured and expressed with the impactful messaging and visuals introduced in May last year which have clearly signalled that at our core, Xeros is a collective of innovators bringing visibility to the issues that matter the most.

That the Company has a clear identity was important to me when I was first approached about joining Xeros. As Henry Kissinger said, “If you don’t know where you are going, every road will get you nowhere”.

As well as ‘direction and identity’ there were four other reasons that made the decision to join Xeros an easy one.

Firstly, the maturity of the technology. On our three core propositions of Care, Finish and Filtration we have either existing technology at work, whether that be processing denim in Bangladesh, laundering Air France uniforms in Paris, or prototypes that are proven to offer market-leading solutions, as evidenced by the Hohenstein Institute on XFilter.

The second area of appeal is market readiness. As confirmed by the McKinsey report above; consumer sentiment and demand for products that are as efficient and considerate to the environment has never been stronger: “The overall trend … was clear … products that made ESG-related claims grew faster than those that didn’t.” In the apparel and appliances industry, we see regular reports and initiatives introduced to answer this growing requirement such as the Apparel Impact Institute’s $250m Fashion Climate Fund, designed to unlock a total of $2B in blended capital towards verified impact solutions in order to remove up to 150 million tonnes of CO_2 from the apparel supply chain.

The third area of strength relates to business readiness. The licensing partnerships we have in place with the likes of IFB on Care, Hanning on Filtration and Ramsons on denim Finish mean Xeros is well positioned for market adoption. The business processes, particularly on 'technology transfer', have been honed by several years of working with these industry leaders and are now lean, efficient, and scalable. Equally as important, the people within Xeros are some of the brightest and most capable technical and scientific minds that I have ever encountered. In short, our setup and partnerships mean we are now in position to maximise the implementation of our innovative solutions to those receptive apparel and appliance markets.

Finally, and perhaps most importantly, the question I had was, how could I add value. The implementation of the 'IP rich / Asset light' business model over the last few years has laid the foundations. The need now is for focus and commercial execution. After 20 years of leading sales, marketing, and strategy initiatives, with some of the world's largest consumer electronics and major domestic appliance brands, I feel well placed to put to use my commercial know-how, contacts and industry understanding to help guide Xeros through this crucial commercialisation stage.

To elaborate upon some of the progression we have made in my short term with the Company, strides have been taken in all three of our core technology propositions.

FINISH BUSINESS REVIEW

In our denim processing business we have progressed a brand-endorsed trial with a major European fashion retailer through a partnership between the brand and their supply chain. A Xeros enabled machine has been installed in one of the retailers preferred denim suppliers at their request, and has demonstrated very positive initial results showing significant water and energy savings.

This brings us closer to our aim of having retail brands specifying the use of Xeros finishing technology in their supply chain.

The Company's attendance in June 2023 at ITMA in Milan, the world's most influential textile and garment technology exhibition, will see us further amplify the Xeros story to the apparel processing machinery manufacturer, garment manufacturer and fashion brand community.

Qualus, a leather processing spin-out which uses Xeros proprietary technology, has continued to make good progress with further factory installations in Mexico, Brazil, India, and South-East Asia for the processing of leather hides. Although not materially relevant from a revenue perspective, in this 'start-up' phase this further highlights the receptivity of the apparel and accessory industry adoption for core Xeros technology.

FILTRATION BUSINESS REVIEW

Further validation of the strength of our XFilter proposition came with the signing in March 2023 of two commercial development agreements with two of Europe's largest, most reputable and established component suppliers to the major domestic appliance industry. Alongside the partnership with Hanning, Xeros is now perfectly placed to service OEM brand requirements for filtration.

Last year Xeros co-created a letter sent to the UK Environment Secretary demanding legislation for filtration in washing machines. This led to a direct discussion with the Minister and the Department of Environment, Food and Rural Affairs and Xeros continues to support a UK private members' bill on this very topic. This year we are readying facts and evidence to coincide with the EU's recommendations, currently scheduled to be published in May 2023, on 'Measures to Reduce the Impact of Microplastic Pollution on the Environment'. This evidence is also being used to support a new bill in California to mandate microfibre filtration in washing machines that was introduced in February of this year and has passed the first committee hearing. Xeros are working closely with the NGO 5 Gyres, who co-authored the bill, to support the filtration effectiveness and standards. Xeros continue to be recognised for leading these standards as highlighted by a Washington Post article earlier this year that referenced the University of Plymouth study concluding that XFilter is the most effective microfibre capture system for the laundry industry.

With France having established a precedent by mandating a deadline of 1 January 2025 for a microfibre capture requirement in all washing machines, the rest of the EU, the UK and California are expected to follow suit. The Xeros view is that with XFilter partnerships in place, we are well positioned to respond to an imminent need for five of the leading global washing machine markets.

CARE BUSINESS REVIEW

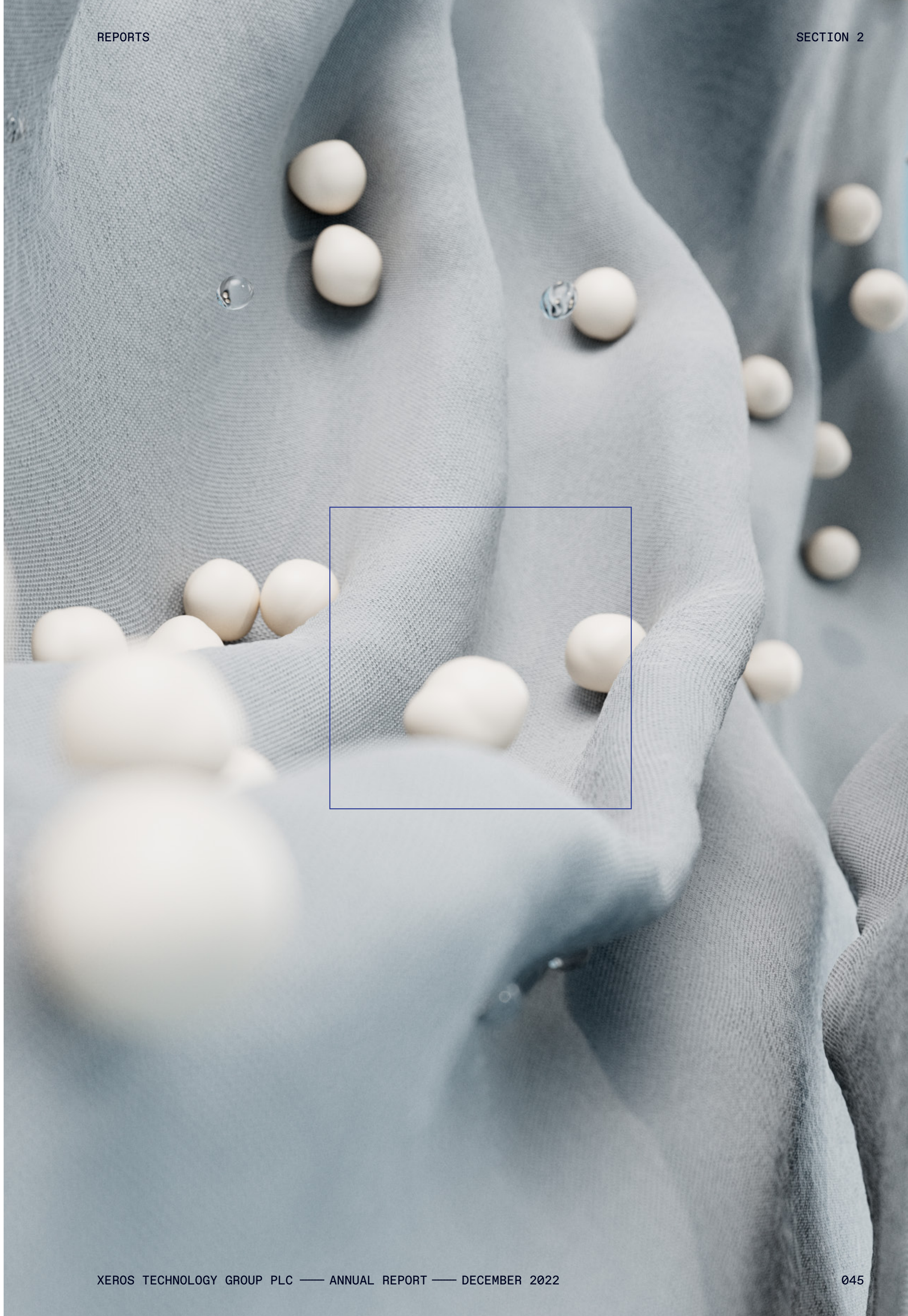
In the Commercial laundry business unit, we announced in December last year that IFB have commenced a trial of the XDrum and XOrb technology with Indian Railways, in a 90kg capacity machine. This trial is taking learnings from the successful model used by our partner Georges in France with SNCF. The ultimate aim is for Indian Railways to use the technology to drive energy and cost efficiencies to launder the linens used on sleeper trains across India. Indian Railways is one of the largest organisations in India and is an established customer of IFB.

The Georges business continues to thrive with six new Xeros-enabled machines installed in line with Georges tripling their production capacity in 2022. This demonstrates that Europe's leading businesses, such as SNCF and Air France, are prepared to commercially back companies like Georges that use the Xeros technology as part of their proposition.

In Asia, our licensing partner Jiangsu SeaLion Technology Developments Company ("SeaLion"), the largest commercial laundry manufacturer in China is cautiously optimistic about a revival of the Chinese hospitality industry following China's exit from a prolonged Covid-related lockdown in January. They remain a well-placed partner for that region in the long term.

Our IFB partnership facilitated a significant milestone in December with the launch of a commercial / consumer cross-over semi-professional 11kg machine. Fulfilling a long-held aspiration, the Xeros Care technology is now available for use by consumers in India in their homes.

At the time of writing IFB continue to make technical progression in order to facilitate a mass market launch to the 280m+ households in India.



XEROS TECHNOLOGY

SUBJECT: COTTON JUMPERS

OBSERVATION: JUMPERS IN XORB WASH

MAGNIFICATION: GF 120MM ƒ/4.0

OUTLOOK

The £6.3m funds raised in a placing and open offer in October 2022 will be applied to three main areas: supporting the technical requirements of our existing partners, seeking out partnerships in new geographies, and crucially raising awareness and adoption of the solutions our technology offers to all stakeholders in our target industries.

As a technology licensing business, we have the benefits of low overheads and an ability to scale up significantly at a high gross-margin with minimal cost increase. The other side of the coin, however, is that we are unable to directly influence timings and the 'Go to Market' decisions. Indeed, as we are offering innovation to the market this is further heightened.

The recent signing of two further commercial development agreements for XFilter has been highly significant and, when combined with the existing partnership with Hanning, suggests that XFilter represents a very real opportunity for the Group. Should the global legislative landscape continue to compel industry adoption of microfibre filtration the company believes this is becoming an ever more tangible route to yield revenue and contribution. This positive development offsets the fact that trials with IFB for a mass market product still remain ongoing, as referenced above.

Whilst we still remain of the view that Xeros will be capable of achieving month on month EBITDA and cashflow breakeven during 2024, as we said at the time of last year's fundraising (with the caveat at that time that more clarity would be provided over the course of coming year), we expect that this will likely occur during the latter part of the year, with XFilter royalties (at near 100% gross margin, but a lower per unit value than domestic unit sales) likely to contribute more to the overall product mix. Whilst all of this means that near term expectations are lower than previously envisaged, we would contend they are on a sounder footing and we remain firmly of the view that there remains a clear path for our early adopter licensing brands to achieve wider market implementation globally.

NEIL AUSTIN, CHIEF EXECUTIVE OFFICER - 17 APRIL 2023

FINANCIAL REVIEW

The financial results in 2022 reflect a year of transition as the Group supported early-stage licencing contracts, and the transition of more established partnerships to new relationships in line with the Group's overall strategy.

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.

Further information on these financial results is provided below.

Group revenue fell by 65.4% to £0.2m in the year ended 31 December 2022 (2021: £0.5m). With the implementation of the Group's licensing model, the revenue mix is changing with revenue now derived from three principal sources:

— Service revenue: reflecting the servicing of existing estate, based principally in Europe.

— Licensing revenue: reflecting royalty payments from licence partners and up-front fees for access to Group intellectual property.

— Sale of goods: reflecting sales of XOrbs to licence partners and sales of machines in Europe on behalf of license partners.

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 (2021: £0.1m), a reduction of 48.4%; revenue from sale of goods was £0.0m in the period (2021: £0.2m), a decrease of 88.4%. Service revenue in the period was £0.1m (2021: £0.2m), a reduction of 56.8%.

The timing of third-party sales and contractual customer milestones drove a decrease in gross profit in the period to £0.1m (2021: £0.3m),

Group revenue was generated as follows:	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Service Revenue	82	190
Licensing Revenue	64	124
Sale of Goods	18	155
Other	-	5
Total Revenue	164	474

resulting in a gross margin of 51.2% (2021: 59.3%).

The Group increased its adjusted EBITDA loss by 17.3% to £7.4m (2021: loss £6.3m).

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 and warrant expense, depreciation and amortisation.

Administrative expenses, increased by 4.1% to £7.5m (2021: £7.2m), following investments in the Group's marketing and communications, as well as a return of travel to pre-pandemic levels. Headcount was broadly static in the year, increasing by 2.5% during the year with the average number of operational staff in the year to 31 December 2022 rising to 41 (2021: 40).

The Group reported an operating loss of £7.4m (2021: loss £6.9m), an increase of 7.1%. The loss per share was 14.29p (2021: loss 28.11p).

Net cash outflow from operations increased to £7.0m (2021: £5.8m) from a combination of increased cash used in operations, £7.5m (2021: £6.3m) and the receipt of £0.5m R&D tax credits from HMRC relating to 2021. Cash utilisation was in line with the Board's expectations. Cash utilisation is expected to be below £450,000 per month in 2023.

The Group agreed a new ten-year lease on its premises in Sheffield during the year, leading to the addition of right-of-use assets of £0.8m and right of use liabilities of £0.7m.

The Group had existing cash resources, including cash on deposit, as at 31 December 2022 of £6.5m (2021: £7.8m) and remains debt free. Group cash as at 31 March 2023 was £4.5m. The Going Concern statement on page 78 draws attention to the Directors' views on the Group's ongoing prospects and the key assumptions behind the preparation of these accounts on a going concern basis.

ALEX TRISTRAM, DIRECTOR OF FINANCE - 17 APRIL 2023

STRATEGIC REPORT

Principal activity: Xeros Technology Group plc (LN: XSG) is the creator of technologies that reduce the impact of clothing on the planet.

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 are major improvements in economic, operational, product and environmental outcomes.

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

XFilter is the Group'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 are 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

The Group seeks to generate a return through the licence of its proprietary technology to third parties in order to generate royalties and through the sale of XOrbs to support the production and distribution of products which incorporate Xeros technology. Further information on 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 financial review on pages 31 to 51.

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 financial review on pages 31 to 51. The loss for the year attributable to equity holders was £7.9m (2021: £6.4m). The Directors do not recommend the payment of a dividend (2021: 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 £6.5m (2021: £7.8m), gross profit/loss and adjusted EBITDA. Adjusted EBITDA is defined as the loss on ordinary activities before interest, tax, share-based payment and warrant expense, depreciation and amortisation. Adjusted EBITDA is discussed in more detail in the financial review on pages 48 to 51. 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 ƒ/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:

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.

In mitigation, the Group seeks to appropriately reward and incentivise key Group personnel, alongside succession planning to reduce the impact of departures should they occur.

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. Patents for which the application is pending or for which applications are expected in the future may not be granted or that any such grant will be on a timely basis. The Group believes that the portfolio it holds is robust but there remains a risk that the portfolio will not provide the anticipated commercial advantages, or that the patents within it 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.

The Group is also subject to risks that others may develop similar products to the Group, 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.

In mitigation of the above risks, the Group holds significant patent litigation insurance, on which it could call should any litigation be required, in either in defence of a claim against the Group or to prosecute those it believes infringe on IP protected rights. The Group actively engages in contingency planning, both internally and externally, and continues to monitor the wider IP landscape as to be aware of any relevant issues.

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.

The Group has performed extensive testing, both internally and with its technology partners, to ensure that the technology works and can fit into the processes and equipment in the production chain. The Group acts as an influencer and thought leader to provide a path to long-term advocacy and acceptance within the relevant industries.

LACK OF PROGRESS WITHIN THE LEGISLATIVE ENVIRONMENT

The Group expects the legislative environment for domestic laundry filtration to be a significant factor in widespread adoption of the Group's technology. There remains a risk that the relevant legislation within the Group's target markets is not enacted, or that the legislation that is enacted is not of the standards anticipated.

The Group works with industry and NGO partners to provide the relevant support and data to legislative assemblies in important jurisdictions, and continues to lobby for the protections it believes are required to safeguard the environment from worsening microparticle pollution. In addition, the Group has multiple applications with commercial potential and as such spreads risk in this way.

SUPPLY AND LOGISTICS OF KEY MATERIALS

The Group is dependent on a small number of key suppliers for the production, manufacture and logistics of key materials used in the Group's technology and by licence partners. There remains a risk that these suppliers cannot fulfil the Group's requirements on terms the Group considers acceptable and this could cause delays in the commercialisation of the Group's technology, or reduce the returns from the Group's commercial agreements.

The Group has been working with a number of suppliers for key materials, and seeks to have long-term sourcing agreements in place with multiple suppliers to mitigate this risk.

IT SECURITY

There is a risk that the Group suffers a breach of IT security, including a ransomware attack or significant data breach.

In mitigation, the Group has strong IT security policies, and requires all staff to complete regular training to ensure they are up to date with the latest developments.

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.

In mitigation, the Group has developed specific propositions to offer to customers and continues to monitor the global marketplace to keep up to date with the latest developments.

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-19 have caused a significant level of economic uncertainty on a global basis. Any additional disruption may have a negative impact upon the Group's ability to work closely with international licence 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.

FUTURE DEVELOPMENTS

Future developments are described in the Chairman's statement, Chief Executive Officer's review and financial review on pages 31 to 51

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 on pages 53 to 58 was approved by the Board and is signed on its behalf.

NEIL AUSTIN, CHIEF EXECUTIVE OFFICER - 17 APRIL 2023

DIRECTORS' REPORT

The Directors hereby present their annual report and audited consolidated and parent company financial statements for the year ended 31 December 2022.

SHARE CAPITAL AND FUNDING

Full details of the Group and Company's share capital movements during the year are given in note 18 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
- Neil Austin (appointed 1 August 2022)
- David Baynes (resigned 31 December 2022)
- Paul Denney (resigned 28 February 2023)
- Mark Nichols (resigned 1 August 2022)
- Rachel Nooney

Directors' interests in the shares of the Company, including family interests are included in the Directors' remuneration report on pages 68 to 71.

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.

KLAAS DE BOER, CHAIRMAN

DIRECTORS

KLAAS DE BOER, Chairman

Klaas joined Xeros as Chairman in January 2020. In June 2021 he left Entrepreneurs Fund Management LLP, where he had served as Managing Partner since 2008. Klaas holds numerous board positions with international companies including SmartKem, Inc., General Fusion, Inc., where he is Chair, and veriNOS Pharmaceuticals 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.

NEIL AUSTIN, Chief Executive Officer

Neil joined Xeros in August 2022 from Strix Ltd, an AIM listed global leader in domestic appliance heating control, where he led the consumer goods and group marketing divisions. Prior to that Neil was CCO of Neurovalens Limited, an innovative med tech company working in cerebral stimulation. He has also held leadership positions in sales, marketing & strategy functions with the Glen Dimplex Group and Whirlpool EMEA. As well as general management, Neil has worked on M&A, integration projects, project management approaches and commercial excellence initiatives.

DAVID ARMFIELD, Senior Independent Director

David joined Xeros in June 2018. His background is in corporate finance, having previously worked for Lehman Brothers Limited 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 Audit Committee and Remuneration 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.

DAVID ARMFIELD, SENIOR INDEPENDENT DIRECTOR

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2023, 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	35,767,534	23.69
Canaccord Genuity Wealth Management	21,598,119	14.31
Dowgate Capital	15,846,250	10.03
Lombard Odier Investment Managers	12,893,266	8.54
Spreadex	10,093,834	6.69
Hargreaves Lansdown	6,834,668	4.54
W H Salomon Esq	6,548,631	4.34
Richard Griffiths	5,009,137	3.32

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 15 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 March 2023, the Group signed two additional licences for its XFilter technology with global component manufacturers. In February 2023, the Group's CFO, Paul Denney, stood down from his position.

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
NEIL AUSTIN, CHIEF EXECUTIVE OFFICER
17 APRIL 2023

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 month's 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 and Klaas de Boer.

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.

DIRECTORS' REMUNERATION

The remuneration of the main Board Directors' of Xeros Technology Group plc who served from 1 January 2022 (or date of appointment if later) to 31 December 2022 (or date of resignation if earlier) was:

	Salary and Fees £'000	Bonus Payments £'000	Benefits £'000	Total year ended 31 December 2022 £'000	Total year ended 31 December 2021 £'000
Klaas de Boer	87	-	-	87	70
Mark Nichols (note 1)	402	-	3	405	335
Neil Austin (note 2)	92	20	-	112	-
Paul Denney	212	45	2	259	253
David Armfield	35	-	-	35	35
David Baynes (note 3)	35	-	-	35	35
Rachel Nooney (note 4)	35	-	-	35	16
Total	898	65	5	968	744

Note 1: Mark Nichols resigned as a Director on 1 August 2022
Note 2: Neil Austin was appointed as a Director on 1 August 2022
Note 3: Directors fees for David Baynes are payable to IP Group plc (see note 22 for further details).
Note 4: Rachel Nooney was appointed as a Director on 20 July 2021

DIRECTORS' SHAREHOLDINGS

The interests of the Directors holding office at 31 December 2022 in the shares of the Company, including family interests, were:

Ordinary shares of 0.1p each

	2022 Number	2022 %
Klaas de Boer	2,650,000	1.76
David Armfield	50,000	0.03
Neil Austin	200,000	0.13
Paul Denney	275,000	0.18
Rachel Nooney	200,000	0.13

CHANGES IN DIRECTORSHIPS

On 18 March 2023 it was announced that Mark Nichols would step down from his role as CEO. He subsequently resigned from the Board, with effect from 1 August 2022. Remuneration for Mark includes £71,000 in respect of payment in lieu of contractual notice and £71,000 as a severance payment. Performance criteria in respect of options issued to Mark Nichols in 2020, 2021 and 2022 were waived and these options remain capable of exercise for a further three and a half years from Mark's leaving date. All other options were cancelled on the date of his departure, leaving him with 415,246 options. Further detail on options issued to Directors is shown below.

DIRECTORS' INTERESTS IN SHARE OPTIONS

Directors' interests in share options, for Directors who held office at any point during the period, granted under either the Xeros Technology Group plc Enterprise Management Incentive Share Option Scheme or the Xeros Technology Group plc Unapproved Share Option Scheme, to acquire ordinary shares of 0.01 pence each in the Company at 31 December 2022 were:

	At 1 January 2022	Granted during the period	Exercised during the period	Forfeited/ lapsed during the period	Termination of directorship	At 31 December 2022	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
Mark Nichols (note 8)	-	70,000	-	-	(70,000)	-	93.5 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
Paul Denney (note 8)	-	56,000	-	-	-	56,000	93.5 pence
Paul Denney (note 9)	-	1,582.774	-	-	-	1,582,774	5 pence
Neil Austin (note 9)	-	4,529.403	-	-	-	4,529,403	5 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. As part of the Group's capital reorganisation in October 2022, these options were amended to be over ordinary shares of 0.1p and deferred shares of 14.9p.

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. As part of the Group's capital reorganisation in October 2022, these options were amended to be over ordinary shares of 0.1p and deferred shares of 14.9p.

Note 3: There are no performance conditions attached to 4,504 options grated 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. As part of the Group's capital reorganisation in October 2022, these options were amended to be over ordinary shares of 0.1p and deferred shares of 14.9p.

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. 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. As part of the Group's capital reorganisation in October 2022, these options were amended to be over ordinary shares of 0.1p and deferred shares of 14.9p. The options in respect of Paul Denney lapsed upon his departure from the Group on 28 February 2023.

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. As part of the Group's capital reorganisation in October 2022, these options were amended to be over ordinary shares of 0.1p and deferred shares of 14.9p. The options in respect of Paul Denney lapsed upon his departure from the Group on 28 February 2023.

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. As part of the Group's capital reorganisation in October 2022, these options were amended to be over ordinary shares of 0.1p and deferred shares of 14.9p. The options in respect of Paul Denney lapsed upon his departure from the Group on 28 February 2023.

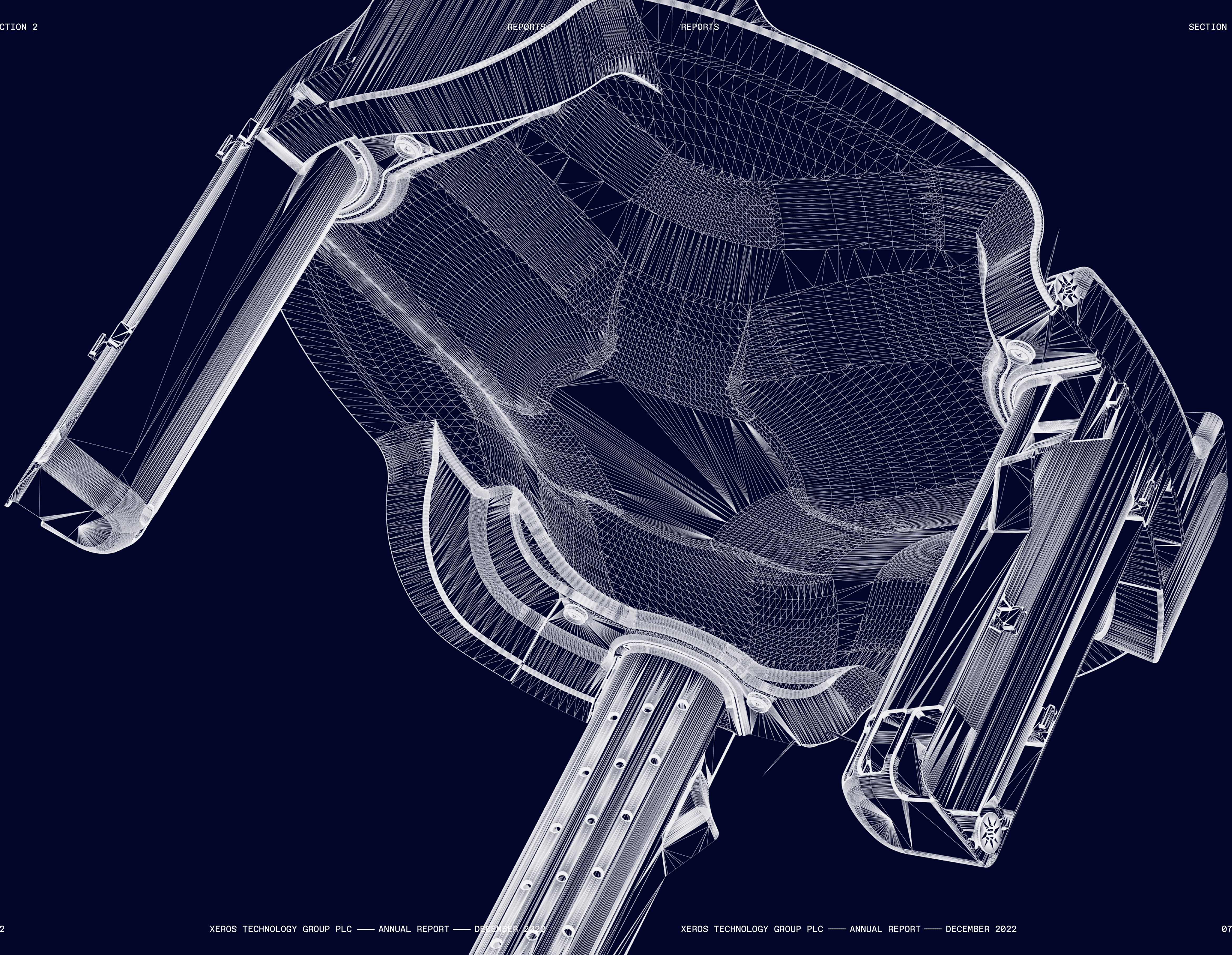
Note 7: There were employment conditions in relation to the 109,703 and 81,770 options issued on 1 January 2021 which allowed for vesting in three equal proportions on or after the Company's share price reaching 275 pence per share, 375 pence per share and 475 pence per share. As at 31 December 2021, none of these performance targets had been met. As part of the Group's capital reorganisation in October 2022, these options were amended to be over ordinary shares of 0.1p and deferred shares of 14.9p. The options in respect of Paul Denney lapsed upon his departure from the Group on 28 February 2023.

Note 8: There were employment conditions in relation to the 70,000 and 56,000 options issued on 1 January 2022 which allowed for vesting in three equal proportions on 1 January 2023, 1 January 2024 and 1 January 2025. As part of the Group's capital reorganisation in October 2022, these options were amended to be over ordinary shares of 0.1p and deferred shares of 14.9p. The options in respect of Paul Denney lapsed upon his departure from the Group on 28 February 2023.

Note 9: There were employment conditions in relation to the 1,582,774 and 4,529,403 options issued on 10 November 2022 which allowed for vesting in three equal proportions on 11 November 2023, 11 November 2024 and 11 November 2025.

ON BEHALF OF THE BOARD
DAVID ARMFIELD, CHAIRMAN OF THE REMUNERATION COMMITTEE - 17 APRIL 2023

REPORTS
SECTION 2



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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 Code below and set out on the website at www.xerostech.com.

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

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

Suppliers: The Group has relationships with key suppliers which are managed closely by relevant senior management to ensure ongoing supply of products 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 determining 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 presented to and 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, one Executive Director and two 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 currently provides a balance between independence and knowledge of the Group which allows them to discharge their responsibilities effectively, alongside the relevant Board committees. 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 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. Board members keep their skills up to date through regular updates from professional advisers.

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 acted 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 one Executive Director and three Non-Executive Directors.

AUDIT COMMITTEE

The Audit Committee consists of David Armfield as Chairman and Rachel Nooney. Klaas de Boer and Neil Austin 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 Armfield and Neil Austin. 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, appointed Neil Austin as Chief Executive Officer and considered the Group's need for finance representation following the departure of Paul Denney. 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 are:

(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;

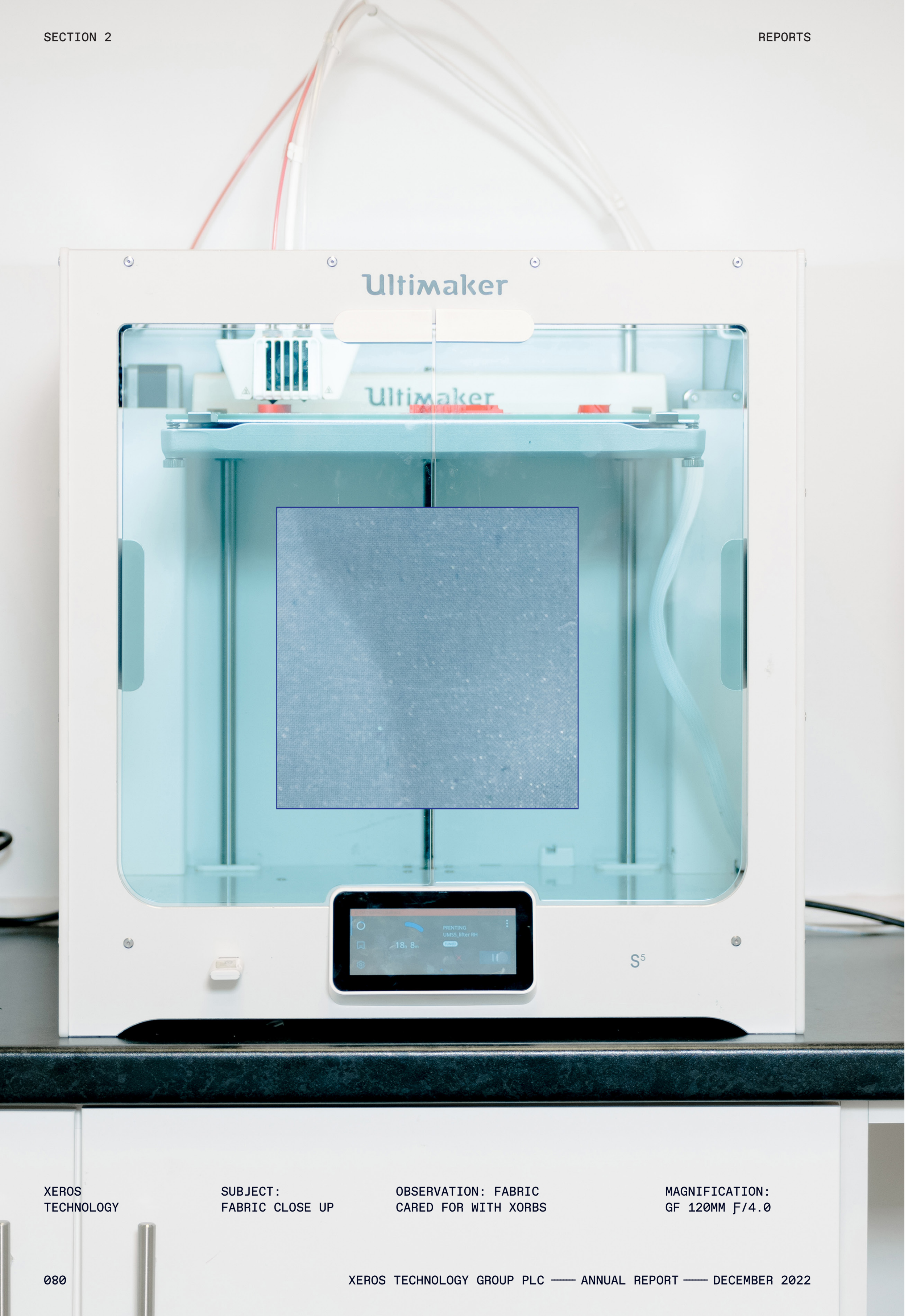
(iv) There is a clearly defined organisational structure; and

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

GOING CONCERN

At 31 December 2022, the Group had £6.5m of cash and cash equivalents. At this stage in its development the Group incurs operating cash outflows and is reliant on existing cash resources. During October 2022, the Group completed an equity placing and open offer which provided £6.3m before fees, which also included the issue of warrants which, if exercised, would provide a further £6.3m. The Directors consider that the Group's existing cash resources 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. While the Group actively manages key customer stakeholders where appropriate, the revenue generated by these contracts is reliant on the progress of third parties and there remains risk that progress is not forthcoming in the timeframes anticipated by the Directors. Should there be significant delays in the receipt of this revenue, the Group's existing cash balance may not be sufficient to support the Group's expenditure until the point the Group's revenue allows it to reach cash breakeven. The Directors expect that the Group will incur operating cash outflows during the 12 months following the signing of this report.

The Directors consider that they have options in place that may allow them to reach this breakeven point, including existing and potential commercial agreements and further restrictions on discretionary spending. Given the lack of certainty around these scenarios, the Directors consider that the Group's current funding position constitutes a material uncertainty that may cast significant doubt as to the Group's ability to continue as a going concern; in the absence of significant customer revenue, the Group's cash resources will run out. Notwithstanding this uncertainty, the Directors believe 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 concern basis of accounting in preparing this financial information.



XEROS TECHNOLOGY

SUBJECT: FABRIC CLOSE UP

OBSERVATION: FABRIC CARED FOR WITH XORBS

MAGNIFICATION: GF 120MM ƒ/4.0

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 international accounting standards in conformity with the requirements of the Companies Act 2006 or UK Accounting Standards 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.

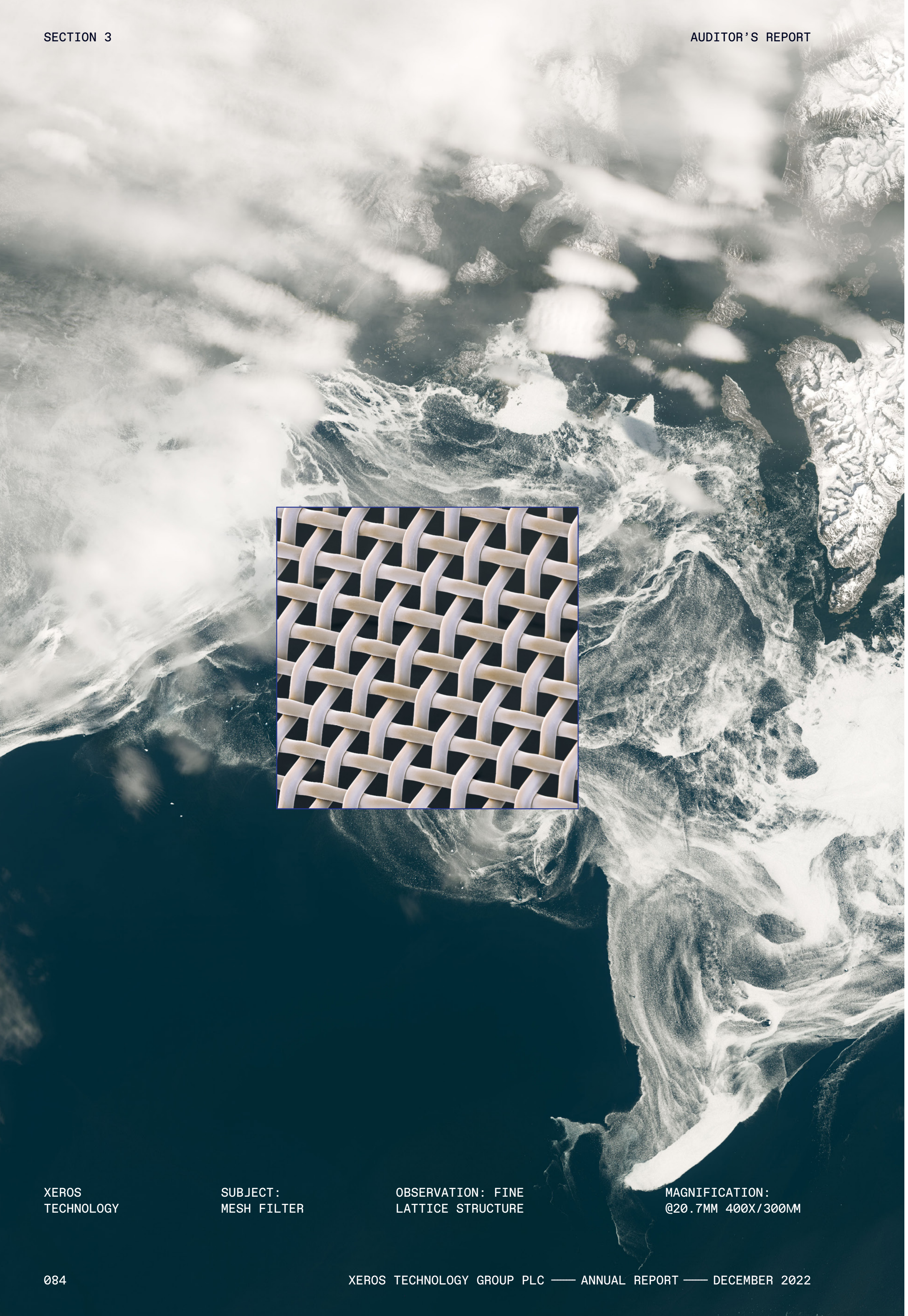
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy, at any time, the financial position of the Company and enable them to ensure that the financial statements comply with the Companies 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



XEROS TECHNOLOGY

SUBJECT: MESH FILTER

OBSERVATION: FINE LATTICE STRUCTURE

MAGNIFICATION: @20.7MM 400X/300MM

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 2022, 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 2022 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 auditor's report, with some changes to discretionary expenditure, if necessary. However the group is reliant on the actions of third parties to generate revenue anticipated from customer contracts and there remains risk that progress is not forthcoming in the timeframes anticipated by the Directors. Should there be significant delays in the receipt of this revenue, the Group's existing cash balance may not be sufficient to support the Group's expenditure until the point the Group generates sufficient revenue to reach cash breakeven. As stated in note 1, these events or conditions, along with the other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the group and parent 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:

- obtaining management's going concern assessment including future financing expectations, cash flow forecasts and sensitivity analysis covering the period to 30 April 2024;
- updating our understanding of the design of processes and controls in place over management's forecasts supporting the going concern assessment and confirming that they are implemented as designed;
- challenging management over the key cost assumptions (including staff costs, IP costs, legal & professional costs) applied in the forecasts to determine whether these are reasonable and consistent with the trading expectations and history of the business;
- challenging management over the likelihood, timing and quantity of future revenues forecast;
- assessing the quality of management's forecasting through a review of prior year actual results compared to forecasts; and
- assessing the adequacy of the disclosures in the financial statements.

In performing our audit procedures, we observed the following:

- in management's most likely outcome forecast in the period to 30 April 2024, the group is reliant on generating revenue from its contracts with third parties and there remains risk that progress in these contracts is not forthcoming in the timeframes anticipated by the Directors. Should there be delays in the receipt of this revenue, the group's existing cash balance may not be sufficient to support the group's expenditure; and
- the assumptions made by management in its best-case, worst-case and most likely outcome assessment did not indicate bias.

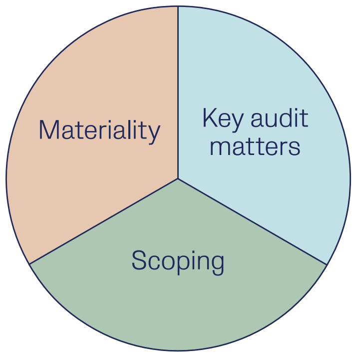
OUR RESPONSIBILITIES

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.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

OUR APPROACH TO THE AUDIT

Grant Thornton



Overview of our audit approach

Overall materiality:

Group: £632,000, which represents 8.5% of the Group's loss before tax.

Parent company: £200,000 which represents 2% of the parent company's total assets.

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:

- Recoverability of intercompany receivables owed to the parent company (same as previous year).

Our auditor's report for the year ended 31 December 2021 included the same key audit matters that have been reported as key audit matters in our current year's report.

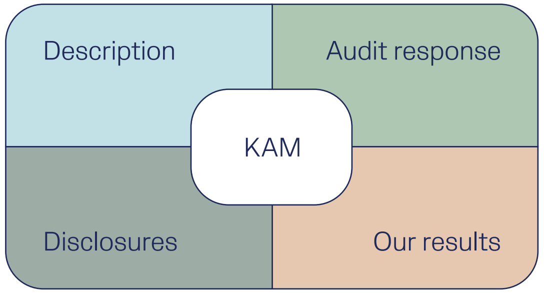
We have performed the following audit work:

- an audit of the financial information of one of the components using component materiality (full scope audit) which represents 79% of the loss before taxation for the group;
- an audit of one or more account balances, classes of transactions or disclosures (specified audit procedures) of the financial information of the parent company; and
- analytical procedures at group level for the remaining component in the group during the year.

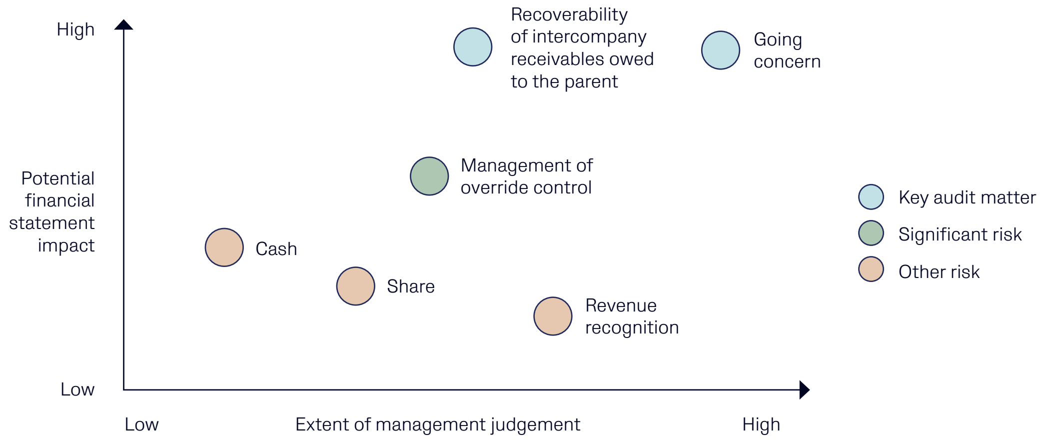
There was a change in scoping of the group audit this year resulting in specified audit procedures being applied to the parent company. In the prior year we performed an audit of the financial information of the parent company using component materiality.

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 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 INTERCOMPANY RECEIVABLES OWED TO THE PARENT COMPANY

We identified recoverability of intercompany receivables owed to the parent company as one of the most significant assessed risks of material misstatement due to error.

International Financial Reporting Standard (IFRS) 9 Financial instruments is relevant when considering the recoverability of the intercompany receivables.

The financial statements presented for audit recorded an intercompany receivable in the parent company of £4.2m, due from Xeros Limited. Xeros Limited is the trading entity for the group and recorded a loss for the year ended 31 December 2022 and had net liabilities of £115.3m at 31 December 2022. The group is loss making and has been negatively impacted by delays in the progression of licensing revenue caused by the ongoing Covid-19 impact in key markets.

Management's assessment of any potential impairment is inherently subjective, due to limited historical evidence of trading under a licensing operating model, and therefore requires significant judgement in making assumptions around the timing and extent of future revenue from contracts with third parties and in consideration of external factors.

RELEVANT DISCLOSURES IN THE ANNUAL REPORT AND ACCOUNTS 2022

Financial statements: Note 2, Significant accounting policies.

HOW OUR SCOPE ADDRESSED THE MATTER – PARENT COMPANY

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

- obtaining an understanding of the relevant business processes and controls around the recoverability of the carrying values of intercompany receivables and confirming that they were implemented by assessing the accounting paper prepared by management;
- obtaining management's assessment of the expected credit losses on the intercompany loan and challenging the probability-weighted amount by reference to evidence including the group's share price and broker reports, and checking consistency with management's going concern forecasts; and
- assessing the adequacy of the disclosures included within the financial statements for compliance with IFRS 9 'Financial Instruments'.

OUR RESULTS

From the work performed we identified that management had not considered all external factors as part of their initial assessment of impairment of intercompany receivables.

As a result of our audit procedures, management reperformed their assessment and determined that the £8.9m intercompany receivable was fully impaired.

OUR APPLICATION OF MATERIALITY

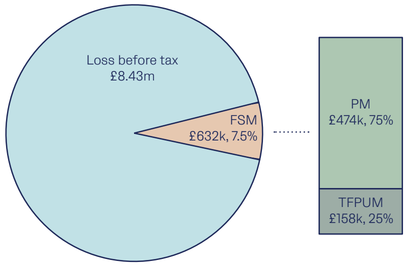
We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

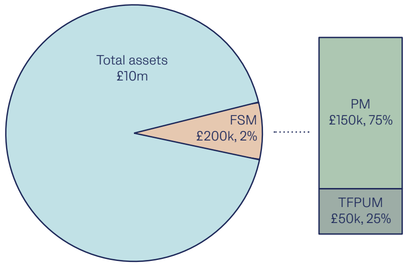
MATERIALITY MEASURE	GROUP	PARENT COMPANY
MATERIALITY FOR FINANCIAL STATEMENTS AS A WHOLE	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.	
Materiality threshold	£632,000 which represents 8.5% of the group's loss before tax.	£200,000 which represents 2% of the parent company's total assets.
Significant judgements made by auditor in determining the materiality	In determining materiality, we made the following significant judgement: 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 2021 as the losses in the year ended 31 December 2022 are higher.	In determining materiality, we made the following significant judgement: 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 lower than the level that we determined for the year ended 31 December 2021 despite having used a higher percentage against the benchmark. A higher percentage was used as there have been no changes to the operations of the Group and no new significant developments. The decrease in materiality is due to reduced total asset values of the parent company for the year ending 31 December 2022.
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.	
Performance materiality threshold	£474,000 which is 75% of financial statement materiality.	£150,000 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 judgements: 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 judgements: 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.	
Specific materiality	We determined a lower level of specific materiality for the following areas: Directors' remuneration.	We determined a lower level of specific materiality for the following areas: Directors' remuneration
COMMUNICATION OF MISSTATEMENTS TO THE AUDIT COMMITTEE	We determine a threshold for reporting unadjusted differences to the audit committee.	
Threshold for communication	£31,600 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£10,000 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

We performed a risk-based audit that requires an understanding of the group's and the parent company's business and in particular matters related to:

Understanding the group, its components, and their environments, including group-wide controls

- 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; and
- We obtained an understanding of the relevant processes and controls that were operating in relation to the significant risks identified above.

Identifying significant components

— 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 tax.

Type of work to be performed on financial information of parent and other components (including how it addressed the key audit matters)

— There is only one company in the group that is individually financially significant, Xeros Limited, based on the total assets, revenue and loss before tax of the entity.

— Xeros Limited contributed £5.9m (79%) to the group's loss before tax and £2.1m (26%) to the group's assets and therefore required an audit of their financial information (full scope audit).

— The parent company, Xeros Technology Group Plc, was determined by the engagement team to not be individually financially significant as the majority of Xeros Technology Group plc transactions are intra-group transactions. There are no external revenues in the parent company, nor group significant risks. As such, the audit of the parent company was conducted specifically on certain classes of transactions, account balances and disclosures, including cash, shareholder's equity, and director's remuneration, to reduce the risk of material misstatement in the group financial statements to an acceptable level. This is a change in approach to the prior year when the parent company was considered to be individually financially significant.

— We performed analytical procedures at a group level over the remaining component, Xeros Inc. 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

OTHER INFORMATION

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

— the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

— the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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 their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

— adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

— the parent company financial statements are not in agreement with the accounting records and returns; or

— certain disclosures of directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the directors' responsibilities statement set out on page 81, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. 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 group and parent 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, United Kingdom Generally Accepted Accounting Practice, Companies Act 2006 and the Alternative Investment Market rules. In addition, we concluded that there are certain laws and regulations that may have effect on the determination of the amount and disclosures in the financial statements including the Data Protection Act and Employment Law 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;
- 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;
- 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 group and parent company operate, 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;
- Team communications in respect of potential non-compliance with laws and regulations and fraud included the potential for fraud in revenue recognition and
- 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.

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

USE OF OUR REPORT

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

MARK OVERFIELD, BSC FCA
SENIOR STATUTORY AUDITOR
FOR AND ON BEHALF OF GRANT THORNTON UK LLP
STATUTORY AUDITOR, CHARTERED ACCOUNTANTS
LEEDS
17 APRIL 2023

04

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	NOTES	YEAR ENDED 31 DECEMBER 2022 £'000	YEAR ENDED 31 DECEMBER 2021 £'000
CONTINUING OPERATIONS			
REVENUE	3	164	474
Cost of sales	-	(80)	(193)
GROSS PROFIT/(LOSS)	-	84	(281)
Administrative expenses	6	(7,518)	(7,225)
ADJUSTED EBITDA*	-	(7,368)	(6,281)
Share-based payment credit/(expense)	21	79	(463)
Depreciation of tangible fixed assets	10	(145)	(200)
OPERATING LOSS	-	(7,434)	(6,944)
Net finance income	7	(14)	14
LOSS BEFORE TAX	-	(7,448)	(6,930)
Taxation	8	515	492
LOSS AFTER TAX FROM CONTINUING OPERATIONS	-	(6,933)	(6,438)
Loss from discontinued operations	7	-	-
LOSS FOR THE PERIOD	-	(6,933)	(6,438)
OTHER COMPREHENSIVE (EXPENSE)/INCOME: Items that are or may be reclassified to profit or loss:			
Foreign currency translation differences - foreign operations	-	(3)	(1)
TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD	-	(6,936)	(6,439)
LOSS PER SHARE			
Basic and diluted on loss from continuing operations	9	(14.29)p	(28.11)p
Basic and diuted on total loss for the period	9	(14.29)p	(28.11)p

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	SHARE CAPITAL £'000	SHARE PREMIUM £'000	DEFERRED SHARE CAPITAL £'000	WARRANT RESERVE £'000	MERGER RESERVE £'000	FOREIGN CURRENCY TRANSLATION RESERVE £'000	RETAINED EARNINGS DEFICIT £'000	TOTAL £'000
BALANCE 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 income	-	-	-	-	-	(1)	-	(1)
Loss and total comprehensive expense for the period	-	-	-	-	-	(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
Excercise 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
Loss for the year	-	-	-	-	-	-	(6,933)	(6,933)
Other comprehensive expense	-	-	-	-	-	(3)	-	(3)
Loss and total comprehensive expense for the year	-	-	-	-	-	(3)	(6,933)	(6,936)
Transactions with owners, recorded directly in equity:								
Change in nominal value of ordinary shares	(3,544)	-	3,544	-	-	-	-	-
Issue of shares following placing and open offer	127	6,234	-	-	-	-	-	6,361
Costs of share issues	-	(539)	-	-	-	-	-	(539)
Warrant expense	-	947	-	(947)	-	-	-	-
Share-based payment expense	-	-	-	-	-	-	(79)	(79)
Total contributions by and distributions to owners	(3,417)	6,642	3,544	(947)	-	-	(79)	5,743
AT 31 DECEMBER 2022	151	127,660	3,544	(947)	15,443	(2,209)	(137,773)	5,869

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2022

	NOTES	AT 31 DECEMBER 2022 £'000	AT 31 DECEMBER 2021 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	104	114
Right of use assets	10	717	14
Trade and other receivables	12	6	30
TOTAL NON-CURRENT ASSETS		827	158
Current assets			
Inventories	11	164	108
Trade and other receivables	12	387	346
Cash on deposit	13	4	5,323
Cash and cash equivalents	14	6,465	2,483
TOTAL CURRENT ASSETS		7,020	8,260
TOTAL ASSETS		7,847	8,418

LIABILITIES			
Non-current liabilities			
Right-of-use liabilities	16	(624)	-
Deferred tax	17	(38)	(38)
TOTAL NON-CURRENT LIABILITIES		(662)	(38)
Current liabilities			
Trade and other payables	16	(1,316)	(1,318)
TOTAL CURRENT LIABILITIES		(1,316)	(1,318)
TOTAL LIABILITIES		(1,978)	(1,356)
NET ASSETS		5,869	7,062

	NOTES	AT 31 DECEMBER 2022 £'000	AT 31 DECEMBER 2021 £'000
EQUITY			
Share capital	18	151	3,568
Share premium	18	127,660	121,018
Deferred share capital	18	3,544	-
Warrant reserve	18	(947)	-
Merger reserve	18	15,443	15,443
Foreign currency translation reserve	19	(2,209)	(2,206)
Accumulated losses	19	(137,773)	(130,761)
TOTAL EQUITY		5,869	7,062

Approved by the board of Directors and authorised for issue on 17 April 2023.

Klaas de Boer
Chairman

Neil Austin
Chief Execuitve Officer

Company number: 08684474

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

	NOTES	YEAR ENDED 31 DECEMBER 2022 £'000	YEAR ENDED 31 DECEMBER 2021 £'000
OPERATING ACTIVITIES			
Loss before tax		(7,448)	(6,930)
Adjustment for non-cash items:			
Depreciation of property, plant and equipment	10	145	200
Share-based payment	21	(79)	463
Increase in inventories	11	(56)	(12)
Increase / (decrease) in trade and other receivables	12	(15)	161
(Increase) / decrease in trade and other payables	16	(46)	(184)
Finance income	7	(16)	(17)
Finance expense	7	30	3
Cash used in operations		(7,485)	(6,316)
Tax receipts	8	515	492
Net cash outflow from operations		(6,970)	(5,824)

	NOTES	YEAR ENDED 31 DECEMBER 2022 £'000	YEAR ENDED 31 DECEMBER 2021 £'000
INVESTING ACTIVITIES			
Finance income	7	15	17
Finance expense	7	(30)	(3)
Purchases of property, plant and equipment	10	(63)	(56)
Cash placed on/ (removed from) deposit	13	5,319	(5,323)
Net cash inflow/(outflow) from investing activities		5,241	(5,365)
FINANCING ACTIVITIES			
Proceeds from issue of share capital, net of costs	18	5,821	8,515
Payment of lease liabilities		(113)	-
Net cash inflow from financing activities		5,708	8,515
Increase / (decrease) in cash and cash equivalents		3,979	(2,674)
Cash and cash equivalents at start of year/period		2,483	5,158
Effect of exchange rate fluctuations on cash held		3	(1)
CASH AND CASH EQUIVALENTS AT END OF YEAR	14	6,465	2,483

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 2022. These include comparatives for the year ended 31 December 2021. 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.

Intercompany 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 intragroup balances and transactions, including unrealised profits arising from intragroup transactions, are eliminated fully on consolidation.

Going Concern

At 31 December 2022, the Group had £6.5m of cash and cash equivalents. At this stage in its development the Group incurs operating cash outflows and is reliant on existing cash resources. During September 2022, the Group completed an equity placing and open offer which provided £6.3m before fees, which also included the issue of warrants which, if exercised, would provide a further £6.3m. The Directors consider that the Group's existing cash resources provide the Group with sufficient cash to meet its obligations as they fall due for least twelve months following the date of this report, with some changes to discretionary expenditure, if necessary. The Directors also believe that these financial resources, alongside the Group's existing and anticipated customer contracts, provide the Group with a platform to reach cash breakeven in the latter part of 2024. While the Group actively manages key customer stakeholders where appropriate, the revenue generated by these contracts is reliant on the actions of third parties and there remains risk that progress is not forthcoming in the timeframes anticipated by the Directors. Should there be significant delays in the receipt of this revenue, the Group's existing cash balance may not be sufficient to support the Group's expenditure until the point the Group generates sufficient revenue to reach cash breakeven. The Directors expect that the Group will incur operating cash outflows during the 12 months following the signing of this report.

The Directors consider that they have options in place that may allow them to reach this breakeven point, including existing and potential commercial agreements and further restrictions on discretionary spending. Given the lack of certainty around these scenarios, the Directors consider the Group's current funding positions constitutes a material uncertainty as to the going concern status of the Group, as, in the absence of significant customer revenue, the Group's cash resources will run out. 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.

The Group is subject to a number of risks, including those as set out in the strategic report on pages 53-58. These risks include the global macro-economic conditions, particularly in the global markets in which the Group and its partners operate. The going concern assessment as carried out by the Directors has taken the impact of these into account as far as possible. While this inclusion does not change the assessment of the Directors in respect of going concern, the Group remains reliant on the progress of international licence partners in order for it to execute the commercialisation strategy.

When making their going concern assessment the Directors assess available and committed funds against all non-discretionary expenditure, and related cash flows, as forecast for the period ended 31 March 2024 These forecasts indicate that the Group is able to settle its liabilities as they fall due in the forecast period. In these forecasts the Directors have considered appropriate sensitivities, including the progress of the Group's commercial contracts. Accordingly, the Directors continue to believe that the going concern assumption is appropriate for the Group and the financial statements have been prepared on that basis.

Note 15 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.

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 IFRS 15, 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 assess the contract against the five steps of IFRS 15. 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; and
- 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.

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 IFRS 17 - 1 January 2023

Amendments to IAS 12 - 1 January 2023

Amendments to IAS 1 - 1 January 2023

Amendments to IAS 8 - 1 January 2023

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.

WARRANTS

The cost of equity-settled transactions with shareholders, in the form of warrants, is measured by reference to the fair value on the date on which they are granted. The fair value is determined by using an appropriate pricing model. The warrant charge is recognised over the vesting period of the warrants, if appropriate.

Where warrants are issued to shareholders in their capacity as such, the warrant charge is recognised directly in equity.

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 derecognised 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 derecognised 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 non-current 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.

Recognition of revenue from and the loan issued to ESTR Ltd

The Directors apply judgement in respect of the relationship that the Group holds with ESTR Ltd. The Group has an outstanding loan owed by ESTR Ltd, against which the Group recorded an expected credit loss in accordance with IFRS 9 in a prior period. The Directors review this loan on at least an annual basis and apply judgement as to the recoverability or otherwise of the loan. At the date of this report, the Directors believe there remains significant doubt regarding the recoverability of this loan and therefore the expected credit loss remains in place.

In addition, the Group has a technology licence with the same entity. The Directors consider the revenue recognition with respect to this licence against the criteria of IFRS 15 and assess at which point the revenue receivable under this licence is to be recognised. The licence contains minimum annual royalty payments for the duration of the licence, and under IFRS 15, given the Group's performance obligations under the contract, these minimum royalty payments could meet the criteria for recognition. However, given the commercial circumstances, the Directors consider that payment of these minimum royalties is not probable and future contractual revenue is not recognised.

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 licensing 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 2022 £'000	Year ended 31 December 2021 £'000
Sale of goods	18	160
Rendering of services	82	190
Licensing revenue	64	124
Total	164	474

The Group's largest customer was responsible for 31% of Group revenue in the year to 31 December 2022.

During the year ended 31 December 2021 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 2022 £'000	Year ended 31 December 2021 £'000
Europe	120	271
North America	31	61
Rest of the World	13	142
Total	164	474

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

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Europe	821	158
North America	-	-
Total	821	158

4) LOSS FROM OPERATIONS

Loss from operations is stated after charging to administrative expenses:	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Foreign exchange losses	16	7
Depreciation of plant and equipment (note 12)	145	200
Operating lease rentals – land and buildings	42	42
Staff costs (excluding share-based payment charge)	4,009	3,711
Research and development	837	316

Auditor's remuneration

Audit of these financial statements	38	24
Audit of financial statements of subsidiaries	30	23
Audit related assurance services	5	4
Total auditor's remuneration	73	51

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 2022 £'000	Year ended 31 December 2021 £'000
Directors	6	6
Operational staff	41	40
Total	47	46

The aggregate remuneration, including Directors, comprised:

Wages and salaries	3,446	3,278
Social security costs	438	335
Pension contributions	132	88
Share-based payment (credit) / expense (note 21)	(79)	463
Furlough credit	-	(15)
Total costs	3,938	4,149
Directors' remuneration comprised: Emoluments for qualifying services	857	744

Directors' emoluments disclosed above include £405,000 paid to the highest paid director (year ended 31 December 2021: £335,000). There are no pension benefits for Directors. Please see Directors' remuneration report on pages [68 to71] for further information on Directors' emoluments.

On 18 March 2023 it was announced that Mark Nichols would step down from his role as CEO. He subsequently resigned from the Board, with effect from 1 August 2022. Remuneration for Mark includes £71,000 in respect of payment in lieu of contractual notice and £71,000 as a severance payment.

Performance criteria in respect of options issued to Mark Nichols in 2020, 2021 and 2022 were waived and these options remain capable of exercise for a further three and half years from Mark's leaving date. All other options were cancelled on the date of his departure, leaving him with 415,246 options.

6) EXPENSES BY NATURE

The administrative expenses charge by nature is as follows:

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Staff costs, recruitment and other HR	4,221	3,908
Share-based payment (credit)/expense	(79)	463
Premises and establishment costs	157	150
Research and development costs	259	316
Patent and IP costs	687	476
Legal, professional and consultancy fees	1,088	910
IT, telecoms and office costs	265	213
Depreciation charge	145	200
Travelling, subsistence and entertaining	329	124
Advertising, conferences and exhibitions	360	299
Bad debt expense	64	161
Other expenses	6	13
Foreign exchange losses/(gains)	16	7
Furlough credit	-	(15)
Total administrative expenses	7,518	7,225

7) NET FINANCE INCOME

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Bank interest receivable	13	12
Finance expense in relation to right-of-use assets	(30)	(3)
Finance income from lease receivables	3	5
Net finance income	(14)	14

8) TAXATION

Tax on loss on ordinary activities	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Current tax:		
UK Tax credits received in respect of prior periods	(517)	(505)
Foreign taxes paid	2	13
Deferred tax:	(515)	(492)
Origination and reversal of temporary timing differences	-	-
Tax credit on loss on ordinary activities	(515)	(492)

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 2022 £'000	Year ended 31 December 2021 £'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	(7,448)	(6,929)
Tax at the standard rate of corporation tax 19% (2021: 19%)	(1,415)	(1,317)
Effects of:		
Expenses not deductible for tax purposes	(15)	88
Research and development tax credits receivable	(517)	(505)
Unutilised tax losses for which no deferred tax asset is recognised	1,430	1,229
Employee share acquisition adjustment	-	-
Foreign taxes paid	2	13
Tax credit for the year/period	(515)	(492)

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 2021. There is no certainty regarding the claim for the year ended 31 December 2022 and as such no relevant credit or asset is recognised.

9) 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 2022 £'000	Year ended 31 December 2021 £'000
Total loss from continuing operations	(6,933)	(6,438)
Total loss from discontinued operations	-	-
Total loss attributable to the equity holders of the parent	(6,933)	(6,438)
Weighted average number of ordinary shares in issue during the year	No. 48,526,649	No. 22,898,879
Loss per share		
Basic and diluted on loss from continuing operations	(14.29)p	(28.11)p
Basic and diluted on loss from discontinued operations	-	-p
Basic and diluted on total loss for the year	(14.29)p	(28.11)p

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

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Issued ordinary shares at 1 January 2022/1 January 2021	23,784,483	19,976,090
Effect of shares issued for cash	24,742,166	2,922,789
Weighted average number of shares at 31 December	48,526,649	22,898,879

The Company has issued employee options over 10,852,514 (31 December 2021: 2,087,895) 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.

The share options in issue were amended in the year following the Group's share capital reorganisation. Options over ordinary shares of 15p were amended to be options over ordinary shares of 0.1p and over deferred shares of 14.9p. There was no impact on the share option numbers or charge as a result of this change.

10) PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets £'000	Leasehold improvements £'000	Plant and equipment £'000	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
COST						
As at 31 December 2020	177	548	273	97	48	1,443
Additions	-	-	19	37	-	56
Disposals	-	-	-	-	-	(328)
As at 31 December 2021	177	548	292	134	48	1,199
Additions	775	29	1	32	-	837
Disposals	(177)	-	-	-	-	(177)
At 31 December 2022	775	577	293	165	48	1,859
DEPRECIATION						
At 31 December 2020	109	439	194	87	42	871
Charge for the year	54	87	43	12	4	200
Disposals	-	-	-	-	-	-
At 31 December 2021	163	526	236	99	47	1,071
Charge for the year	72	24	31	17	1	145
Disposals	(177)	-	-	-	-	(177)
At 31 December 2022	57	550	267	116	48	1,038
NET BOOK VALUE						
At 31 December 2022	718	27	26	49	1	821
At 31 December 2021	14	22	55	35	2	128
At 31 December 2020	68	109	79	10	6	272

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

11) INVENTORIES

	31 December 2022 £'000	31 December 2021 £'000
Finished goods	164	108

In the year ended 31 December 2022, changes in finished goods recognised as cost of sales amounted to £11,000 (year ended 31 December 2021: £27,000).

12) TRADE AND OTHER RECEIVABLES

	31 December 2022 £'000	31 December 2021 £'000
Due within 12 months		
Trade debtors	24	110
Other receivables	134	63
Prepayments and accrued income	229	173
	387	346
Due after more than 12 months		
Other receivables	6	30

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

The minimum lease payment is receivable as follows:

Not later than one year	25	35
Later than one year not later than five years	6	30
Total	31	65

Contractual payment terms with the Group's customers are typically 30 to 60 days. The Directors considered the carrying value of trade receivables at 31 December 2020 and made a provision of £55,000 (31 December 2021: £90,000) for potential impairment losses arising from balances which were considered to be past due. The Directors believe that the carrying value of trade and other receivables represents their fair value. In determining the recoverability of trade receivables the Directors consider any change in the credit quality of the receivable from the date credit was granted up to the reporting date. For details on credit risk management policies, refer to note 15.

Other receivables of £6,000 (31 December 2021: £30,000) due after more than one year comprise the long-term portion of finance leases where the Group acts as lessor.

13) CASH ON DEPOSIT

	31 December 2022 £'000	31 December 2021 £'000
Bank deposits maturing between 3 and 12 months	4	5,323
	4	5,323

At 31 December 2022, the Group held £4,000 (2021: £5,323,000) 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 15.

14) CASH AND CASH EQUIVALENTS

	31 December 2022 £'000	31 December 2021 £'000
A+	6,449	1,427
A	7	1,005
BBB+	7	49
Held outside banking institutions	2	2
Cash and cash equivalents	6,465	2,483

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 2022 are at floating interest rates. Balances are denominated in UK sterling (£), US dollars ($) and euros (€) as follows:

	31 December 2022 £'000	31 December 2021 £'000
Denominated in pound sterling	6,430	2,323
Denominated in US dollars	13	52
Denominated in euros	22	108
Cash and cash equivalents	6,465	2,483

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 15.

15) 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 2022, the Directors were not aware of any factors affecting the recoverability of the Group's bank balances.

Exposure to Credit Risk

At 31 December 2022, the Group had gross trade receivables outstanding of £79,000 (2021: £182,000). The Directors have considered the recoverability of outstanding balances at 31 December 2022 and have made provisions for bad and doubtful debts amounting to £55,000 (2021: £72,000). The Group had gross lease receivable balances outstanding of £79,000 (2021: £109,000) and provision in place in respect of these lease receivables of £50,000 (2021: £45,000).

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

	31 December 2022 £'000	31 December 2021 £'000
United Kingdom	392	372
United States of America	1	4
	393	376

(c) Liquidity Risk

Financial Risk Management

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

The following are the contractual maturities of financial liabilities:

Non-derivative financial liabilities

	31 December 2022 £'000	31 December 2021 £'000
Due within one year		
Trade and other payables	585	458
Due after one year		
Right of use liabilities	624	-
Total	1,209	458

(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 13 and 14. 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), 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 2022 or 31 December 2021.

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 2022

	Sterling £'000	US Dollar £'000	Euro £'000	Chinese Yuan £'000	Total £'000
Cash and cash equivalents	6,426	13	22	-	6,461
Cash on deposit	4	-	-	-	4
Trade and other receivables	378	5	10	-	393
Trade and other payables	(1,769)	(173)	3	(1)	(1,940)
Balance sheet exposure	5,039	(155)	35	(1)	4,918
Net exposure	-	(155)	4	(1)	(152)

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

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 2022 £'000	31 December 2021 £'000	31 December 2022 £'000	31 December 2021 £'000
US Dollars	(4)	(2)	(4)	(2)
Euros	-	(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 2022 £'000	31 December 2021 £'000
FIXED RATE INSTRUMENTS		
Financial assets	4	5,323
Financial liabilities	-	-
	4	5,323
VARIABLE RATE INSTRUMENTS		
Financial assets - cash	6,465	2,482
Financial liabilities	-	-
	6,465	2,482

Based on the Group's above balances at 31 December 2022, 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 £323,000 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 £5,869,000 at 31 December 2022 (31 December 2021: £7,062,000).

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.

16) TRADE AND OTHER PAYABLES

	31 December 2022 £'000	31 December 2021 £'000
Trade payables	528	439
Taxes and social security	98	110
Other creditors	33	38
Accruals and deferred income	600	661
Right-of-use liabilities	57	19
	1,316	1,267
Current	1,316	1,267
Non-current, comprising right-of-use liabilities	624	-
	1,940	1,267

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

	31 December 2022 £'000	31 December 2021 £'000
Sterling	405	398
US dollars	125	41
Euros	(3)	(2)
Chinese yuan renminbi	1	2
Trade payables	528	439

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.

17) DEFERRED TAX

	31 December 2022 £'000	31 December 2021 £'000
Accelerated depreciation for tax purposes	38	38
Deferred tax credit/(expense) for the period	-	-

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
At beginning of year	38	38
Tax expense	-	-
At end of year	38	38

As at 31 December 2022, the Group had unrecognised deferred tax assets totalling approximately £13,642,000 (31 December 2021: £12,664,000), 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.

18) SHARE CAPITAL AND WARRANTS

	Number	Share capital £'000	Share premium £'000	Deferred share capital £'000	Merger reserve £'000	Total £'000
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
Change in nominal value of ordinary shares	-	(3,544)	-	3,544	-	9,000
Issue of ordinary shares following placing and open offer	127,195,640	127	6,233		-	6,360
Costs of share issues	-	-	(418)		-	(418)
Total Ordinary shares of 15p each as at 31 December 2022	150,980,123	151	126,833	3,544	15,443	145,971

The Group undertook a share capital reorganisation exercise during the year ended 31 December 2022, splitting the ordinary shares with a nominal value of 15p into ordinary shares of 0.1p and deferred shares of 14.9p. The new deferred shares have no significant rights attached to them and carry no right to vote or participate in distribution of surplus assets and have not been admitted to trading on the AIM market of the London Stock Exchange plc, nor will they in the future. Accordingly, deferred shares are excluded from the calculation of earnings per share in note 9.

	Number
Total deferred shares of 14.9p each as at 31 December 2020	-
Total deferred shares of 14.9p each as at 31 December 2021	-
Issue of deferred shares as part of share capital reorganisation	23,784,483
Total deferred shares of 0.149p each as at 31 December 2022	23,784,483

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 2022:

I The Group underwent a share capital reorganisation during the period, with the Group's ordinary shares of 15p being split into two classes of shares, ordinary shares of 0.1p and deferred shares of 14.9p.

II 127,195,640 ordinary shares of 0.1p per share were allotted at a price of 5p per share, for total cash consideration of £6,360,000 upon the placing and open offer of the Company's shares in October 2022.

At 31 December 2022, the Company had two classes of share, being ordinary shares of 0.1p each and deferred shares of 14.9p each.

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

As part of the placing completed in October 2022 the Group issued warrants to purchase ordinary shares of 0.1p for a fixed fee of 5p per share.

	Number of warrants	Weighted average exercise price (p)	Weighted average contractual life (years)
At 31 December 2020	-	-	-
At 31 December 2021	-	-	-
Issued in the period	127,195,640	5	1.5
At 31 December 2022	127,195,640	5	1.5

19) MOVEMENT IN ACCUMULATED LOSSES AND FOREIGN CURRENCY TRANSLATION RESERVE

	Accumulated losses £'000	Foreign currency translation reserve £'000
AT 31 DECEMBER 2020	(124,786)	(2,206)
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)
Loss for the year	(6,933)	-
Other comprehensive expense – Foreign currency translation differences – foreign operation	-	(3)
Shared based payment charge	(79)	-
AT 31 DECEMBER 2022	(137,773)	(2,209)

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

20) 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 ten years. 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 termination options
Land and buildings	1	112 months	112 months	1

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 2020	68
Depreciation charged in the year	(54)
Disposals in the year	-
Foreign exchange differences	-
Balance as at 31 December 2021	14
Additions in the year	775
Depreciation charged in the year	(72)
Balance as at 31 December 2022	718

Lease liabilities

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

	31 December 2022 £'000	31 December 2021 £'000
Current	57	19
Non-current	624	-
	681	19

There is one lease with a termination option and no leases with extension options.

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of the lease liabilities at 31 December 2022 is as follows:

	Within 1 year	1-2 years	2-3 years	3-4 years	5+ years	Total
Lease payments	(92)	(92)	(92)	(92)	(483)	(851)
Finance charges	35	31	27	23	54	170
Net present value	(57)	(61)	(65)	(69)	(429)	(681)

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 2022 the Group was committed to short-term leases and the total commitment at that date was £9,000 (2021: £21,000).

21) 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, 2020 and 2021 have vesting conditions based upon the share price meeting certain targets.

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

	EMI options	Unapproved options	Deferred Annual Bonus plan	Total	Weighted average exercise price per share (£)
AT 31 DECEMBER 2020	1,257,013	190,256	45	1,447,324	7.501
Granted in the period	593,450	149,007	-	742,457	1.750
Exercised in the year	(52,664)	(5,810)	-	(58,474)	(0.700)
Forfeited/lapsed in the year	(42,017)	(1,395)	-	(43,412)	(2,931)
AT 31 DECEMBER 2021	1,755,792	332,058	45	2,087,895	5.620
Granted in the period	6,510,356	2,841,858	-	9,352,214	(4.560)
Forfeited/lapsed in the period	(347,234)	(240,361)	-	(587,595)	(0.518)
AT 31 DECEMBER 2022	7,918,914	2,933,555	45	10,852,514	0.543

There were 500,853 share options outstanding at 31 December 2022 which were eligible to be exercised. The remaining options were not eligible to be exercised as these are subject to employment period and/or market-based vesting conditions, some of which had not been met at 31 December 2022. Options have a range of exercise prices from 5 pence per share to 30,500 pence per share and have a weighted average contractual life of 8.87 years (31 December 2021: 8.48 years).

Options granted in the period	EMI options granted in January 2022	Unapproved options granted in January 2022	EMI options granted in July 2022	Unapproved options granted in November 2022	EMI Options granted in November 2022
Dividend yield	0%	0%	0%	0%	0%
Expected volatility*	30.00%	30.00%	30.00%	30.00%	30.00%
Risk free interest rate (%)	1.25%	1.25%	2.08%	3.29%	3.29%
Expected vesting life of options (years)	4.5	4.5	4.5	4.5	4.5
Share price (pence)	93.5	93.5	43.5	5.0	5.0
Fair value of an option (pence per share)	0.25	0.25	0.12	0.02	0.02

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

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

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

	31 December 2022 £'000	31 December 2021 £'000
Share options	(79)	463

22) RELATED PARTY TRANSACTIONS

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

Related party	Relationship	Purchases from related party 31 December 2022 £000	Amounts owed to related party 31 December 2022 £000	Purchases from related party 31 December 2021 £000	Amounts owed to related party 31 December 2021 £000
IP Group plc	Fund manager for certain shareholders (note)	35	4	30	13

Note: IP Group plc provide the services of David Baynes, who was a director of the Company until 31 December 2022, and invoice the Group for related fees. David Baynes was 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 December 2022 £'000	Year ended 31 December 2021 £'000
Short-term employment benefits*	857	744

*In addition, certain Directors hold share options in the Company for which a fair value share based charge of £93,000 has been recognised in the consolidated statement of profit or loss and other comprehensive income (year ended 31 December 2020: £153,000).

On 18 March 2022 it was announced that Mark Nichols would step down from his role as CEO. He subsequently resigned from the Board, with effect from 1 August 2022. Remuneration for Mark includes £71,000 in respect of payment in lieu of contractual notice and £71,000 as a severance payment.

The highest-paid Director in the year received a total remuneration of £405,000 (year ended 31 December 2021: £335,000). During the year ended 31 December 2022, the Company entered into numerous transactions with its subsidiary companies which net off on consolidation – these have not been shown above.

Attributable to the equity holders of the Company

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Share capital £000	Share premium £000	Deferred share capital £'000	Warrant reserve £'000	Merger reserve £000	Retained earnings reserve £000	Total £000
AT 31 DECEMBER 2020	2,997	113,073			6,625	(82,120)	40,575
Total expense and other comprehensive loss for the period	-	-	-	-	-	(39,759)	(39,759)
Transactions with owners, recorded directly in equity:							
Issue of placing shares	562	8,438	-	-	-	-	9,000
Exercise of share options	9	32	-	-	-	-	41
Costs of share issues	-	(525)	-	-	-	-	(525)
Share based payment expense	-	-	-	-	-	123	123
Share based payment expense in respect of services provided to subsidiary undertaking	-	-	-	-	-	340	340
Total contributions by and distributions to owners	571	7,945	-	-	-	463	8,979
AT 31 DECEMBER 2021	3,568	121,018			6,625	121,416	9,795
Total expense and other comprehensive loss for the period	-	-	-	-	-	(10,137)	(10,137)
Transactions with owners, recorded directly in equity:							
Issue of placing and open offer shares	127	6,234	-	-	-	-	6,361
Costs of share issues	-	(539)	-	-	-	-	(538)
Change in nominal value of ordinary shares	(3,544)	-	3,544	-	-	-	-
Warrant expense	-	(947)	-	(947)	-	947	947
Share based payment expense	-	-	-	-	-	93	93
Share based payment expense in respect of services provided to subsidiary undertaking	-	-	-	-	-	(172)	(172)
Total contributions by and distributions to owners	(3,417)	6,642	3,544	(947)	-	(79)	5,743
AT 31 DECEMBER 2022		127,660	3,544	(947)	6,625	(131,632)	5,401

COMPANY STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER

	Notes	At 31 December 2022 £'000	Restated At 31 December 2021 £'000
ASSETS			
Non-current assets			
Intercompany loan balance	C5	4,232	9,853
Total non-current assets		9,853	9,853
Current assets			
Trade and other receivables	C6	80	32
Cash and cash equivalents		5,698	279
Total current assets		5,778	311
TOTAL ASSETS		5,778	10,164
LIABILITIES			
Current liabilities			
Trade and other payables	C7	(377)	(369)
TOTAL LIABILITIES		(377)	(369)
NET ASSETS		5,401	9,795
EQUITY			
Share capital	20	151	3,568
Share premium	20	127,660	121,018
Deferred share capital		3,544	-
Warrant reserve		(947)	-
Merger reserve		6,625	6,625
Retained earnings		(131,632)	(121,416)
TOTAL EQUITY		5,401	9,795

The Company reported a loss for the year ended 31 December 2022 of £10,137,000 (2021: £39,759,000).
The accounting policies and notes on pages [110 to 148] form part of these Financial Statements.

Approved by the Board of Directors and authorised for issue on 17 April 2023.

Klaas de Boer
Chairman

Neil Austin
Chief Executive 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"

I 10f Requirement to present a statement of financial position as at the beginning of the preceding period in the event of a retrospective restatement;

II 16 (statement of compliance with all IFRS); and

III 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 disclose 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 intercompany loan balances

Xeros Technology Group has previously held significant balances 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 £9,626,000 was made against 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 £nil. 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 2022 was a loss of £10,137,000 (year ended 31 December 2021: loss of £39,759,000).

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 2022 Number	Year ended 31 December 2021 Number
The average monthly number of persons (including directors) employed by the Group during the year was: Directors	6	5
	6	5
	£'000	£'000
The aggregate remuneration, including Directors, comprised:		
Wages and salaries	928	685
Social security costs	125	92
Share based expense (note 22)	132	123
	1,185	900
Directors' remuneration comprised: Emoluments for qualifying services	857	744

Directors' emoluments disclosed above include £405,000 paid to the highest paid director (Year ended 31 December 2021: £335,000). There are no pension benefits for directors. Please see Directors' Remuneration Report on pages [68 to 71] for further information on directors' emoluments.

On 18 March 2023 it was announced that Mark Nichols would step down from his role as CEO. He subsequently resigned from the Board, with effect from 1 August 2022. Remuneration for Mark includes £71,000 in respect of payment in lieu of contractual notice and £71,000 as a severance payment.

Performance criteria in respect of options issued to Mark Nichols in 2020, 2021 and 2022 were waived and these options remain capable of exercise for a further three and half years from Mark's leaving date. All other options were cancelled on the date of his departure, leaving him with 415,246 options.

C4. Investment in subsidiary companies

At 31 December 2022, 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 2020	9,513
Additions	340
Impairment	(9,853)
AT 31 DECEMBER 2021	-
Diminutions	(172)
Reversal of impairment	172
AT 31 DECEMBER 2022	-

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 2022 £000	31 December 2021 £000
Intercompany loan	-	9,853

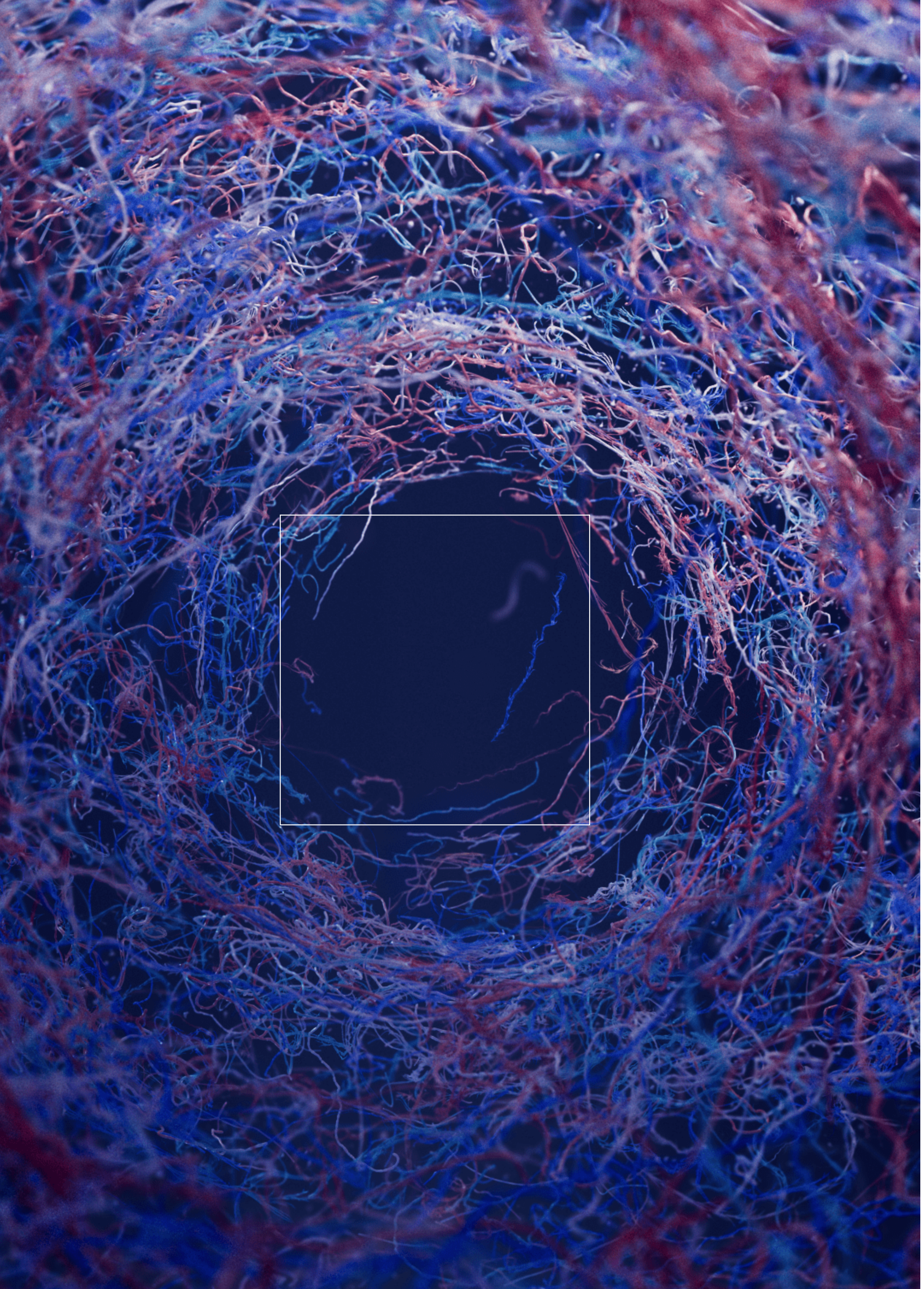
Loans comprise a loan of £nil (31 December 2021: £9,853,000) to Xeros Limited. No interest was payable on this loan. All intercompany loans are repayable on demand. The expected credit loss recorded in the year was £4,998,000.

C6. Trade and other receivables

	31 December 2022 £000	31 December 2021 £000
Prepayments	33	33
Other debtors	47	(1)
	80	32

C7. Trade and other payables

	31 December 2022 £000	31 December 2021 £000
Trade payables	220	166
Social security and other taxes	27	28
Accruals	130	175
	377	369



DIRECTORS AND OFFICERS

DIRECTORS

Klaas de Boer (Chairman)

Neil Austin (Chief Executive Officer)

David Armfield (Non-Executive Director)

Rachel Nooney (Non-Executive Director)

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XEROS
TECHNOLOGY

SUBJECT:
POLYCOTTON

OBSERVATION:
MIXED POLYMER FIBRES

MAGNIFICATION:
@15.8MM 400X/300MM