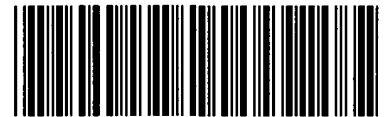


Financial Statements Oxsensis Limited

For the Year Ended 31 December 2016

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COMPANIES HOUSE

Registered number: 04894975

Company Information

Directors	I M Buckley-Golder P J Cohen A Elder M Jay I D Macafee C Langton I Joesbury (appointed 19 September 2016)
Secretary	P J Cohen
Registered number	04894975
Registered office	Unit 6, Genesis Building Library Avenue Harwell DIDCOT Oxfordshire OX11 0SG
Independent auditor	Grant Thornton UK LLP Statutory Auditor & Chartered Accountants 3140 Rowan Place John Smith Drive Oxford Business Park South OXFORD Oxfordshire OX4 2WB
Bankers	HSBC Bank plc 65 Cornmarket Street OXFORD Oxfordshire OX1 3HY

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Directors' Report

For the Year Ended 31 December 2016

The Directors present their report and the financial statements for the year ended 31 December 2016.

Principal activity

The principal activity of the company during the year was the provision of fibre-optic monitoring systems.

Review of the Business

The 2016 year was a successful year for the Company with continued successful engagement in Power Generation and Aerospace markets.

During 2016, and 1st Quarter 2017, the Company secured further customer commitment from Power Generation Original Equipment Manufacturers (OEMs). To support long term sales to OEMs we have begun product shipments to System Integrators for deployment on engines in the field. This deployment will be for both new build engines together with the retrofit market.

Aerospace product development is funded both by customer and public programmes. We continued to make progress in 2016 on existing programmes and have agreed a new programme with Rolls-Royce for engine instrumentation. This programme is part funded by the UK Aerospace Technology Institute. We are excited by this new aerospace opportunity and see it as a further confirmation of Oxsensis being a global leader in optical sensor systems for the Aerospace and Power Generation markets.

To manage anticipated future customer requirements the Company has signed a lease for new facilities on the Harwell Campus and we moved in during August/September. These facilities doubled our floor space and have significantly increased our manufacturing capability.

To support the Company's continued progress discussions are currently underway with a number of parties interested in financially supporting the company through its long-term development plans, some of which are well advanced. The directors have contingency plans in place to ensure the availability of adequate working capital.

Directors

The Directors who served during the year were:

I M Buckley-Golder

P J Cohen

A Elder

M Jay

I D Macafee

C Langton

I Joesbury (appointed 19 September 2016)

Directors' Report (continued)

For the Year Ended 31 December 2016

Going Concern

The accounts have been prepared on a going concern basis. The directors have prepared forecasts based on a pipeline of prospective and secured contracts, the extension of debt funding repayment terms secured subsequent to the balance sheet date and have reviewed capital requirements for twelve months from the date of approving these financial statements. The review included the assumption that Oxsensis successfully concludes negotiations with an International Industrial Company on a Licensing Agreement which will include the conversion of the existing Convertible Loan Notes into ordinary equity. The negotiations are being planned to be finalised by the end June 2017.

It should be noted the external debt funding (secured through the UK Government's Advanced Manufacturing Supply Chain Initiative - AMSCI), drawn down in February 2016, can at the UK Government's discretion, over the next 12 months, be recalled at their discretion although we know of no previous cases where such a recall has been made.

The directors are mindful that the company has convertible loan notes, as described in the accounts, which come due March and April 2018. Discussions have begun with the relevant stakeholders to ensure an optimal outcome is reached by the maturity date of the loan notes to enable the company to continue as a going concern.

After reviewing the Company's improved performance in 2016 and 1st quarter 2017, and taking into account the funding from AMSCI, the directors have prepared forecasts based on a pipeline of prospective and secured contracts, and have reviewed capital requirements for twelve months from the date of approving these financial statements. As such the accounts have been prepared on a going concern basis.

Disclosure of information to auditor

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Under section 487(2) of the Companies Act 2006, Grant Thornton UK LLP will be deemed to have been reappointed as auditor 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

Small Companies Note

In preparing this report, the Directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

This report was approved by the board on 26 June 2017 and signed on its behalf.



P J Cohen
Director

Statement of Financial Position

As at 31 December 2016

	Note	2016 £	2015 £
Fixed assets			
Intangible assets		10,923	14,983
Tangible assets	8	412,021	43,038
Investments	9	6	6
		<u>422,950</u>	<u>58,027</u>
Current assets			
Debtors: amounts falling due after more than one year	10	69,750	-
Debtors: amounts falling due within one year	10	552,389	904,620
Cash at bank and in hand	11	1,095,853	301,624
		<u>1,717,992</u>	<u>1,206,244</u>
Creditors: amounts falling due within one year	12	(9,210,263)	(656,427)
Net current (liabilities)/assets		<u>(7,492,271)</u>	<u>549,817</u>
Total assets less current liabilities		<u>(7,069,321)</u>	<u>607,844</u>
Creditors: amounts falling due after more than one year			
Shareholder loan stock	13	-	4,994,305
Lease incentives	13	291,068	-
Capital and reserves			
Called up share capital		7,736	7,736
Share premium account		7,968,704	7,968,704
Profit And Loss Account	16	(15,336,829)	(12,362,901)
		<u>(7,069,321)</u>	<u>607,844</u>

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime and in accordance with the provisions of FRS 102 Section 1A - small entities.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

26 June 2017



P J Cohen
Director

The notes on pages 5 to 22 form part of these financial statements.

Statement of Changes in Equity

For the Year Ended 31 December 2016

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 January 2016	7,736	7,968,704	(12,362,901)	(4,386,461)
Comprehensive income for the year				
Loss for the year	-	-	(2,973,928)	(2,973,928)
Total comprehensive income for the year	-	-	(2,973,928)	(2,973,928)
At 31 December 2016	7,736	7,968,704	(15,336,829)	(7,360,389)

Statement of Changes in Equity

For the Year Ended 31 December 2015

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 January 2015	7,736	7,968,704	(10,780,340)	(2,803,900)
Comprehensive income for the year				
Loss for the year	-	-	(1,582,561)	(1,582,561)
Total comprehensive income for the year	-	-	(1,582,561)	(1,582,561)
At 31 December 2015	7,736	7,968,704	(12,362,901)	(4,386,461)

The notes on pages 5 to 22 form part of these financial statements.

Notes to the Financial Statements

For the Year Ended 31 December 2016

1. General information

Oxsensis Limited is a Company limited by shares, incorporated within the United Kingdom with the address Unit 6, Genesis building, Livrary Avenue, Harwell, OX11 0SG.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Section 1A of Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

Information on the impact of the first-time adoption of FRS102 is given in note 24.

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

2.3 Going concern

The financial statements have been prepared on a going concern basis. The directors, after reviewing the Company's financial performance and conducting a review of its strategy, have prepared forecasts based on a pipeline of prospective and secured contracts, a deferral of repayment of shareholder loans and the successful conclusion of negotiations on a licensing agreement (see note 24). They have also considered capital requirements for twelve months from the date of signing these financial statements.

It should be noted that debt funding (secured through the UK Government's Advanced Manufacturing Supply Chain Initiative) drawn down in March 2016 (see note 17), can be recalled at the provider's discretion, although we know of no previous cases where such a recall has been made.. Subsequent to the balance sheet date, the repayment dates of the convertible shareholder loans have been extended by a further twelve months to March and April 2018. The Company has also entered into negotiations with a third party on a licensing agreement, which, when successfully concluded, would result in a significant cash inflow of licence fee income over the next twelve months and a conversion of shareholder loans into equity.

The directors have concluded that the above circumstances represent a material uncertainty that may cast significant doubt upon the company's ability to continue as a going concern for a period of not less than twelve months from the date of approval of these financial statements. Nevertheless, after making enquiries and considering the uncertainties described above, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the financial statements.

Notes to the Financial Statements

For the Year Ended 31 December 2016

2. Accounting policies (continued)

2.4 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

2.5 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed five years.

The estimated useful lives range as follows:

Computer software	-	4	years
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2.6 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Notes to the Financial Statements

For the Year Ended 31 December 2016

2. Accounting policies (continued)

2.6 Tangible fixed assets (continued)

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

S/Term Leasehold Property	- 6 years
Plant & machinery	- 4 years
Fixtures & fittings	- 18 months to 4 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

2.7 Valuation of investments

Investments held as fixed assets are shown at cost less provision for impairment.

2.8 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.9 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Notes to the Financial Statements

For the Year Ended 31 December 2016

2. Accounting policies (continued)

2.10 Financial instruments

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Investments in non-convertible preference shares and in non-puttable ordinary and preference shares are measured:

- at fair value with changes recognised in the Statement of Comprehensive Income if the shares are publicly traded or their fair value can otherwise be measured reliably;
- at cost less impairment for all other investments.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate. The company does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

Notes to the Financial Statements

For the Year Ended 31 December 2016

2. Accounting policies (continued)

2.11 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.12 Government grants

Grants are accounted under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to the Statement of Comprehensive Income at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the Statement of Comprehensive Income in the same period as the related expenditure.

2.13 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Comprehensive Income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Statement of Comprehensive Income within 'other operating income'.

2.14 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

Notes to the Financial Statements

For the Year Ended 31 December 2016

2. Accounting policies (continued)

2.15 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.16 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Company in independently administered funds.

2.17 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

2.18 Borrowing costs

All borrowing costs are recognised in the Statement of Comprehensive Income in the year in which they are incurred.

Notes to the Financial Statements

For the Year Ended 31 December 2016

2. Accounting policies (continued)

2.19 Current and deferred taxation

Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.20 Research and development

Research and development expenditure is written off in the year in which it is incurred

2.21 Research and development tax credits

Research and development tax credits under s104a CTA 2009 are recognised within operating income, as the Directors believe the substance of the tax credit is in form of a government grant. The tax charged on these amounts is shown within the tax charge for the year.

Notes to the Financial Statements

For the Year Ended 31 December 2016

3. Judgments in applying accounting policies and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Estimates are based on historical experience and other assumptions that are considered reasonable in the circumstances. The actual amount or values may vary in certain instances from the assumptions and estimates made. Changes will be recorded, with corresponding effect in profit or loss, when, and if, better information is obtained.

Critical judgements that management has made in the process of applying accounting policies disclosed herein and that have a significant effect on the amounts recognised in the financial statements relates to the following:

Revenue recognition

Where service contracts are deliverable over a period of time, revenue is recognised on the basis of statements of works adjusted where appropriate, to reflect a percentage completion basis, as obligations are fulfilled. Management applies judgement when assessing the percentage of completion.

Deferred tax assets

The recognition of deferred tax assets is based on forecasts of future taxable profit. The measurement of future taxable profit for the purposes of determining whether or not to recognise deferred tax assets depends on many factors, including the company's ability to generate such profits and the implementation of effective tax planning strategies. The occurrence or non-occurrence of such events in the future may lead to significant changes in the measurement of deferred tax assets.

Going concern

The directors judgements in relation to going concern have been discussed in note 2.3.

4. Employees

Staff costs, including Directors' remuneration, were as follows:

	2016	2015
	£	£
Wages and salaries	1,266,672	1,001,279
Social security costs	122,296	105,448
Cost of defined contribution scheme	22,238	30,242
	<u>1,411,206</u>	<u>1,136,969</u>

The average monthly number of employees, including directors, during the year was 27 (2015 - 24)

Notes to the Financial Statements

For the Year Ended 31 December 2016

5. Directors' remuneration

	2016 £	2015 £
Aggregate remuneration	387,292	288,177
	<u>387,292</u>	<u>288,177</u>

During the year retirement benefits were accruing to 3 Directors (2015 - 3) in respect of defined contribution pension schemes.

The highest paid Director received remuneration of £112,500 (2015 - £113,781).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £4,100 (2015 - £4,254).

6. Taxation

	2016 £	2015 £
Corporation tax		
Current tax on profits for the year	19,743	14,626
	<u>19,743</u>	<u>14,626</u>
Total current tax	<u>19,743</u>	<u>14,626</u>
Deferred tax		
Total deferred tax	-	-
	<u>-</u>	<u>-</u>
Taxation on profit on ordinary activities	<u>19,743</u>	<u>14,626</u>

Notes to the Financial Statements

For the Year Ended 31 December 2016

6. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 20% (2015 - 20.25%). The differences are explained below:

	2016 £	2015 £
Loss on ordinary activities before tax	(2,954,187)	(1,567,935)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20.25%)	(590,837)	(316,098)
Effects of:		
Expenses not deductible for tax purposes	515,172	307,059
Capital allowances for year in excess of depreciation	-	(1,876)
Additional deduction for R&D expenditure	(3,054)	(5,359)
Surrender of tax losses for R&D tax credit refund	1,486	2,694
R&D expenditure credits	23,660	21,423
Adjustments to tax charge in respect of prior periods	-	(14,811)
Other differences leading to an increase (decrease) in the tax charge	73,316	21,594
Total tax charge for the year	19,743	14,626

Factors that may affect future tax charges

The company has a potential deferred tax asset of £1,090,000 (2015 - £1,150,000) as a result of unrelieved tax losses that are recoverable against future trading profits. The amount has not been recognised in these financial statements due to the uncertainty of timing of such trading profits in the short term.

Notes to the Financial Statements

For the Year Ended 31 December 2016

7. Intangible assets

	Computer software £
Cost	
At 1 January 2016	28,699
At 31 December 2016	28,699
Amortisation	
At 1 January 2016	13,716
Charge for the year	4,058
At 31 December 2016	17,774
Net book value	
At 31 December 2016	10,925
At 31 December 2015	14,983

Notes to the Financial Statements

For the Year Ended 31 December 2016

8. Tangible fixed assets

	Land and buildings £	Plant & machinery £	Fixtures & fittings £	Total £
Cost or valuation				
At 1 January 2016	-	814,462	143,251	957,713
Additions	381,481	8,318	30,349	420,148
At 31 December 2016	381,481	822,780	173,600	1,377,861
Depreciation				
At 1 January 2016	-	786,022	128,653	914,675
Charge for the period on owned assets	25,390	15,482	10,295	51,167
At 31 December 2016	25,390	801,504	138,948	965,842
Net book value				
At 31 December 2016	356,091	21,276	34,652	412,019
At 31 December 2015	-	28,440	14,598	43,038

9. Fixed asset investments

	Investments in subsidiary undertaking £
Cost or valuation	
At 1 January 2016	6
At 31 December 2016	6
Net book value	
At 31 December 2016	6
At 31 December 2015	6

Notes to the Financial Statements

For the Year Ended 31 December 2016

9. Fixed asset investments (continued)

On 19 March 2010, Oxsensis Limited purchased 1,000 \$0.01 shares which represented the entire ordinary share capital of the then newly incorporated Oxsensis Inc., a company registered in the United States of America. The total share capital was \$10 which remained unpaid at the year end. The company remained dormant for the year ended 31 December 2016.

10. Debtors

	2016 £	2015 £
Due after more than one year		
Other debtors	69,750	-
	<u>69,750</u>	<u>-</u>
	2016 £	2015 £
Due within one year		
Trade debtors	35,881	342,654
Other debtors	37,273	41,924
Prepayments and accrued income	380,677	428,857
Tax recoverable	98,558	91,185
	<u>552,389</u>	<u>904,620</u>

11. Cash and cash equivalents

	2016 £	2015 £
Cash at bank and in hand	1,095,853	301,624
	<u>1,095,853</u>	<u>301,624</u>

Notes to the Financial Statements

For the Year Ended 31 December 2016

12. Creditors: Amounts falling due within one year

	2016 £	2015 £
AMSCI loan	1,009,291	-
Shareholders' loan stock	7,645,873	-
Trade creditors	51,200	71,414
Other taxation and social security	36,938	32,799
Lease incentive	64,682	-
Accruals and deferred income	402,279	552,214
	<u>9,210,263</u>	<u>656,427</u>

The shareholders' loan stock consists of £1,157,171 loan stock issued in 2012, and a further £500,000 loan stock which was issued on 29 March 2015.

The shareholders' loan stock is convertible into fully paid ordinary shares at any time on or after 31 December 2012 in the absence of further equity funding being raised prior to that date. The loan notes carry interest at 10% per annum, which for the 2012 loan notes is charged from the first anniversary of issue, and for the 2015 loan notes from the date of issue. They are secured by a fixed and a floating charge over the assets of the company. If the conversion options are not exercised, the 2012 loan notes are repayable on 30 March 2017, and the 2015 loan notes are repayable on 30 April 2017. If the loan stock is redeemed, a redemption premium of four times the value of the loan is payable on the 2012 loan stock, and a redemption premium of 3.5 times the value of the loan is payable on the 2015 loan stock.

Subsequent to the balance sheet date, the loan note holders agreed to defer repayment of the 2012 and 2015 notes by a further twelve months.

As a result of the option to convert the loans, management consider the loans to be non-basic with an embedded derivative. Having assessed the market value of the shares, management consider the fair value of the conversion option to be negligible.

Having considered the above, the substance of the agreement and the requirements of the Financial Reporting Standard FRS 102 1A, management have concluded that the instrument should be classified as debt as the terms of the conversion options do not meet the criteria for 'Fixed for Fixed'. Management considered the accounting treatment of the redemption premium in line with FRS 102 and have determined that the redemption premium represents a finance cost of the loan notes, to be charged over the period of the instrument.

The AMSCI loan represents a loan provided by the UK Government's Advanced Manufacturing Supply Chain Initiative. The loan has a variety of conditions, not all of which the company is currently able to meet, but which management expect to meet in the future. The lending authority was notified of the conditions that cannot be met, and as such the loan is considered to be repayable on demand at the discretion of the lender. The loan is secured by a fixed and floating charge over the assets of the company.

Notes to the Financial Statements

For the Year Ended 31 December 2016

13. Creditors: Amounts falling due after more than one year

	2016 £	2015 £
Shareholders' loan stock	-	4,994,305
Lease incentive	291,068	-
	<u>291,068</u>	<u>4,994,305</u>

14. Financial instruments

	2016 £	2015 £
Financial assets		
Financial assets measured at fair value through profit or loss	1,095,853	301,624
	<u>1,095,853</u>	<u>301,624</u>

Financial assets measured at fair value through profit or loss comprise of cash.

15. Share capital

	2016 £	2015 £
Shares classified as equity		
Authorised, allotted, called up and fully paid		
773,598 (2015 - 773,600) Ordinary shares of £0.01 each	<u>7,736</u>	<u>7,736</u>

The following ordinary share options were held under EMI and non-EMI schemes as at 31 December 2016. Options are held by five current Directors, two former Directors, 14 employees and former employees, and by one overseas representative of the company. Each option entitles the holder to purchase one share at a set exercise price. Options lapse if the holders cease to be employed by the business, except at the discretion of the directors.

As at 31 December 2016, 74,893 share options were outstanding (2015 - 58,414 EMI share options), with an exercise price of £0.01. During the current year, 700 options lapsed and 17,179 options were granted with an exercise price of £0.01.

At 31 December 2016, 46,936 non-EMI options were outstanding (2015 - 47,199 non-EMI options). Of these, 6,467 had an exercise price of £8.00, 2,666 had an exercise price of £17.15, and 37,803 had an exercise price of £0.01. During the year, 1,200 options lapsed and 937 options were granted with an exercise price of £0.01.

No charge has been included in these financial statements as it is deemed to be immaterial.

Notes to the Financial Statements

For the Year Ended 31 December 2016

16. Reserves

Share premium

Share premium includes all premiums on shares issued

Profit & loss account

The profit and loss account includes all prior years and current year losses.

17. Commitments under operating leases

At 31 December 2016 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2016 £	2015 £
Not later than 1 year	116,250	125,633
Later than 1 year and not later than 5 years	465,000	31,408
Later than 5 years	48,438	-
	<u>629,688</u>	<u>157,041</u>

18. Related party transactions

During the year to 31 December 2016, Science & Technology Facilities Council in its capacity as shareholder, landlord and subcontractor to the company, invoiced the company fees of £99,579 (2015 - £144,241). A balance of £240 (2015 - £3,507) relating to these fees was due on 31 December 2016. The Science & Technology Facilities Council also holds warrants to subscribe for such a number of ordinary shares as having a total value of £25,000. These remained outstanding at the year end.

During the year, transactions totaling the following amounts were undertaken on an arm's length basis with companies owned by minority shareholders:

Albion Ventures (formerly Close Ventures) - £13,799 (2015 - £15,708)

In addition, a minority shareholder, Scott Hoover, was paid £54,407 (2015 - £6,227) for consultancy services and reimbursement of expenses.

The directors are deemed to be key management of the business.

19. Post balance sheet events

Negotiations are ongoing with an International Industrial Company on a Licensing Agreement which will include the conversion of the existing Convertible Loan Notes into ordinary equity. The negotiations are being planned to be finalised by the end June 2017.

Notes to the Financial Statements

For the Year Ended 31 December 2016

20. First time adoption of FRS 102

The Company transitioned to FRS 102 from previously extant UK GAAP as at 1 January 2015. The impact of the transition to FRS 102 is as follows:

Reconciliation of equity at 1 January 2015

	Note	£
Equity at 1 January 2015 under previous UK GAAP		(2,803,899)
Equity shareholders funds at 1 January 2015 under FRS 102		(2,803,899)

Reconciliation of equity at 31 December 2015

	Note	£
Equity at 31 December 2015 under previous UK GAAP		(4,379,768)
Holiday pay accrual	1	(6,693)
Equity shareholders funds at 31 December 2015 under FRS 102		(4,386,461)

Profit for the year ended 31 December 2015 under FRS 102

The following were changes in accounting policies arising from the transition to FRS 102:

- 1 Creditors have been increased to include the holiday pay accrual in line with the requirements of FRS102 section 1A. This has also impacted the loss for the year.

Notes to the Financial Statements

For the Year Ended 31 December 2016

21. Auditor's information

The auditors report on the accounts for the year ended 31 December 2016 was unqualified.

In their report the auditors emphasised the following matter without qualifying their report:

The company incurred a net loss of £2,983,747 during the year ended 31 December 2016 and, at that date, the company had a net balance sheet deficit of £7,370,208. The company's shareholder loan notes, amounting to £8,682,940 on maturity, were due for redemption in March and April 2017. Subsequent to the balance sheet date, the loan note holders agreed to defer repayment by a period of 12 months. In addition, loan funding of £1,009,291 can be recalled at the provider's discretion.

The directors assessment of the capital requirements of the Company for the 12 months from the date of approving these financial statements includes an assumption that Oxsensis successfully concludes negotiations for further funding through a licence agreement which will also result in the conversion of the loan notes into ordinary equity. Should this funding not be secured, the company would be in a negative cash position within the next twelve months.

These conditions give rise to the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

The audit report was signed by Amrish Shah on behalf of Grant Thornton UK LLP.