

Annual report for the year ended
31 December 2020



**XEROS
TECHNOLOGIES**

Helping the World **WEAR BETTER**



Xeros Technology Group plc

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

01	Highlights
03	Chairman's statement
05	Chief Executive Officer's review
09	Chief Financial Officer's review
11	Strategic report
14	Directors' report
16	Directors' remuneration report
19	Corporate governance report
22	Statement of Directors' responsibilities
23	Independent auditor's report to the members of Xeros Technology Group plc
31	Consolidated statement of profit or loss and other comprehensive income
32	Consolidated statement of changes in equity
33	Consolidated statement of financial position
34	Consolidated statement of cash flows
35	Notes to the consolidated financial statements
66	Company statement of changes in equity
67	Company statement of financial position
68	Company statement of cash flows
69	Notes to the Company information
72	Directors and officers

Highlights

Group highlights

- Significant progress in all application areas despite COVID-19
- First sales under license of Xeros technologies
- Multiple licensees set for near term market launches

- **Garment finishing**

Major garment manufacturer using Xeros Technology to finish denim jeans.

- **Commercial laundry**

Machine and cycle development completed by license partners in India and China ahead of full market launches.

Independent affirmation of environmental and economic benefits.

- **Domestic laundry**

Machine development completed.

First market launch planned in India.

- **Microfibre filtration**

XFiltra designs completed for Domestic and Commercial washing machines.

Market launch planned for Commercial XFiltra.

Field trials of Domestic XFiltra planned with OEMs.

Peer-reviewed affirmation of market-leading performance.

100 billion garments are
made every year |

A single pair
of jeans can take

7,500

litres of water
to make

With Xeros, we
can choose to
WEAR BETTER,
with clothes that
don't cost us
the earth

Chairman's statement



Klaas de Boer
Chairman

Dear Shareholder,

A year ago, when I wrote my first Statement as Chairman, I was contemplating a “new normal”, fully expecting that we would have had more, if not full clarity by now of the impacts of the COVID-19 pandemic on Xeros, our license partners and their markets. Unfortunately, that is not yet the case. In the UK the roadmap out of the pandemic is now clearer and China's activity levels have largely recovered. India, which together with China is key to Xeros' near term commercial efforts, however, has an alarming rate of infections.

The pandemic has shown humanity's adaptability and ingenuity. The speed and scale at which societies have adapted is unprecedented. At the same time multiple vaccines were developed, tested, approved, manufactured at scale and distributed in record time. Throughout this, themes around climate, environment and sustainability have gained prominence. The massive economic stimulus programmes (like the Green New Deal in the US) currently being prepared are targeting these themes. This macro external environment is fertile ground for Xeros' commercial acceleration.

Whereas for Xeros, 2019 was about the organisational transition to an asset-light technology licensing business model, 2020 was about the commercial implementation of that business model. In spite of the challenging circumstances, our license partners have made significant progress with one entering its market and others planning to do so in the course of 2021. This progress was achieved by the Xeros team working from home or safely at the Company's Technology Centre in Rotherham, using remote means to help bring our partners to the point of being able to enter their markets. This way of working is obviously far less efficient than having “boots on the ground”. All in all, I would say that the company and its partners have made excellent progress despite the restrictions imposed by pandemic, but inevitably not at the pace that would have been expected in “normal” times.

One of my highlights of the year was the first commercial sale of XOrb/XDrum enabled machines by Xeros' partner Ramsons, selling 9 machines to ABA evidencing this transition. Another was the publication of the University of Plymouth study clearly ranking Xeros' XFiltra as the best available technology for microfibre capture in domestic washing machines. Encouragingly, following the lead of France, several jurisdictions are now preparing to legislate for mandatory in-machine microfibre filtration.

I would like to thank our commercial partners, all our staff, management and my fellow board members for pulling together in these challenging circumstances and demonstrating the flexibility and adaptability to progress against all our key objectives. Throughout, the company has been uncompromising in terms of our employee well-being and safety.

Thank you also our investors, who have stayed with the company through a volatile 12 months and have recently expressed their support by means of the £9.0 million oversubscribed placement.

This leads me to end on a very positive note. With the aforementioned £9.0 million (gross) in financing added in March, the company's balance sheet is very healthy. COVID-19 may still throw a few surprises, but our robust balance sheet should see us through those. Several license partners (IFB, Sealion and Ramsons) have, or are planning to launch commercial products based on Xeros's technology, and we are looking to add new ones. In parallel, there is a lot of momentum building behind XFiltra; some of the £9.0 million will be deployed to add resources to that programme. Our progress points towards a bright future where our technologies are having a real positive impact at scale on the environment we share.

Klaas de Boer
Chairman

28 April 2021



The manufacture and care of **clothing places a heavy burden on the environment** – consuming vast resources, creating waste and pollution

Xeros helps the world to **WEAR BETTER**, by reducing the impact of our clothes

Chief Executive Officer's review



Mark Nichols
Chief Executive Officer

Our clothes are a personal statement. They reflect our personality, potentially our status, sometimes our beliefs and they can also make us look good. But not enough of us perhaps appreciate that during their manufacture and ongoing care, the 100 billion¹ or so garments purchased every year consume significant amounts of the world's finite resources and cause pollution, exacting a significant toll on the environment. Conventional washing machines are one of the biggest culprits using large amounts of water and detergent whilst also creating pollution. They damage fabrics, shortening their life leading to waste and over-production.

The production of textiles, including those which go into making our clothes, consumes around 93 billion cubic metres of water annually². By our calculations, this is enough water to keep the combined populations of India and China hydrated for nearly 42 years. These countries produce much of the world's fibre and today, have significant water stress in many areas.

Soaring population growth and the increasing wealth of many of the world's citizens will place an unbearable burden on our already over-stretched, vital resources. The imperative for the world to "wear better" is now and Xeros is playing major role to help it do so. The technologies we have developed are now being adopted by major enterprises in the garment and fabric value chain, dramatically reducing their environmental and financial cost.

Our technologies are in two distinct but complementary areas, both with comprehensive intellectual property portfolios surrounding them. Our XOrb/XDrum platform is applied to garments and fabrics from the point when they are formed through to the end of their life with consumers and users. This platform significantly reduces the input and consumption of materials and resources, and lowers effluent emissions, whilst extending the life of these items. Our XFiltra platform dramatically reduces microfibre emissions over the entire garment and fabric lifecycle, minimising pollution and the environmental harm they create.

The current plans of our licensees and partners will see our XOrb/XDrum technologies commercialised in each of our targeted application areas within the geographies that they are contractually entitled to. Our initial geographic focus being India and China which not only represent large commercial opportunities but have the most urgent need of the resource consumption reductions that Xeros technologies deliver. Once progressed in these countries, we plan to win and execute contracts with licensees to cover other areas of the globe facing these same challenges.

¹ <https://www.mckinsey.com/business-functions/sustainability/our-insights/style-thats-sustainable-a-new-fast-fashion-formula>

² <https://www.worldbank.org/en/news/feature/2019/09/23/costo-moda-medio-ambiente>

Whilst the COVID-19 pandemic has somewhat delayed the timing for each of our licensees entering their markets, their progress has brought them to the point where they either have launched or plan to launch Xeros enabled products by the end 2021. The first machines featuring Xeros' XOrb/XDrum technologies were sold in late 2020 into the Denim Finishing market by Ramsons in South Asia. Delays could have been far worse without the commitment of our partners and our own teams to make products ready for the marketplace, working remotely to do so. Flexibility is key with each party having to respond to changing pandemic conditions and regulations. Disruptions are likely to continue until such time as effective vaccines reach high levels of penetration in the world's population.

Our licensees have also continued to produce independent verification that Xeros' technologies deliver what we say they do, proving out major economic and environmental benefits that will accrue to their customers. A share of their savings will be paid to Xeros, by our licensees, in the form of royalties.

We have witnessed increasing awareness and action among major fashion brands and retailers of the urgent need to minimise the impact of clothing. The benefits that Xeros' technologies bestow upon large parts of their value chains are increasingly being understood as having a major role to play. Our plan is for our technologies to become recommended by these enterprises to their supply chain partners for both environmental and economic benefit. In pursuance of this objective, based upon the progress of our licensees, we have entered into discussions with a number of well-known global fashion brands.

Our XFiltra technology, which addresses microfibre pollution from laundry processes, a major source of contamination in both marine and terrestrial environments, is expected to enter the commercial laundry market in 2021 with the domestic market targeted for 2022. To achieve this, a highly effective, low cost and user-friendly product design is now close to completion ahead of sharing it with domestic machine OEMs for field trials as a pre-cursor to incorporation in their washing machines.

Synthetic and non-synthetic microfibres released from our clothes when we wash them pose a significant threat to the health of aquatic environments and the wildlife that inhabit them. Microfibres are frequently ingested by all forms of wildlife and are subsequently found across the entire food chain where they are proven to be hazardous to the health of organisms and animals. Filtration within washing machines is the simplest and most cost-effective way to mitigate this form of pollution and our ambition is for XFiltra to become the industry standard for in-machine microfibre filtration for both appliance manufacturers and regulators.

Since the beginning of 2020, the Company has raised £15.0m, before expenses, from strategic and financial investors with the funds applied to winning and executing XDrum/XOrb license contracts and to fully commercialise our XFiltra technology in both domestic and commercial markets.

As of 31 March 2021, the Group held cash of £11.7m with our ongoing rate of cash expenditure fully reflective of that of the asset-light and IP-rich licensing company that we are. We believe that this level of funding is sufficient to reach month on month cash breakeven by the end of 2022, assuming current and future prospective license partners activities go to plan without further major disruption from the COVID-19 pandemic.

Business Review

XOrb/XDrum Technology Platform

Garment Finishing

After development and extensive testing of our XOrb/XDrum platform, our first license partner in this field, Ramsons Garment Finishing Equipments Ltd ('Ramsons'), made its first sales under license in the last quarter of 2020 into the denim finishing market in South Asia. The denim market is of global scale with 1.2 billion pairs of jeans manufactured each year with multiple different finishes required to meet consumer expectations. Each pair of jeans exacts a heavy toll in terms of high levels of water consumption with many still made using pumice stone which has a very short life in the manufacturing process. Xeros' solution simplifies the finishing process by completing all steps within one machine using no pumice, less chemistry and water with a commensurate reduction in effluent. Our solution thereby meets the secular trends of this industry to make the manufacturing process of these garments better, greener, quicker and cheaper.

The production of garments including denim is concentrated in a limited number of geographic regions with South Asia being one major hub. Ramsons is ideally placed within it as an innovative market leader and their license covers this region with an option to extend into South East Asia.

Xeros intends to enter into contracts in additional key territories with leading equipment OEMs during 2021 with the ultimate aim of addressing much of the denim finishing market and in due course, extending the reach of our technology to address many other garment types.

Commercial Laundry

The most significant impacts from COVID-19 have been experienced in this application area with our Chinese and Indian license partners' launch dates both delayed to Q2 2021. With machine and cycle development completed and with significant independent validation, both Jiangsu SeaLion Technology Developments Company ('SeaLion') in China, and IFB Industries Limited ('IFB') in India are in a position to make their market entries. Whilst the market segments they address include hospitality, which will continue to be impacted until travel returns to previous levels, other sectors offer high growth opportunities for them including the performance workwear market, industrial linen launderers and dry cleaners. These markets value greatly the improved wash efficacy, lower input costs and the reduction in waste from our XOrb/XDrum platform.

Just as in Garment Finishing, it is our intention to increase the geographic coverage of this application during 2021 including Europe where our partner Georges SAS is servicing the laundry needs of major industries and clients including SNCF and Air France as well as the specialist workwear required for the restoration of Notre Dame.

Domestic Laundry

We address the domestic laundry market using a scaled down version of the same XOrb/XDrum technologies used in the commercial laundry market. Whilst the 100 million domestic machines sold each year are used far less often than industrial equivalents, consumers have very high expectations in terms of their ease of use and performance.

Our license partner in India, IFB, has completed the engineering development of its Xeros-enabled domestic washing machine. Cycle development is currently meeting every objective that has been set including a significant reduction in water consumption. This is of strategic significance in India where the market penetration of domestic laundry machines is increasing and water stress ranks among the highest in the world. Based on the progress to date, IFB plan to launch their Xeros-enabled domestic washing machine in late 2021, subject to any future potential delays caused by the COVID-19 pandemic.

The results from our development with IFB are increasing our levels of confidence that additional manufacturers will seek to adopt our technology and our plans are to further extend its reach in 2022. In this context, following a number of Covid related delays, our Joint Development programme with Midea in China continues with an extended testing programme which is a pre-cursor to a decision by them on moving to commercialisation.

XFiltra Technology Platform

Following significant media exposure and lobbying of politicians, the world now understands and is reacting to the extreme threat caused by microfibres entering the environment and that its largest source is from the washing of clothes at home. Although Xeros' XOrb/XDrum technology platform reduces the production of microfibres in garment finishing and laundry processes, the Company made a decision in early 2017 to work on a solution to reduce their release from all washing and finishing machines to the highest degree possible. The result is our proprietary XFiltra product design which is over 90% efficient in collecting these fibres from the effluent streams for all sizes of machines with the resultant filtrate disposed of easily and simply into commercial or household solid waste.

In July 2020, an early version of XFiltra was judged by the University of Plymouth's Institute of Marine Litter as the most effective technology to capture microfibres in domestic washing machines. Our most recent design is equally adept at capturing both synthetic and non-synthetic fibres with the latter also now known to be of harm to our food chain.

In order to provide the appliance industry with a standardised microfibre filtration solution that can work and be easily incorporated within any domestic washing machine, Xeros has commenced work on a comprehensive product design for a high performance/low cost XFiltra which also meets customer expectations. Once completed, in Q2 2021, the Company plans to share this design under formal agreements with a number of leading washing machine manufacturers for them to undertake field trials ahead of its incorporation within their products under license.

Our joint development agreement with one of the world's leading commercial laundry equipment companies to develop and license an industrial size version of XFiltra is on track to be completed in 2021.

We continue to work with governments and NGOs to educate and support moves for the abatement of microfibre pollution. Development of such legislation is increasing in Europe and the US with our ambition being that the performance and operational standards that XFiltra achieves become those that are enshrined in law.

Success in these endeavours would be a major achievement for our planet and its food chain.

Intellectual Property

The IP-rich and asset-light commercialisation business model that we operate is founded upon a strong and defensible patent portfolio which provides freedom to operate and protection for us and for our license partners. Our technologies are protected by close to 40 patent families which are in application or have been granted with key patent lives extending through mid to late 2030s. The Company policy is to file its patents in countries with large potential markets and where it believes it can successfully defend its intellectual property. In overall terms, our core patents are filed in countries which represent 90% of global GDP. Most recently, the majority of our filing activities have been in the area of XFiltra, the design of which has been enhanced significantly to manage both non-synthetic as well as microplastic fibres.

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

Outlook

2020 was a year in which the Company's license partners made significant progress in spite of the impacts of the Covid pandemic. Their market launches have either been achieved or are planned for 2021. In November 2020 we achieved a notable landmark with our XDrum/XOrb technologies being licensed for the first time. With evidence of this success, the Group plans to enter into additional license agreements with leading incumbents in geographies with great need of the benefits that our intellectual property bestows.

Since the beginning of 2020 we have raised £15.0m of new equity including an oversubscribed placing and open offer of £9.0m in March 2021. These funds will be deployed to win additional contracts, complete the commercialisation of XFiltra and to provide a contingency for further disruption from the COVID-19 pandemic. The expectation is that current funds are sufficient to move the Group to month-on-month cash breakeven by the end of 2022.

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

Mark Nichols

Chief Executive Officer

28 April 2021

Chief Financial Officer's review



Paul Denney
Chief Financial Officer

Financial review

Group revenue from continuing operations was generated as follows:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Service revenue	314	1,018
Licensing revenue	58	123
Machine sales	8	652
Other	5	21
Total revenue	385	1,814

The financial results in 2020 reflect a year in which the Group completed its migration to a pure-play licensing business, having exited those business which it previously operated directly. The reduction in revenue in 2020 reflects the change to our business model with the Hydrofinitly business sold to regional distributors in 2019 and the disposal of Marken in 2020. High margin licensing revenues are expected to commence in 2021 as current licensees enter their target markets.

The reduction in operating expenses in 2020 also reflects the implementation of a licensing business structure with the net effect being a major reduction in operating losses for the second year in succession.

The Group expects to move to month on month cash breakeven by the end of 2022 as licensing income increases progressively from 2021.

Further information on these financial results is provided below.

Group revenue from continuing operations reduced by 78.8% to £0.4m in the year ended 31 December 2020 (2019: £1.8m). This revenue reduction of £1.4m arises from the full year impact of the sale of the majority of the US Hydrofinitly commercial washing machine contracts to third party channel partners in 2019. Revenue in 2020 was principally derived from a small number of continuing commercial laundry customers in the UK, Europe and the US, generating £0.3m of service revenue (2019: £1.0m). In addition, the Group received £0.1m of licensing revenue in the period (2019: £0.1m) reflecting payments from a joint development partner for access to the Group's intellectual property.

After a sale process which began in 2019, the Group announced the sale of the four Marken specialist cleaning sites in North America, in line with previously communicated Group strategy. The completion of the sale was announced in June 2020. Consequently, in the years ended 31 December 2020 and 31 December 2019 the revenue of £0.2m (2019: £0.8m) and the operating loss of £0.0m (2019: £3.0m) related to Marken has been shown as a discontinued operation (see note 7).

Gross loss on continuing operations in the period was £0.0m (2019: £0.3m). This includes a charge to cost of sales of £0.2m for the write-down of old commercial laundry equipment held by the Group which has been made obsolete by the Company's new XOrb/XDrum platform technology. Gross margin excluding this write down charge is a gross profit of £0.2m (2019: gross loss of £0.3m), giving a margin of 46.9% (2019: -17.1%).

The Group reduced its adjusted EBITDA loss on continuing operations by 53.2% to £6.8m (2019: loss £14.4m).

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

Administrative expenses, before exceptional items, reduced by 54.8% to £7.6m (2019: £16.8m). This reduction reflects the change in headcount during the year to execute the licensing business model with the average number of employees in the year to 31 December 2020 falling by 53.5% to 53 (2019: 114).

Exceptional administrative expenses of £1.3m were included in total administrative expenses in the year ended 31 December 2019 reflecting an exceptional loss on sale of lease receivables following the sale of the US Hydrofinity lease estate during the year. No exceptional administrative expenses have been recorded in the year ended 31 December 2020.

The Group reported an operating loss of £7.6m (2019: loss £17.1m), a reduction of 55.3%. The loss per share was 45.12p (2019: loss 652.83p). Xeros expects cash utilisation to further reduce as the Group benefits from a reduced direct cost base resulting from its move to a full licensing business model.

Net cash outflow from operations reduced to £6.3m (2019: £14.1m) from a combination of reduced cash used in operations, £6.9m (2019: £13.8m) and the receipt of £0.7m R&D tax credits from HMRC relating to 2019. Cash utilisation was in line with the Board's expectations.

The Group had existing cash resources as at 31 December 2020 of £5.2m (2019: £5.6m) and remains debt free. Group cash as at 31 March 2021 was £11.7m following the completion of a £9.0m equity placing in March 2021 to strengthen its balance sheet.

Paul Denney

Chief Financial Officer

28 April 2021

Principal activity

Xeros Technology Group plc (LN: XSG) has developed and is in the process of commercialising two platform technologies which transform the sustainability, performance and economics in the manufacturing and laundering of garments and fabrics.

Xeros' patented XOrbs™ which are used in conjunction with the company's XDrum™ technology significantly reduce the amount of water and chemistry used in the dyeing, finishing or laundering of garments and fabrics. They increase the efficiency of these processes which require molecules to be either affixed or removed from substrates. In the case of laundry, they are proven to significantly increase the life of clothes and fabrics. The results being major improvements in economic, operational, product and environmental outcomes.

Xeros' XDrum technology is a low-cost machine drum design which enables XOrbs to be introduced into and subsequently removed from process cycles. The design provides Original Equipment Manufacturers with the ability to make simple changes to their products to incorporate the Company's XOrb technology.

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

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

The Company is incorporated and domiciled in the UK.

Business model

A description of the Group's activities and how it seeks to create added value are included in the Chairman's statement, Chief Executive Officer's review and Chief Financial Officer's Review on pages 3 to 10.

Business review and results

A review of the Group's performance and future prospects is included in the Chairman's statement, Chief Executive Officer's review and Chief Financial Officer's review on pages 3 to 10. The loss for the year attributable to equity holders was £7.0m (2019: £20.6m). The directors do not recommend the payment of a dividend (2019: 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 £5.2m (2019: £5.6m), gross profit/loss and adjusted EBITDA. Adjusted EBITDA is defined as the loss on ordinary activities before interest, tax, share-based payment expense, non-operating exceptional costs, depreciation and amortisation. Adjusted EBITDA is discussed in more detail in the Chief Financial Officer's review on pages 9 to 10. The Board performs regular reviews of actual results against budget, and monitors cash balances on a regular basis to ensure that the business has sufficient resources to enact its current strategy. Certain qualitative measures, such as the performance of commercial initiatives, are also monitored on a regular basis. The Board will continue to review the KPIs used to assess the business as it grows.

Key risks

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

Intellectual property

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

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

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

Third party intellectual property

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

Research and development risk

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

Risk of competing technology

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

Acceptance of the Group's products

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

Commercialisation risk

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

Early stage of operations

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

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

Competition risk

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

Third party risk

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

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

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

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

Economic conditions, current economic weakness and geopolitical risks

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

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

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

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

Foreign exchange risk

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

Future developments

Future developments are described in the Chairman's statement, Chief Executive Officer's review and Chief Financial Officer's review on pages 3 to 10.

Statement in respect of Section 172 of the Companies Act 2006

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

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

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

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

The strategic report on pages 11 to 13 was approved by the Board and is signed on its behalf

Mark Nichols

Chief Executive Officer

28 April 2021

Directors' report

The Directors hereby present their annual report and audited consolidated and parent company financial statements for the year ended 31 December 2020.

Share capital and funding

Full details of the Group and Company's share capital movements during the year are given in note 19 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	appointed 13 January 2020
David Armfield	
David Baynes	
Paul Denney	
Mark Nichols	

Directors' interests in the shares of the Company, including family interests are included in the Directors' Remuneration Report on pages 16 to 18.

Directors' indemnity insurance

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

Profile of the current directors

Klaas de Boer, Chairman

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

Mark Nichols, Chief Executive Officer

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

Paul Denney, Chief Financial Officer and Company Secretary

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

David Armfield, Senior Independent Director

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

David Baynes, Non-Executive Director

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

Substantial shareholders

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

Name of shareholder	Number of shares	% of voting rights
Entrepreneurs Fund LP	5,767,534	24.3
Lombard Odier Investment Managers	3,141,827	13.2
IP Group	2,557,631	10.1
Canaccord Genuity Wealth Management	2,339,000	9.9
Dermot Keane	1,600,000	6.7
Richard Griffiths/Ora Ventures	1,540,753	6.5

Employment policies

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

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

Statement as to disclosure of information to the auditor

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

Auditor

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

On behalf of the Board

Mark Nichols

Chief Executive Officer

28 April 2021

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

Directors' remuneration report

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

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

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

Remuneration Committee

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

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

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

Basic annual salary (including directors' fees)

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

Discretionary annual bonus

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 3 years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Remuneration Policy for Non-Executive Directors

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

Directors' remuneration report continued

Directors' remuneration

The remuneration of the main Board Directors' of Xeros Technology Group plc who served from 1 January 2020 (or date of appointment if later) to 31 December 2020 (or date of resignation if earlier) was:

	Salary and fees £'000	Bonus payments £'000	Benefits £'000	Total Year ended 31 December 2020 £'000	Total Year ended 31 December 2019 £'000
Klaas de Boer (note 1)	58	-	-	58	-
John Samuel (note 2)	-	-	-	-	12
Mark Nichols (note 3 and 4)	276	86	2	364	304
Paul Denney (note 3)	205	41	1	247	236
Dr Richard Ellis (note 5)	-	-	-	-	15
David Armfield	31	-	-	31	57
David Baynes (note 6)	30	-	-	30	18
Total	600	127	3	730	642

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

Note 2: John Samuel resigned as a director on 12 February 2019.

Note 3: In addition to the remuneration above, certain directors hold employee share scheme interests in the company. Fair value share-based payment charges recognised in the consolidated statement of profit or loss and other comprehensive income attributable to these directors are: Mark Nichols £78,000 (2019: £149,000) and Paul Denney £77,000 (2019: £117,000).

Note 4: The reported bonus figure for Mark Nichols includes £32,000 paid in respect of the year ended 31 December 2019. This bonus was not approved as at the date of publication of the 2019 annual report and therefore was not reported as part of 2019 remuneration. The bonus awarded in respect of 2020 was £54,000.

Note 5: Dr Richard Ellis resigned as a director on 28 June 2019.

Note 6: David Baynes was appointed as a director on 12 February 2019. Directors fees for David Baynes are payable to IP Group plc (see note 23 for further details).

Directors' shareholdings

The interests of the Directors holding office at 31 December 2020 in the shares of the Company, including family interests were:

	Ordinary shares of 15p each	
	2020 Number	2020 %
Klaas de Boer	250,000	1.25
David Armfield	50,000	0.25
Mark Nichols	87,482	0.44
Paul Denney	75,000	0.38
David Baynes	-	-

Directors' remuneration report continued

Directors' interests in share options

Directors' interests in share options, for directors who held office at any point during the period, granted under either the Xeros Technology Group plc Enterprise Management Incentive Share Option Scheme or the Xeros Technology Group plc Unapproved Share Option Scheme, to acquire ordinary shares of 15 pence each in the Company at 31 December 2020 were:

	At 1 January 2020	Granted during the period	Exercised during the period	Forfeited/ lapsed during the period	Effect of share consolidation during the period	At 31 December 2020	Exercise price
Mark Nichols (note 1)	1,250,000	-	-	(109,890)	(1,128,709)	11,401	22,500.0 pence
Mark Nichols (note 2)	48,471	-	(482)	-	(47,989)	-	15 pence
Mark Nichols (note 3)	250,000	-	-	-	(247,500)	2,500	21,000.0 pence
Mark Nichols (note 3)	500,000	-	-	-	(495,000)	5,000	22,500.0 pence
Mark Nichols (note 4)	4,504	-	-	-	(4,459)	44	15 pence
Mark Nichols (note 5)	-	21,354,350	-	-	(21,140,807)	213,543	70 pence
Mark Nichols (note 6)	-	22,000	-	-	-	22,000	70 pence
Paul Denney (note 7)	500,000	-	-	-	(495,000)	5,000	21,000.0 pence
Paul Denney (note 7)	300,000	-	-	-	(297,000)	3,000	22,500.0 pence
Paul Denney (note 5)	-	15,019,500	-	-	(14,869,305)	150,195	70 pence

Note 1: There were employment conditions in relation to 1,000,000 options granted on 12 November 2015 which allowed for vesting in 3 annual instalments between 14 September 2016 and 14 September 2018, and a further 250,000 options granted on 16 December 2015 which allowed for vesting in 3 annual instalments between 16 December 2016 and 16 December 2018. The number of options in issue was reduced during the year in line with the share capital reorganisation undertaken by the Company.

Note 2: There were employment conditions in relation to 34,188 options granted on 20 January 2016 which allowed for vesting on 20 January 2019 and a further 14,283 options granted on 27 January 2017 which allowed for vesting on 27 January 2020. The number of options in issue was reduced during the year in line with the share capital reorganisation undertaken by the Company. During the year Mark Nichols exercised 482 options, making a gain of £771.

Note 3: There were employment conditions in relation to 750,000 options granted on 25 January 2017 which allowed for vesting in 3 annual instalments between 25 January 2018 and 25 January 2020. The number of options in issue was reduced during the year in line with the share capital reorganisation undertaken by the Company.

Note 4: There are no performance conditions attached to 4,504 options granted on 26 January 2018 which vested immediately upon grant. The number of options in issue was reduced during the year in line with the share capital reorganisation undertaken by the Company.

Note 5: There were employment and performance conditions in relation to the 21,354,350 and 15,019,500 options issued on the 14 May 2020 which allowed for vesting in three equal proportions on or after the Company's share price reaching 1.33 pence per share, 2.66 pence per share and 4 pence per share. As at the 31 December 2020, the first of these performance conditions had been met. The number of options in issue was reduced and the performance condition targets were increased during the year in line with the share capital reorganisation undertaken by the Company.

Note 6: There were employment and performance conditions in relation to the 22,000 options issued on the 1 December 2020 which allowed for vesting in three equal proportions on or after the Company's share price reaching 133 pence per share, 266 pence per share and 400 pence per share. As at the 31 December 2020, the first of these performance conditions had been met. These options were issued after the share capital reorganisation and as such no changes were made.

Note 7: There were employment conditions in relation to 800,000 options granted on 18 January 2018 which allowed for vesting in 3 annual instalments between 18 January 2019 and 18 January 2021. The number of options in issue was reduced during the year in line with the share capital reorganisation undertaken by the Company.

On behalf of the Board

David Armfield

Chairman of the Remuneration Committee

28 April 2021

Corporate governance

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

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

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

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

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

The Group remains committed to an ongoing dialogue with shareholders to ensure that its strategy, direction and performance are clearly understood. Understanding the opinion of analysts and investors in the Group, and, as 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. In addition, two major shareholders are represented on the Board.

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

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

Employees

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

Suppliers

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

Licensees

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

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

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

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

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

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

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

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

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

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

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

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

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

The Board has a formal evaluation procedure to be performed at least annually, which has been in place since 2019. The Board has and continues to act on the results of this evaluation where appropriate.

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

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

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

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

The Board

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

Audit Committee

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

Nominations Committee

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

Internal Control

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

Some key features of the internal control system are:

- (i) Management accounts information, budgets, forecasts and business risk issues are regularly reviewed by the Board who meet at least 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 2020, the Group had £5.2m 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 March 2021, the Group completed an equity placing and open offer which provided an additional £9.0m before fees. The Directors believe that following the conclusion of this fundraise, the Group has sufficient cash resources to allow it to implement its commercialisation plans and reach the point of cash break even.

The Group is subject to a number of risks, including those as set out in the strategic report on pages 11 to 13. These risks include the global macro-economic conditions, such as the impact of the COVID-19 on both the Group and the environment in which it operates. The going concern assessment as carried out by the directors has taken the impact of these into account as far as possible. While this inclusion does not change the assessment of the directors in respect of going concern, any repeated significant disruption may have a negative impact upon the Group's ability to work closely with international license partners and therefore execute the Group's strategy.

When making their going concern assessment the directors assess available and committed funds against all non-discretionary expenditure, and related cash flows, as forecast for the period ended 30 April 2022. These forecasts indicate that the Group is able to settle its liabilities as they fall due in the forecast period. In these forecasts the directors have considered appropriate sensitivities, including the progress of the Group's commercial contracts. The Directors believe that the successful completion of the fundraise provides the Group certainty in its short and medium term forecasting. Accordingly, the Directors continue to believe that the going concern assumption is appropriate for the Group and the financial statements have been prepared on that basis.

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

Statement of Directors' responsibilities

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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the consolidated financial statements in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006 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 United Kingdom Generally Accepted Accounting Practice have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 assets of the company 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.

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 2020 which comprise the Consolidated statement of profit or loss and other comprehensive income, the Consolidated statement of changes in equity, the Consolidated statement of financial position, the Consolidated statement of cash flows, the Company statement of financial position, the Company statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006. 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 2020 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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.

Conclusions relating to going concern

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.

A description of our evaluation of management's assessment of the ability to continue to adopt the going concern basis of accounting, and the key observations arising with respect to that evaluation is included in the Key Audit Matters section of our report.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

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

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

Our approach to the audit



Overview of our audit approach

Overall materiality: £373,000

Group: £373,000, which represents 4.9% of the group's loss before taxation.

Parent company: £204,000, which represents 0.5% of the parent company's total assets.

Key audit matters were identified as

- Going concern assumption (new);
- Revenue recognition (same as previous year); and
- Carrying value of investments in subsidiaries and the carrying value of inter-company receivables (same as previous year).

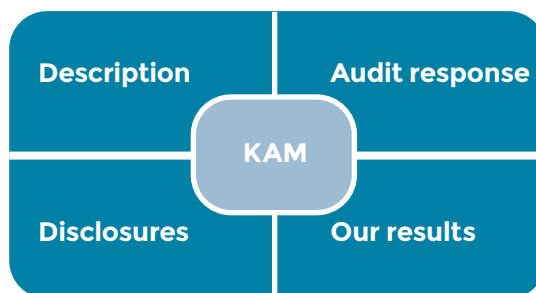
Our auditor's report for the year ended 31 December 2020 did not include any key audit matters that have not been reported as key audit matters in our current year's report.

We have performed the following audit work:

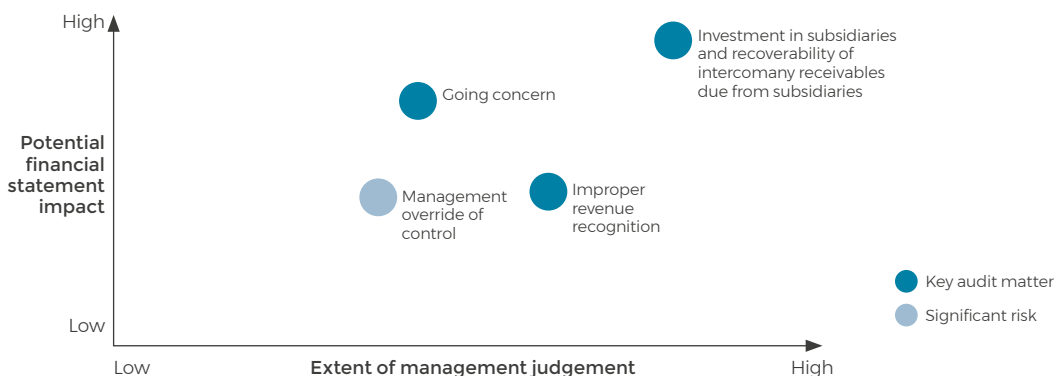
- an audit of the financial statements of the parent company and of the financial information of one of the components using component materiality (full scope audit);
- an audit of one or more account balances, classes of transactions or disclosures of the component (specified audit procedures) of one further component to gain sufficient appropriate audit evidence at the group level; and
- analytical procedures at group level for the remaining component in the group during the year.

Key audit matters

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



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



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

Key Audit Matter – Group

Going concern assumption

We identified a key audit matter related to going concern as one of the most significant assessed risks of material misstatement due to fraud and error as a result of the judgement required to conclude whether there is a material uncertainty related to going concern.

Covid-19 is one of the most significant economic events currently faced by the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty. This event could adversely impact the future trading performance of the group.

As a result of the current macro-economic environment, there is significantly more judgement applied in developing cash flow forecasts. The directors have concluded, following the successful fundraising completed in March 2021, that the group has sufficient resources available to meet its liabilities as they fall due and have concluded that there are no material uncertainties around the going concern assumptions.

Relevant disclosures in the Annual Report and Accounts 2020

- The group's accounting policies on the going concern assumptions are shown in Note 1, Basis of preparation.

The recognition of revenue

We identified there is a risk that revenue may be misstated due to the improper recognition of revenue as one of the most significant assessed risks of material misstatement due to fraud.

The group offered an integrated service and care package alongside the sale of machinery during the year. We identified the significant risk to be in relation to the service revenue which is recognised in line with the profile of the delivery of the service to the customer. This package includes the transfer of equipment and an ongoing commitment to service and support.

There is therefore a risk that revenue is not recognised in line with the underlying agreement and that the allocation of revenue related to the product and the aftercare is not performed appropriately.

- The group's accounting policies on revenue recognition are shown in Note 2, Summary of significant accounting policies.

How our scope addressed the matter – Group

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

- Obtained an understanding of the design and implementation of controls over management's going concern assessment;
- Obtained management's forecasts covering the period to 30 April 2022 and assessed their integrity and suitability as a basis for management to assess going concern;
- Evaluated the key assumptions within the cash flow forecasts, which included the quantum and timing of cash outflows and determining whether these had been applied appropriately. We also considered whether the assumptions are consistent with our understanding of the business;
- Discussed with management the potential sensitivities that could impact the forecast and considered the likelihood of these;
- Assessed the accuracy of management's past forecasting by comparing management forecasts for the latest financial period to the actual results for that period;
- Corroborated the details of the latest fundraising including the receipt of £8m of net proceeds in March 2021; and
- Assessed the adequacy of the going concern disclosures included within the financial statements.

Our results

Based on our audit work we are satisfied that the assumptions made in management's assessment of the use of the going concern assumption in preparation of the financial statements were appropriate and we consider that the group's disclosure is in accordance with IAS 1. Further, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

- Obtained an understanding of the relevant business processes and controls around the recording of revenue, and confirmed that they were implemented through performing a walkthrough;
- Assessed the group's revenue recognition policies and established that they were in compliance with relevant accounting standards; and
- Selected a sample of revenue transactions in respect of services performed and agreed to supporting documentation, including service agreements and cash receipts where necessary to vouch that income had been appropriately recognised in accordance with the group's revenue recognition policies.

Based on our audit work we did not identify any material misstatement in revenue recognition. Revenue was recognised in line with the group's accounting policies.

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

continued

Key Audit Matter – Parent company

Recoverability of the carrying value of investments in, and intercompany receivables due from, subsidiaries

We identified recoverability of the carrying value of investments in subsidiaries and intercompany receivables as one of the most significant assessed risks of material misstatement due to error. The process for assessing whether an impairment exists under both International Accounting Standard (IAS) 36 Impairment of Assets, when considering the carrying value of the investment in subsidiary, and International Financial Reporting Standard (IFRS) 9 Financial Instruments, when considering the recoverability of the intercompany receivables, is complex.

The group's subsidiaries are currently loss making and due to the group still being in the development stage of its activities management's assessment of any potential impairment is inherently subjective. At the year end there is an investment balance in the parent company and an amount owed by its UK subsidiary, the trading entity for the group, which has made a loss for the year ended 31 December 2020. As such there is an indicator of impairment.

Relevant disclosures in the Annual Report and Accounts 2020

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

How our scope addressed the matter – Parent company

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

- Obtained an understanding of the relevant business processes and controls around the recoverability of the carrying values and confirmed that they were implemented through review of the accounting papers prepared by management;
- Obtained the forecasts that supported management's impairment paper and tested their mathematical accuracy and consistency with the forecasts provided to support the going concern assessment and assessed whether they were reasonable;
- Reviewed other relevant information available including the March 2021 fundraise details, broker reports and current share price to support the value; and
- Assessed the adequacy of the disclosure included within the financial statements for compliance with IAS 36 'Impairment of assets' and IFRS 9 'Financial Instruments' as appropriate.

Our results

Based on our audit work, we did not identify any material misstatements in relation to the carrying value of investments in, and inter-company receivables due from, subsidiaries.

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

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.

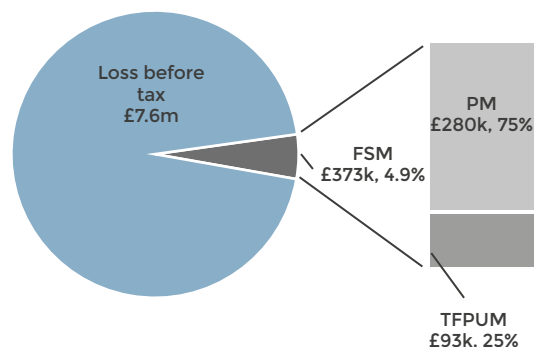
Materiality was determined as follows:

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	£373,000 which is 4.9% of the group's loss before taxation.	£204,000 which is 0.5% of the parent company's total assets.
Significant judgements made by auditor in determining the materiality	<p>In determining materiality, we made the following significant judgements:</p> <p>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.</p> <p>Materiality for the current year is lower than the level that we determined for the year ended 31 December 2019 to reflect a reduction in year on year loss before tax.</p>	<p>In determining materiality, we made the following significant judgements:</p> <p>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.</p> <p>Materiality for the current year is lower than the level that we determined for the year ended 31 December 2019 to reflect a reduction in the total assets before impairments recorded as a result of our audit.</p>
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	£280,000 which is 75% of financial statement materiality.	£153,000 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.
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the audit committee.	
Threshold for communication	£18,000 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.

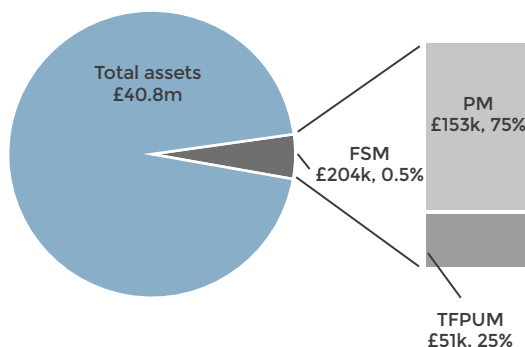
Independent auditor's report to the members of Xeros Technology Group plc continued

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

Overall materiality - Group



Overall materiality - Parent company



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

An overview of the scope of our audit

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

- The engagement team obtained an understanding of the group, its environment and risk profile, including group-wide controls, and assessed the risks of material misstatement at the group level. We considered the structure of the group, its processes and controls and the industries in which the components operate;
- In order to address the risks identified, the engagement team performed an evaluation of identified components to assess the significant components and to determine the planned audit response based on a measure of materiality, calculated by considering the component's significance as a percentage of the group's total assets, revenue and loss before taxation. Of the group's four components, we identified two which, in our view, required an audit of their financial information (full scope audit), either due to their size or their risk characteristics. As a result of this, we performed an audit of the financial statements of the parent company and of the financial information of one of the components using component materiality;
- We identified improper recognition of revenue, going concern and the recoverability of the carrying value of the parent company's investment in, and the intercompany receivables due from, the subsidiary as key audit matters and the audit procedures performed in respect of these have been included in the key audit matters section of our report;
- We performed specified audit procedures over certain balances and transactions of one component to give appropriate coverage of balances. Together, the components subject to full-scope audits and specified audit procedures were responsible for 62% of the group's revenue relating to

continuing operations and 100% of the discontinued operations, 98% of the group's total assets and the parent company and the component where an audit of the financial information was performed generated a 100% of the group loss; and

- We performed analytical procedures at group level over the remaining component. These procedures, together with the additional procedures outlined above, performed at the group level gave us the audit evidence we needed for our opinion on the group financial statements as a whole. All audit work has been undertaken by the group engagement team.

Other information

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

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

We have nothing to report in this regard.

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

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

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

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

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

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

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

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

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

- We obtained an understanding of the legal and regulatory frameworks applicable to the company, and the industry in which it operates. We determined that the following laws and regulations were most significant; IFRS, 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 and those laws and regulations relate to health and safety.
- We understood 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.

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

- To assess the potential risks of material misstatement, we obtained an understanding of:
 - The group's operations, including the nature of its revenue sources, expected financial statements disclosures and business risks that may result in a risk of material misstatement; and
 - The group's control environment including the adequacy of procedures for authorisation of transactions.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the engagement team included:
 - Evaluating the processes and controls established to address the risks related to irregularities and fraud;
 - Testing manual journal entries, in particular journal entries relating to management estimates and journals entries deemed to relate to unusual transactions;
 - Challenging assumptions and judgement made by management in its significant accounting estimates; and
 - Identifying and testing related party transactions.
- Team communications in respect of potential non-compliance with laws and regulations and fraud included the potential for fraud in revenue recognition and appropriate application of the going concern assumptions. These are also reported as a key audit matter in the key audit matters section of our report where the matter is explained in more detail and the specific procedures we performed in response to the key audit matter are described in more detail.
- We assessed the appropriateness of the collective competence and capabilities of the engagement team, including consideration of the engagement team's knowledge and understanding of the industry in which the client operates in, and its practical experience through training and participation with audit engagements of a similar nature.

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

28 April 2021

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2020

	Notes	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Continuing operations			
Revenue	3	385	1,814
Cost of sales		(434)	(2,125)
Gross loss		(49)	(311)
Administrative expenses	6	(7,586)	(16,773)
Adjusted EBITDA*		(6,761)	(14,433)
Share based payment expense	22	(653)	(826)
Exceptional administrative expenses	6	-	(1,252)
Depreciation of tangible fixed assets	12	(221)	(573)
Operating loss		(7,635)	(17,084)
Net finance income/(expense)	8	3	(1,442)
Loss before tax		(7,632)	(18,526)
Taxation	9	698	898
Loss after tax from continuing operations		(6,934)	(17,628)
Loss from discontinued operations	7	(37)	(3,015)
Loss for the period		(6,971)	(20,643)
Other comprehensive (expense)/(income):			
Items that are or may be reclassified to profit or loss:			
Foreign currency translation differences - foreign operations		41	227
Total comprehensive expense for the period		(6,930)	(20,416)
Loss per share			
Basic and diluted on loss from continuing operations	10	(44.88)p	(557.48)p
Basic and diluted on total loss for the period	10	(45.12)p	(652.83)p

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

Consolidated statement of changes in equity

For the year ended 31 December 2020

	Share capital £'000	Share premium £'000	Merger reserve £'000	Foreign currency translation reserve £'000	Retained earnings deficit £'000	Total £'000
Balance at 31 December 2018	386	105,184	15,443	(2,473)	(98,568)	19,972
Loss for the year	-	-	-	-	(20,643)	(20,643)
Other comprehensive expense	-	-	-	227	-	227
Loss and total comprehensive expense for the period	-	-	-	227	(20,643)	(20,416)
Transactions with owners, recorded directly in equity:						
Issue of shares following placing and open offer	790	4,477	-	-	-	5,267
Costs of share issues	-	(435)	-	-	-	(435)
Share based payment expense	-	-	-	-	826	826
Total contributions by and distributions to owners	790	4,042	-	-	826	5,637
At 31 December 2019	1,176	109,226	15,443	(2,246)	(118,468)	5,131
Loss for the year	-	-	-	-	(6,971)	(6,971)
Other comprehensive expense	-	-	-	41	-	41
Loss and total comprehensive expense for the year	-	-	-	41	(6,971)	(6,930)
Transactions with owners, recorded directly in equity:						
Issue of shares following placing and open offer	1,800	4,200	-	-	-	6,000
Exercise of share options	21	74	-	-	-	95
Costs of share issues	-	(427)	-	-	-	(427)
Share based payment expense	-	-	-	-	653	653
Total contributions by and distributions to owners	1,821	3,847	-	-	653	6,321
At 31 December 2020	2,997	113,073	15,443	(2,205)	(124,786)	4,522

Consolidated statement of financial position

For the year ended 31 December 2020

	Notes	At 31 December 2020 £'000	At 31 December 2019 £'000
Assets			
Non-current assets			
Property, plant and equipment	12	204	357
Right of use assets	12	68	283
Trade and other receivables	14	63	143
Total non-current assets		335	783
Current assets			
Inventories	13	96	341
Trade and other receivables	14	475	584
Assets classified as held for sale	7	-	252
Cash and cash equivalents	15	5,158	5,625
Total current assets		5,729	6,802
Total assets		6,064	7,585
Liabilities			
Non-current liabilities			
Right of use liabilities	17	(19)	(287)
Deferred tax	18	(38)	(38)
Total non-current liabilities		(57)	(325)
Current liabilities			
Trade and other payables	17	(1,485)	(2,129)
Total current liabilities		(1,485)	(2,129)
Total liabilities		(1,542)	(2,454)
Net assets		4,522	5,131
Equity			
Share capital	19	2,997	1,176
Share premium	19	113,073	109,226
Merger reserve	19	15,443	15,443
Foreign currency translation reserve	20	(2,205)	(2,246)
Accumulated losses	20	(124,786)	(118,468)
Total equity		4,522	5,131

Approved by the Board of Directors and authorised for issue on 28 April 2021.

Klaas de Boer

Chairman

Paul Denney

Chief Financial Officer

Company number: 08684474

Consolidated statement of cash flows

For the year ended 31 December 2020

	Notes	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Operating activities			
Loss before tax		(7,632)	(18,526)
Adjustment for non-cash items:			
Depreciation of property, plant and equipment	12	221	573
Share based payment	22	653	826
Decrease in inventories	13	246	546
Decrease in trade and other receivables	14	3	2,850
Decrease in trade and other payables	17	(342)	(2,090)
Impairment of fixed assets		-	583
Finance income	8	(9)	(60)
Finance expense	8	6	1,502
Cash used in operations		(6,854)	(13,796)
Tax receipts	9	698	898
Cashflow from discontinued operations	7	(195)	(1,183)
Net cash outflow from operations		(6,351)	(14,081)
Investing activities			
Finance income	8	9	60
Finance expense	8	(6)	(1,502)
Purchases of property, plant and equipment	12	(13)	(147)
Sale of property, plant and equipment	12	-	127
Cashflow from discontinued operations	7	193	(23)
Net cash inflow/(outflow) from investing activities		183	(1,485)
Financing activities			
Proceeds from issue of share capital, net of costs	19	5,667	4,833
Net cash inflow from financing activities		5,667	4,833
(Decrease) in cash and cash equivalents		(501)	(10,733)
Cash and cash equivalents at start of year/period		5,625	16,001
Effect of exchange rate fluctuations on cash held		34	357
Cash and cash equivalents at end of year	15	5,158	5,625

Notes to the consolidated financial statements

For the year ended 31 December 2020

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 2020. These include comparatives for the year ended 31 December 2019. The level of rounding for financial information is the nearest thousand pounds.

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

The consolidated financial statements have been prepared under the historical cost convention in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

Business combinations and basis of consolidation

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

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

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

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

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

Going Concern

At 31 December 2020, the Group had £5.2m of cash and cash equivalents. At this stage in its development the Group is loss making and incurs operating cash outflows. In order to support the Group's move towards cash breakeven, the Group executed a successful fundraising in March 2020, raising £9.0m before fees. The Directors believe that the fundraising, alongside the Group's existing cash resources, provide a strong platform for the Group to execute its 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 30 April 2022. These forecasts indicate that the Group is able to settle its liabilities as they fall due in the forecast period. In these forecasts the directors have considered appropriate sensitivities such as the level of revenue from existing and anticipated contracts. In addition, they have considered liquidity risk, key assumptions and uncertainties including considerations for any potential disruption and economic impact caused by COVID-19. The Directors consider that the going concern assumption is appropriate for the Group.

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

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive Officer's review on pages 5 to 8. The financial position of the company, its cash flows, and liquidity position are described in the Chief Financial Officer's Review on pages 9 to 11. In addition, notes 2 to 24 to the financial statements include the company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

2) Significant accounting policies

The principal accounting policies applied are set out below.

Revenue recognition

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

When assessing the revenue recognition against IFRS15, the Group assess the contract against the five steps of IFRS15. This process includes the assessment of the performance obligations within the contract and the allocation of contract revenue across these performance obligations once identified. This is particularly relevant where customer contracts are agreed with more than one performance obligation, such as those sales where a machine is sold in a bundle with an ongoing service contract, and 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.

Where licence revenue is based on sales by the licensee, the Group recognises revenue at the time of that sale. The Group has recognised some licencing revenue in the year, the amount of which is not material.

Foreign currencies

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

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

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

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

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

Exceptional items

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

2) Significant accounting policies continued

Research and development

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

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

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

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

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

Leases

As a lessee

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

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

Measurement and recognition of leases as a lessee

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

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

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

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

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

2) Significant accounting policies continued

Measurement and recognition of leases as a lessee continued

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

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

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

As a lessor

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

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

Intangible assets and goodwill

Recognition and measurement

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

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

Amortisation

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

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

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

Property, plant and equipment

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

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

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

2) Significant accounting policies continued

Impairment of non-current assets

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

Inventories

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

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

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

Share based payments

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

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

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

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

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.

2) Significant accounting policies continued

Financial assets and liabilities

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

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

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

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

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

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less 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.

2) Significant accounting policies continued

Taxation

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

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

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

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

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

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

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

Disposal groups and discontinued operations

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

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

2) Significant accounting policies continued

Critical accounting estimates and areas of judgement

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

Revenue recognition

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

During the year ended 31 December 2020 the Group recognised revenue in respect of fees received from licence partners. The Group accounts for licence revenue under IFRS 15, allocating revenue between the performance obligations in the contract. Where a contract contains elements of variable consideration, the Group estimates these revenues at the amount where it considers that it is highly probable that a significant reversal of recognised revenue will not occur. Given the complexity and the early stages of the contracts, revenue recognition requires a degree of judgement. These judgements may be revised in future years. Where licence revenue is based on sales by the licensee, the Group recognises revenue at the time of that sale.

Research and development costs

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

Accounting standards and interpretations not applied

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

IFRS 17	Insurance Contracts	1 January 2023
Amendments to IFRS 3, IAS 16 and IAS 37 and Annual Improvements 2018 - 2020		1 January 2022
Amendments to IAS 1 and IAS 8	Definition of Material	1 January 2023

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

3) Segmental reporting

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

The Marken segment is classified as a discontinued operation for the year ended 31 December 2020 and the 31 December 2019 and as such is not included in the below analysis.

For the year ended 31 December 2020:

	Hydrofinity £'000	All Other Activities £'000	Total £'000
Machine sales	8	-	8
Service income	314	-	314
Consumables	5	-	5
Licencing revenue	-	58	58
Total revenue	327	58	385
Gross (loss)/profit	(107)	58	(49)
Adjusted EBITDA	(807)	(5,954)	(6,761)
Operating loss	(886)	(6,749)	(7,635)
Net finance income	8	(5)	3
Loss before tax	(878)	(6,754)	(7,632)
Segmental net assets	212	4,310	4,522
Other segmental information:			
Capital expenditure	-	13	13
Depreciation	-	221	221

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

3) Segmental reporting continued

For the year ended 31 December 2019:

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

An analysis of revenues by type is set out below:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Sale of goods	13	673
Rendering of services	314	1,018
Licencing revenue	58	123
	385	1,814

The Group's largest customer, which sits within the Hydrofinity segment, was responsible for 19% of Group revenue in the year to 31 December 2020.

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

3) Segmental reporting continued

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

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Europe	230	483
North America	145	1,208
Rest of the World	10	123
	385	1,814

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

	31 December 2020 £'000	31 December 2019 £'000
Europe	272	593
North America	-	190
	272	783

4) Loss from operations

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Loss from operations is stated after charging to administrative expenses:		
Foreign exchange losses	60	214
Depreciation of plant and equipment (note 12)	221	573
Operating lease rentals – land and buildings	40	10
Staff costs (excluding share-based payment charge)	4,010	6,960
Research and development	144	1,074
Auditors remuneration:		
– Audit of these financial statements	21	19
– Audit of financial statements of subsidiaries of the company	20	22
– All other services	4	4
Total auditor's remuneration	45	45

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

5) Staff numbers and costs

	Year ended 31 December 2020 Number	Year ended 31 December 2019 Number
The average monthly number of persons (including directors) employed by the Group during the year was:		
Directors	5	5
Operational staff	48	109
	53	114
	£'000	£'000
The aggregate remuneration, including directors, comprised:		
Wages and salaries	3,675	6,177
Social security costs	367	670
Pension contributions	90	113
Share based expense (note 22)	653	826
Furlough credit	(122)	-
	4,663	7,786
Directors' remuneration comprised:		
Emoluments for qualifying services	730	642

Directors' emoluments disclosed above include £364,000 paid to the highest paid director (Year ended 31 December 2019: £304,000). There are no pension benefits for directors. Please see Directors' Remuneration Report on pages 16 to 18 for further information on directors' emoluments.

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

6) Expenses by nature

The administrative expenses charge by nature is as follows:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Staff costs, recruitment and other HR	4,235	7,313
Share-based payment expense	653	826
Premises and establishment costs	176	612
Research and development costs	144	440
Patent and IP costs	635	697
Engineering and operational costs	2	34
Legal, professional and consultancy fees	895	2,005
IT, telecoms and office costs	458	653
Depreciation charge	221	573
Travelling, subsistence and entertaining	130	815
Advertising, conferences and exhibitions	63	102
Bad debt expense	52	105
Other expenses	(16)	1,132
Foreign exchange losses/(gains)	60	214
Furlough credit	(122)	-
Total operating administrative expenses	7,586	15,521
Loss on sale of lease receivables following sale of US estate	-	1,252
Total administrative expenses	7,586	16,773

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

7) Discontinued operations

In the financial statements for the year ended 31 December 2019, the Group confirm its intention to dispose of the Marken operating segment. Consequently, the associated assets and liabilities were presented as held for sale in the 2019 financial statements.

During the year ended 31 December 2020, the Marken sites were sold or closed and as such the segment is again presented as a discontinued operation in accordance with IFRS 5. The loss for the year ended 31 December 2020 related to this operating segment was £37,000 (2019: £3,015,000).

Financial performance and cash flow information

The results of the discontinued operations are shown below for the year ended 31 December 2020 and the year ended 31 December 2019.

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Revenue	238	754
Expenses	(507)	(3,242)
Impairment of assets held for sale	-	(527)
Profit on sale of assets	116	-
Gain on termination of lease	116	-
Loss before and after income tax from discontinued operation	(37)	(3,015)
Exchange differences on translation of discontinued operations	14	(85)
Other comprehensive income from discontinued operations	14	(85)
Net cash outflow from operating activities	(195)	(1,183)
Net cash inflow/(outflow) from investing activities	193	(23)
Net cash inflow from financing activities	-	-
Net decrease in cash generated by the subsidiary	(2)	(1,206)

Details of the sale of the business unit

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Cash received	193	-
Total consideration	193	-
Carrying amount of assets sold	(77)	-
Profit on sale	116	-

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

7) Discontinued operations continued

The carrying amounts of assets and liabilities as at the date of sale were:

	30 May 2020 £'000
Assets classified as held for sale	
Property, plant and equipment	191
Inventories	77
Total assets held for sale	268
Liabilities directly associated with assets classified as held for sale	
Right of use lease liabilities	(191)
Total liabilities associated with assets held for sale	(191)

There were no assets or liabilities classified as held for sale as at 31 December 2020. The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at 31 December 2019.

	31 December 2019 £'000
Assets classified as held for sale	
Property, plant and equipment	179
Inventories	77
Total assets held for sale	252
Liabilities directly associated with assets classified as held for sale	
Right of use lease liabilities	-
Total liabilities associated with assets held for sale	-

8) Net finance (expense)/income

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Bank interest receivable	-	1
Finance expense in relation to right-of-use assets	(6)	(24)
Finance income from lease receivables	9	59
Provision against loan issued to ESTR Ltd	-	(1,478)
Net finance income	3	(1,442)

In the prior year the Group recognised an expected credit loss in respect of a loan made to ESTR Ltd as they believed that loan may be irrecoverable. There has been no change in the Directors view in respect of this loan in the year ended 31 December 2020.

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

9) Taxation

Tax on loss on ordinary activities

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Current tax:		
UK Tax credits received in respect of prior periods	(698)	(898)
Foreign taxes paid	-	-
	(698)	(898)
Deferred tax:		
Origination and reversal of temporary timing differences	-	-
Tax credit on loss on ordinary activities	(698)	(898)

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 2020 £'000	Year ended 31 December 2019 £'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	(7,669)	(21,541)
Tax at the standard rate of corporation tax 19% (2019: 19%)	(1,457)	(4,093)
Effects of:		
Expenses not deductible for tax purposes	124	157
Research and development tax credits receivable	(698)	(898)
Unutilised tax losses for which no deferred tax asset is recognised	1,333	3,936
Employee share acquisition adjustment	-	-
Foreign taxes paid	-	-
Tax credit for the year/period	(698)	(898)

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 2019. There is no certainty regarding the claim for the year ended 31 December 2020 and as such no relevant credit or asset is recognised.

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

10) Loss per share (basic and diluted)

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

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Total loss from continuing operations	(6,934)	(17,628)
Total loss from discontinued operations	(37)	(3,015)
Total loss attributable to the equity holders of the parent	(6,971)	(20,643)

	No.	No.
Weighted average number of ordinary shares in issue during the year	15,449,084	3,162,062

Loss per share

Basic and diluted on loss from continuing operations	(44.88)p	(557.48)p
Basic and diluted on loss from discontinued operations	(0.24)p	(95.35)p
Basic and diluted on total loss for the year	(45.12)p	(652.83)p

The Group underwent a 100:1 share consolidation during the year ended 31 December 2020. The weighted average number of ordinary shares in issue has been calculated assuming that the 100:1 consolidation was in effect throughout the period. The prior year figure has been restated, and is calculated on the basis that the 100:1 share consolidation was in effect throughout the year ended 31 December 2019.

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

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Basic earnings	(6,971)	(20,643)
Exceptional costs	-	1,252
Adjusted earnings	(6,971)	(19,391)
Adjusted loss per share		
Basic and diluted on loss for the year	(45.12)p	(613.24)p

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

10) Loss per share (basic and diluted) continued

The weighted average number of shares in issue throughout the period is as follows. Both the 2020 and 2019 calculations assume the 100:1 share consolidation performed in the year was in place throughout the year.

	Year ended 31 December 2020	Year ended 31 December 2019
Issued ordinary shares at 1 January 2020/1 January 2019	7,837,621	2,570,391
Effect of shares issued for cash	7,611,462	591,671
Weighted average number of shares at 31 December	15,449,084	3,162,062

The Company has issued employee options over 1,447,324 (31 December 2019: 10,198,621) ordinary shares which are potentially dilutive. There is however, no dilutive effect of these issued options as there is a loss for each of the periods concerned.

11) Intangible assets and goodwill

	Goodwill £'000	Customer relationships £'000	Brand £'000	Software £'000	Total £'000
Cost					
As at 31 December 2018	471	702	339	20	1,532
Foreign currency differences	(13)	(20)	(10)	(1)	(44)
As at 31 December 2019	458	682	329	19	1,488
Foreign currency differences	(16)	(23)	(11)	(1)	(51)
As at 31 December 2020	442	659	318	18	1,437
Accumulated amortisation and impairment losses					
As at 31 December 2018	-	142	96	5	243
Amortisation charge for the year	-	549	239	16	804
Impairment recognised in the year	459	-	-	-	459
Foreign currency differences	(1)	(9)	(6)	(2)	(18)
As at 31 December 2019	458	682	329	19	1,488
Foreign currency differences	(16)	(23)	(11)	(1)	(51)
As at 31 December 2020	442	659	318	18	1,437
Net book value					
At 31 December 2020	-	-	-	-	-
At 31 December 2019	-	-	-	-	-
At 31 December 2018	471	561	243	15	1,290

Amortisation & Impairment

No amortisation or impairment have been charged in the year

Impairment testing for CGUs containing goodwill

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

12) Property, plant and equipment

	Right-of-use assets £'000	Leasehold improvements £'000	Plant and equipment £'000	Computer equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost							
At 31 December 2018	969	1,755	3,973	504	218	37	7,456
Additions	-	22	145	1	2	-	170
Disposals	-	(1,111)	(3,435)	(349)	(148)	-	(5,043)
Transfers to assets held for sale	(448)	(111)	(390)	(61)	(23)	(36)	(1,069)
Foreign currency differences	(23)	(8)	(28)	(3)	(1)	(1)	(64)
At 31 December 2019	498	547	265	92	48	-	1,450
Additions	-	1	7	5	-	-	13
Disposals	(328)	-	-	-	-	-	(328)
Foreign currency differences	7	-	-	-	-	-	7
At 31 December 2020	177	548	273	97	48	-	1,143
Depreciation							
At 31 December 2018	-	716	3,354	324	129	10	4,533
Charge for the year	371	195	134	99	39	10	848
Disposals	-	(533)	(3,224)	(309)	(112)	-	(4,178)
Transfers to assets held for sale	(152)	(37)	(123)	(42)	(10)	(20)	(384)
Foreign currency differences	(4)	(2)	(2)	(1)	-	-	(9)
At 31 December 2019	215	339	139	71	46	-	810
Charge for the year	54	100	55	16	(4)	-	221
Disposals	(164)	-	-	-	-	-	(164)
Foreign currency differences	4	-	-	-	-	-	4
At 31 December 2020	109	439	194	87	42	-	871
Net book value							
At 31 December 2020	68	109	79	10	6	-	272
At 31 December 2019	283	208	126	21	2	-	640
At 31 December 2018	-	1,039	619	180	89	27	1,954

The Group recognised right-of-use assets with a value of £969,000 as at 1 January 2019 in accordance with the transition provisions of IFRS 16.

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

13) Inventories

	31 December 2020 £'000	31 December 2019 £'000
Finished goods	96	341

In the year ended 31 December 2020, changes in finished goods recognised as cost of sales amounted to £245,000 (year ended 31 December 2019: £604,000).

14) Trade and other receivables

	31 December 2020 £'000	31 December 2019 £'000
Due within 12 months		
Trade debtors	116	213
Other receivables	218	113
Prepayments and accrued income	141	258
	475	584
Due after more than 12 months		
Other receivables	63	143

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

The minimum lease payment is receivable as follows:

	31 December 2020 £'000	31 December 2019 £'000
Not later than one year	90	66
Later than one year not later than five years	63	143
	153	209

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 £247,000 (31 December 2019: £270,000) 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 16.

Other receivables of £63,000 (31 December 2019: £143,000) due after more than one year comprise the long-term portion of finance leases where the Group acts as lessor.

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

15) Cash and cash equivalents

	31 December 2020 £'000	31 December 2019 £'000
A	5,122	5,484
BBB+	34	140
Held outside banking institutions	1	1
Cash and cash equivalents	5,157	5,625

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

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

	31 December 2020 £'000	31 December 2019 £'000
Denominated in Pound Sterling	4,972	5,398
Denominated in US Dollars	36	218
Denominated in Euros	149	9
Cash and cash equivalents	5,157	5,625

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

16) 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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

16) Financial instruments continued

(b) Credit risk

Financial Risk Management

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

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

The Group is potentially exposed to credit risk in respect of its bank deposits in the event of failure of the respective banks. The Group attempts to mitigate this risk through ongoing monitoring of the credit ratings of those banks. Further details are set out in note 15. At 31 December 2020, the Directors were not aware of any factors affecting the recoverability of the Group's bank balances.

Exposure to Credit Risk

At 31 December 2020, the Group had gross trade receivables outstanding of £363,000 (2019: £483,000). The Directors have considered the recoverability of outstanding balances at 31 December 2020 and have made provisions for bad and doubtful debts amounting to £247,000 (2019: £270,000). The Group had gross lease receivable balances outstanding of £153,000 (2019: £213,000) and provision in place in respect of these lease receivables of £nil (2019: £22,000).

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

	31 December 2020 £'000	31 December 2019 £'000
United Kingdom	217	457
United States of America	299	270
	516	727

(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:

	31 December 2020 £'000	31 December 2019 £'000
Non-derivative financial liabilities		
Due within one year		
Trade and other payables	539	1,749

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

16) Financial instruments continued

(d) Market Risk

Financial Risk Management

Market risk is the risk that changes in market prices, such as interest rates or foreign exchange rates will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters. Market interest rate risk arises from the Group's holding of cash and cash equivalent balances and from cash held on term deposit accounts (see note 15). The Board make ad hoc decisions at their regular Board meetings, as to whether to hold funds in instant access accounts or longer-term deposits. All accounts are held with reputable banks. These policies are considered to be appropriate to the current stage of development of the Group and will be kept under review in future years.

Foreign Currency Risk

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

The Group had no forward currency contracts in place as at either 31 December 2020 or 31 December 2019.

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

	Sterling £'000	US Dollar £'000	Euro £'000	Total £'000
At 31 December 2020				
Cash and cash equivalents	4,972	36	149	5,157
Trade and other receivables	413	125	-	538
Trade and other payables	(1,428)	(71)	(4)	(1,503)
Balance sheet exposure	3,957	90	145	4,192
Net exposure	-	90	145	235
At 31 December 2019				
Cash and cash equivalents	5,398	218	9	5,625
Trade and other receivables	434	270	23	727
Trade and other payables	(1,390)	(415)	-	(1,805)
Balance sheet exposure	4,442	73	31	4,547
Net exposure	-	73	31	104

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

16) Financial instruments continued

(d) Market Risk continued

Sensitivity Analysis

A 10% weakening of the following currencies against the £ sterling at 31 December 2020 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 2019.

	Equity		Profit or Loss	
	31 December 2020 £'000	31 December 2019 £'000	31 December 2020 £'000	31 December 2019 £'000
US Dollars	(9)	(7)	(9)	(7)
Euros	(15)	(3)	(15)	(3)

A 10% strengthening of the above currencies against the Pound Sterling at 31 December 2020 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 2020 £'000	31 December 2019 £'000
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	-	-
	-	-
Variable rate instruments		
Financial assets - cash	5,157	5,625
Financial liabilities	-	-
	5,157	5,625

Based on the Group's above balances at 31 December 2020, if interest rates had been 5 per cent higher, then the impact on the results for the year would be a reduction in the loss for the period of approximately £257,000 with a corresponding increase in the Group's net assets. If the interest rate had reduced to zero per cent, 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 £4,522,000 at 31 December 2020 (31 December 2019: £5,568,000).

The Group's objectives when managing capital are:

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

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

17) Trade and other payables

	31 December 2020 £'000	31 December 2019 £'000
Trade payables	436	518
Taxes and social security	2	60
Other creditors	67	65
Accruals and deferred income	895	1,106
Right of use liabilities	103	667
	1,503	2,416
Current	1,484	2,129
Non-current	19	287
	1,503	2,416

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

	31 December 2020 £'000	31 December 2019 £'000
Sterling	366	465
US Dollars	66	53
Euros	4	-
Trade payables	436	518

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

18) Deferred tax

	31 December 2020 £'000	31 December 2019 £'000
Accelerated depreciation for tax purposes	38	38
Deferred tax credit/(expense) for the period	-	-

	Year ended 31 December 2020 £'000	Year Ended 31 December 2019 £'000
At beginning of year	38	38
Tax expense	-	-
At end of year	38	38

As at 31 December 2019, the Group had unrecognised deferred tax assets totalling approximately £22,223,000 (31 December 2019: £21,133,000), 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.

19) Share capital

	Number	Share capital £'000	Share premium £'000	Merger reserve £'000	Total £'000
Total Ordinary shares of 0.15p each as at 31 December 2018	257,039,151	386	105,184	15,443	121,013
Issue of ordinary shares following placing and open offer	526,690,502	790	4,477	-	5,267
Issue of ordinary shares on exercise of share options	32,478	-	-	-	-
Costs of share issues	-	-	(435)	-	(435)
Total Ordinary shares of 0.15p each as at 31 December 2019	783,762,131	1,176	109,226	15,443	125,845
Issue of ordinary shares following placing and open offer	1,200,000,000	1,800	4,200	-	6,000
Issue of ordinary shares on exercise of share options prior to share consolidation	10,325,966	15	55	-	70
Issue of shares immediately prior to share consolidation	3	-	-	-	-
Effect of share consolidation	(1,974,147,219)	-	-	-	-
Issue of ordinary shares on exercise of share options after the share consolidation	35,209	5	19	-	24
Costs of share issues	-	-	(427)	-	(427)
Total Ordinary shares of 15p each as at 31 December 2020	19,976,090	2,996	113,073	15,443	131,512

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

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

19) Share capital continued

The following is a summary of the changes in the issued share capital of the Company during the period ended 31 December 2020:

- (a) Ordinary Shares of 0.15p per share were allotted at a price of 0.15 pence per share, for total cash consideration of £577, upon the exercise of share options granted in the Company's share option schemes, prior to the share capital reorganisation process.
- (b) 1,200,000,000 Ordinary Shares of 0.15p per share were allotted at a price of 0.5 pence per share, for total cash consideration of £6,000,000 upon the placing and open offer of the Company's shares in May 2020, prior to the share capital reorganisation process.
- (c) 9,941,202 Ordinary Shares of 0.15p per share were allotted at a price of 0.7 pence per share, for total cash consideration of £69,588, upon the exercise of share options granted in the Company's share option schemes, prior to the share capital reorganisation process.
- (d) 3 Ordinary Shares of 0.15p per share were allotted at a price of 1.465 pence per share, for total cash consideration of £nil, as part of the share capital reorganisation process.
- (e) 1,974,147,219 Ordinary Shares of 0.15p were cancelled as part of the share capital reorganisation process, as the nominal value of Ordinary Shares was converted to 15p
- (f) 482 Ordinary Shares of 15p per share were allotted at a price of 15p per share, upon the exercise of share options granted in the Company's share option schemes, after the share capital reorganisation process.
- (g) 34,727 Ordinary Shares of 15p per share were allotted at a price of 70p per share, upon the exercise of share options granted in the Company's share option schemes, after the share capital reorganisation.

At 31 December 2020, the Company had only one class of share, being Ordinary Shares of 15p each.

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

20) Movement in accumulated losses and foreign currency translation reserve

	Accumulated losses £'000	Foreign currency translation reserve £'000
At 31 December 2018	(98,568)	(2,473)
Loss for the period	(20,643)	-
Other comprehensive expense – Foreign currency translation differences – foreign operation	-	227
Shared based payment charge	826	-
At 31 December 2019	(118,468)	(2,246)
Loss for the year	(6,971)	-
Other comprehensive income – Foreign currency translation differences – foreign operation	-	41
Shared based payment charge	653	-
At 31 December 2020	(124,786)	(2,205)

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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

21) Leases

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

Leases of buildings end between 1 and 2 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 extension options
Land and buildings	1	15 months	15 months	-

Right-of-use assets

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

	Land and buildings £'000
Balances as at 31 December 2018	-
Additions on change in accounting policy	969
Depreciation charged in the year	(371)
Transfer to assets held for sale in the year	(296)
Foreign exchange differences	(19)
Balance as at 31 December 2019	283
Depreciation charged in the year	(54)
Disposals in the year	(164)
Foreign exchange differences	3
Balance as at 31 December 2020	68

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

21) Leases continued

Lease liabilities

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

	31 December 2020 £'000	31 December 2019 £'000
Current	84	380
Non-current	19	287
	103	667

There are no leases with termination options and no leases with extension options. The Group has no commitments to leases which have not yet commenced.

Lease liabilities continued

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of the lease liabilities at 31 December 2020 is as follows:

	Within 1 year	1-2 years	2-3 years	3-4 years	5+ years	Total
Lease payments	(87)	(20)	-	-	-	(107)
Finance charges	3	1	-	-	-	4
Net present value	(84)	(19)	-	-	-	(103)

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	47
	47

At 31 December 2020 the Group was committed to short term leases and the total commitment at that date was £19,000 (2019: £20,000).

22) Share based payments

Share options

The Company has share option plans (The Xeros Technology Group plc Unapproved Share Option Scheme and The Xeros Technology Group plc Enterprise Management Incentive Share Option Scheme) under which it grants options over ordinary shares to certain Directors, employees and consultants of the Group. Options under these plans are exercisable at a range of exercise prices ranging from the nominal value of the Company's shares to the market price of the Company's shares on the date of the grant. The vesting period for shares is usually over a period of three years. The options are settled in equity once exercised. If the options remain unexercised for a period after 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest. Options issued in 2019 and later have vesting conditions based upon the share price meeting certain targets.

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

22) Share based payments continued

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

	Number of share interests			Total	Weighted average exercise price per share (£)
	EMI options	Unapproved options	Deferred Annual Bonus plan		
At 31 December 2018	958,452	7,005,357	156,274	8,120,083	1.839
Granted in the period	5,597,000	2,195,000	-	7,792,000	0.100
Exercised in the year	-	-	(32,478)	(32,478)	0.002
Forfeited/lapsed in the year	(982,826)	(3,962,997)	(45,545)	(4,991,368)	(1.089)
At 31 December 2019	5,572,626	5,237,360	78,251	10,888,237	0.957
Granted in the period	132,163,079	14,406,010	-	146,569,089	0.007
Exercised in the period	(10,056,721)	(278,696)	(25,758)	(10,361,175)	(0.010)
Forfeited/lapsed in the period	(713,757)	(370,399)	-	(1,084,156)	(0.402)
Effect of share consolidation	(125,708,204)	(18,804,019)	(52,448)	(144,564,671)	6.949
At 31 December 2020	1,257,013	190,256	45	1,447,324	7.501

Share options continued

There were 197,812 share options outstanding at 31 December 2020 which were eligible to be exercised. The remaining options were not eligible to be exercised as these are subject to employment period and market-based vesting conditions, some of which had not been met at 31 December 2020. Options have a range of exercise prices from 15 pence per share to 30,500 pence per share and have a weighted average contractual life of 5.56 years (31 December 2019: 7.42 years).

Options granted in the period	Unapproved options granted in May 2020	EMI options granted in March 2020	EMI options granted in December 2020
Dividend yield	0%	0%	0%
Expected volatility*	48.00%	48.00%	48.00%
Risk free interest rate (%)	0.21%	0.21%	0.21%
Expected vesting life of options (years)	10	10	10
Weighted average share price (pence)	70.0	70.0	70.0
Fair value of an option (pence per share)**	55.0	55.0	132.53

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

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

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

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

	31 December 2020 £'000	31 December 2019 £'000
Share options	653	826

Notes to the consolidated financial statements continued

For the year ended 31 December 2020

23) 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	Amounts owed to related party	Purchases from related party	Amounts owed to related party
		31 December 2020 £'000	31 December 2020 £'000	31 December 2019 £'000	31 December 2019 £'000
Kinetix Critchleys Corporate Finance LLP	Corporate finance advisor (note 1)	-	-	53	-
IP Group plc	Fund manager for certain shareholders (note 2)	30	48	18	18

Note 1: Kinetix Critchleys Corporate Finance LLP provided corporate finance services for the new equity issue in November 2019. David Armfield, a Director of the Company, controls a company which is a designated member of Kinetix Critchleys Corporate Finance LLP.

Note 2: IP Group plc provide the services of David Baynes, who is a director of the Company, and invoice the Group for related fees.

Terms and conditions of transactions with related parties

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

Transactions with Key Management Personnel

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

Directors' remuneration:

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

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Short-term employment benefits*	730	654

* In addition, certain directors hold share options in the Company for which a fair value share based charge of £155,000 has been recognised in the consolidated statement of profit or loss and other comprehensive income (Year ended 31 December 2019: £678,000).

The highest paid Director in the year received total remuneration of £364,000 (Year ended 31 December 2019: £304,000). During the year ended 31 December 2020, the Company entered into numerous transactions with its subsidiary companies which net off on consolidation – these have not been shown above.

24) Events occurring after the reporting period

Completion of equity placing

In March 2021, and in line with previously communicated strategy, the Group completed an equity placing of 3,749,919 ordinary shares of 15p each, raising £9.0m before fees.

Company statement of changes in equity

For the year ended 31 December 2020

Attributable to the equity holders of the Company	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings reserve £'000	Total £'000
At 31 December 2018	386	105,184	6,625	(49,215)	62,980
Total expense and other comprehensive loss for the period	-	-	-	(33,535)	(33,535)
Transactions with owners, recorded directly in equity:					
Issue of placing shares	790	4,477	-	-	5,267
Costs of share issues	-	(435)	-	-	(435)
Share based payment expense	-	-	-	260	260
Share based payment expense in respect of services provided to subsidiary undertaking	-	-	-	545	545
Total contributions by and distributions to owners	790	4,402	-	805	5,637
At 31 December 2019	1,176	109,226	6,625	(81,945)	35,082
Total expense and other comprehensive loss for the period	-	-	-	(828)	(828)
Transactions with owners, recorded directly in equity:					
Issue of placing and open offer shares	1,800	4,200	-	-	6,000
Exercise of share options	21	74	-	-	95
Costs of share issues	-	(427)	-	-	(427)
Share based payment expense	-	-	-	155	155
Share based payment expense in respect of services provided to subsidiary undertaking	-	-	-	498	498
Total contributions by and distributions to owners	1,821	3,847	-	653	6,321
At 31 December 2020	2,996	113,073	6,625	(82,120)	40,575

Company statement of financial position

For the year ended 31 December 2020

	Notes	At 31 December 2020 £'000	At 31 December 2019 £'000
Assets			
Non-current assets			
Investments	C3	9,513	9,014
Total non-current assets		9,513	9,014
Current assets			
Trade and other receivables	C4	7	119
Intercompany loan balance	C5	26,738	20,985
Cash and cash equivalents		4,587	5,218
Total current assets		31,332	26,322
Total assets		40,845	35,336
Liabilities			
Current liabilities			
Trade and other payables	C6	(270)	(254)
Total liabilities		(270)	(254)
Net assets		40,575	35,082
Equity			
Share capital	20	2,996	1,176
Share premium	20	113,073	109,226
Merger reserve		6,625	6,625
Retained earnings		(82,119)	(81,945)
Total equity		40,575	35,082

The Company reported a loss for the year ended 31 December 2020 of £828,000 (2019: £33,535,000). The accounting policies and notes on pages 69 to 71 form part of these Financial Statements.

Approved by the Board of Directors and authorised for issue on 28 April 2021.

Klaas de Boer

Chairman

Company number: 08684474

Paul Denney

Chief Financial Officer

Company statement of cash flows

As at 31 December 2020

	Notes	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Operating activities			
Loss before tax		(828)	(33,535)
Adjustment for non-cash items:			
Share based payment		154	260
Provision made for intercompany receivables		-	30,591
Decrease in trade and other receivables	C4	113	636
Increase/(decrease) in trade and other payables	C6	15	(693)
Net cash outflow from operations		(546)	(2,741)
Investing activities			
Increase in intercompany loans	C5	(5,752)	(11,791)
Net cash outflow from investing activities		(5,752)	(11,791)
Financing activities			
Proceeds from issue of share capital, net of costs		5,667	4,833
Net cash inflow from financing activities		5,667	4,833
Increase/(decrease) in cash and cash equivalents		(631)	(9,699)
Cash and cash equivalents at start of year/period		5,218	14,917
Cash and cash equivalents at end of year/period		4,587	5,218

Notes to the Company information

For the year ended 31 December 2020

C1. Basis of preparation and accounting policies

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

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

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

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

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

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

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

Critical accounting estimates and areas of judgement

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

Carrying value of investments and intercompany loan balances

Xeros Technology Group has significant balances held as investments in subsidiaries and intercompany loan balances. The Directors consider the valuation and recoverability of these balances based on the potential future cashflows from utilisation of the Xeros technology. The Directors consider all available evidence in making their judgements on the recoverability of these balances, including internal forecasts and valuations performed by third parties. No provision against the carrying value of these loans and investments has been made in the year. 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 2020 was a loss of £828,000 (year ended 31 December 2019: loss of £33,535,000).

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

Notes to the Company information continued

For the year ended 31 December 2020

C3. Investment in subsidiary companies

At 31 December 2020, the Company held the following investments in subsidiaries:

Undertaking	Sector	Share of issued capital and voting rights 2020
Xeros Limited	Research, development and commercialisation of polymer technology alternatives to traditional aqueous based technologies	100%
Xeros Inc*	Commercialisation of polymer technology alternatives to traditional aqueous based technologies	100%
Xeros High Performance Workwear Inc*	Commercialisation of polymer technology alternatives to traditional aqueous based technologies in cleaning specialist personal protective equipment	100%
Xeros Environmental Protection Technology (Shanghai) Co. Ltd*	Commercialisation of polymer technology alternatives to traditional aqueous based technologies	100%

* Held through Xeros Limited.

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

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

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

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

Cost and net book value	£'000
At 31 December 2018	9,561
Additions	545
Impairment	(1,092)
At 31 December 2019	9,014
Additions	499
At 31 December 2020	9,513

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

Notes to the Company information continued

For the year ended 31 December 2020

C4. Trade and other receivables

	31 December 2020 £'000	31 December 2019 £'000
Prepayments and accrued income	1	9
Other debtors	6	110
	7	119

C5. Intercompany loans

	31 December 2020 £'000	31 December 2019 £'000
Intercompany loan	26,738	20,985

Loans comprise a loan of £26,738,000 (31 December 2019: £20,985,000) to Xeros Limited. No interest was payable on these loans. All intercompany loans are repayable on demand.

C6. Trade and other payables

	31 December 2020 £'000	31 December 2019 £'000
Trade payables	26	69
Social security and other taxes	26	25
Accruals	218	160
	270	254

Directors and officers

Directors

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

Company secretary

Paul Denney

Company website

<http://www.xerostech.com/>

Company number

08684474 (England and Wales)

Registered office

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Registrar

Neville Registrars Limited
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Steelpark Road
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B62 8HD

Auditor

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LS1 4BN

Legal adviser

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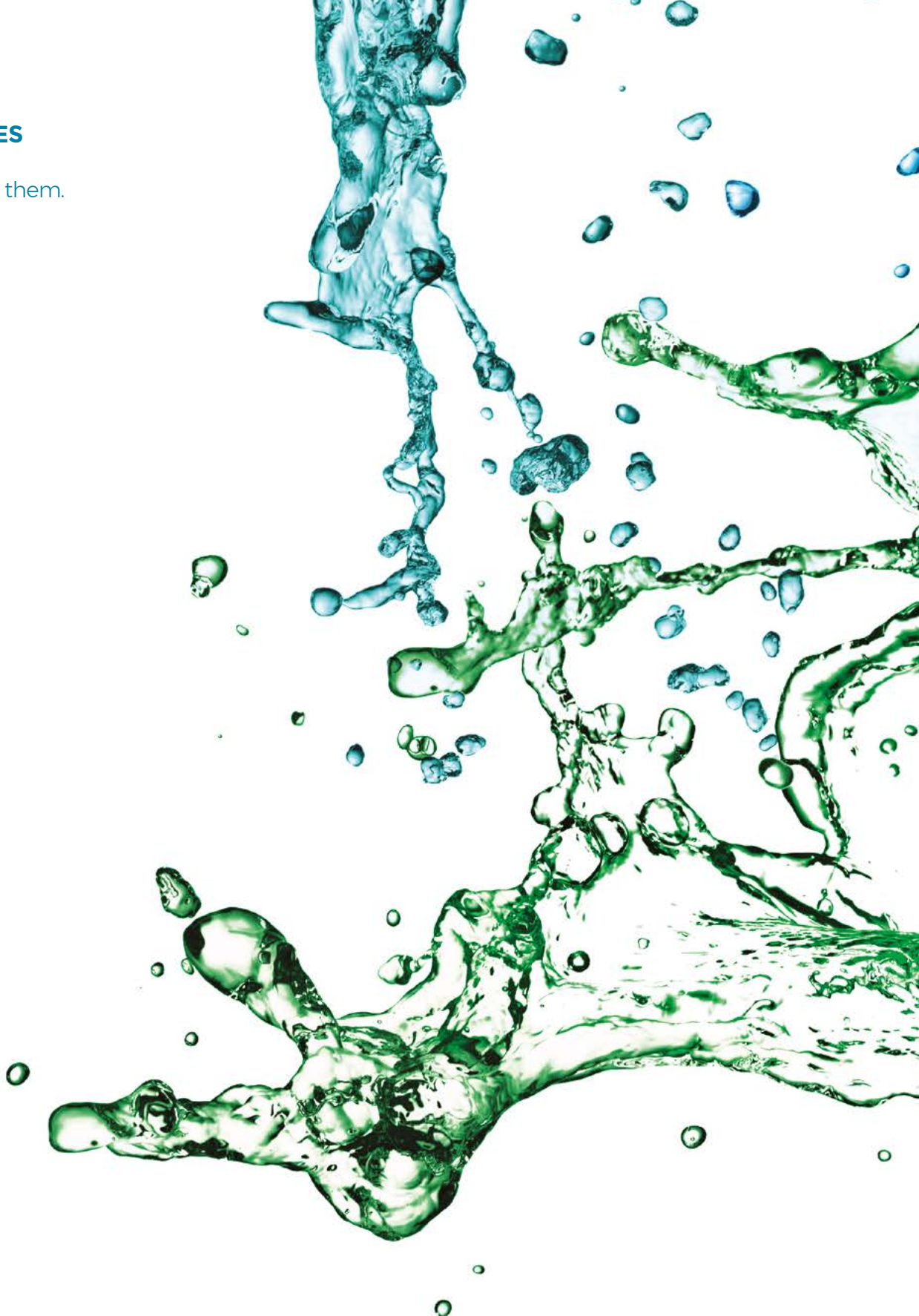
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XEROS TECHNOLOGIES

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