REGISTERED NUMBER: 05933013 (England and Wales)

Strategic Report, Directors' Report and Financial Statements for the Year Ended 31 December 2019 For Xeros Limited

Contents of the Financial Statements
for the year ended 31 December 2019

Company Information
for the year ended 31 December 2019

Directors:	Dr S D Jenkins M J Nichols P M Denney C J Cullinane
Secretary:	P M Denney
Registered Office:	Unit 2, Evolution Advanced Manufacturing Park Whittle Way, Catcliffe Rotherham S60 5BL
Registered Number:	05933013 (England and Wales)
Auditor:	Grant Thornton UK LLP Chartered Accountants Registered Auditor No 1 Whitehall Riverside Whitehall Road Leeds LS1 4BN

Strategic Report
for the year ended 31 December 2019

The directors present their strategic report for the year ended 31 December 2019.

Review of the business
The loss after taxation for the year ended 31 December 2019, is £16,435,689 (2018: £59,981,335). The company's key financial and other performance indicators during the period were as follows:

	2019	2018
	£	£
Turnover	715,911	1,096,970
Operating loss	(10,171,030)	(10,054,375)
Loss for the financial period	(16,435,689)	(59,981,335)
Shareholders deficit	(99,165,725)	(83,007,857)

In 2019 the Company materially completed the planned migration to that of an asset-light company with a strategy of licensing the extensive intellectual property ('IP') portfolio. This IP is comprised of know-how, trademarks and nearly 40 patent families, either granted or in application, covering inventions which dramatically improve the performance, economics and sustainability of water and energy intensive industrial and domestic processes. The IP transforms and creates new value in two areas of significant size and importance: firstly, in the global scale industries of finishing, dyeing and cleaning of garments and fabrics and secondly, in the reduction of the largest source of primary microplastic pollution which results from these processes.

During the reporting period, licensing progress accelerated with the Company winning a number of new long-term license contracts. In India the Company signed a license agreement with a leading OEM in the field of commercial laundry. Also in India, the Company was awarded its first licensing contract in the domestic laundry market and, in March 2020 the first licensing agreement for garment finishing applications was signed. In addition, the Company signed a joint development agreement ('JDA') with one of the world's largest domestic laundry machine manufacturers in China. Finally, in April 2020 the Company signed our first JDA with a major commercial laundry solutions provider with the objective of installing our XFiltra product across their range of commercial washing machines.

The stated business model is to license innovations to leading OEMs, under long term commercial arrangements, in exchange for royalties. For finishing, dyeing and commercial laundering of garments and fabrics, royalties are to be received for each XDrum machine sold by OEM licensees as well as a royalty for the ongoing use of XOrbs by their customers. For XDrum machines sold into the domestic market, royalties are to be received for each machine sold by OEMs with a similar model envisaged for sales of our XFiltra products when they enter the market. Where appropriate, the Company will look to receive upfront payments from development partners and licensees for access to our technology and for exclusivity, if granted, and also seek to agree contractual minimums in terms of XDrum machine volumes.

The transition to a license model has been enabled by the knowledge, certifications and accreditations accumulated by the direct participation of the wider Xeros Group in commercial laundry and specialist cleaning markets, mainly in the US. With these in place and a physical presence no longer required, in August 2018, the Xeros group commenced a programme to exit all direct operations in these markets. This programme is now materially complete with the Group having sold the vast majority of its commercial laundry contracts and their obligations to former channel partners, with the servicing of the few still retained undertaken by third parties. In September 2019, the Company licensed its IP in leather tanning and sold the brand name "Qualus" to ESTR Ltd, a company established by the former management team. Following these exits, the Xeros Group organisation has reduced from 150 to close to 50 personnel at the end of March 2020. These remaining employees are dedicated to winning, implementing and executing license contracts in our chosen markets.

Principal risks and uncertainties
The principal risks and uncertainties facing the company are set out below.

Intellectual property
The Company'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 Company'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 Company, that any of the Company'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 Company.

There can be no assurance that others have not developed or will not develop similar products, duplicate any of the Company's products or design around any patent applications held by the Company. Others may hold or receive patents which contain claims having a scope that covers products developed by the Company (whether or not patents are issued to the Company). 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 Company's intellectual property rights, even without merit, could be time consuming and expensive to defend and could have a materially detrimental effect on the Company's resources.

Third party intellectual property
Although the Board believes that the Company'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 Company. As detailed above, substantial costs (both financially and in management time) may be incurred if the Company is required to defend its intellectual property.

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

Acceptance of the Company's products
The success of the Company will depend on the market's acceptance of, and attribution of value to, its core technology 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 Company's core technology will succeed as an alternative to other applications.

Commercialisation risk
The Company 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 Company's negotiating position in agreeing terms of either joint development, distribution, 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 Company and any of its potential partners could lead to delays in the Company's commercialisation strategy.

Early stage of operations
Whilst the Company has made initial limited product sales, 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 Company'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 Company's growth could have a material adverse effect on its business, financial condition and results of operations.

The Company is currently loss making and there can be no certainty that the Company or the wider Group of which it is part 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 Company'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 Company's technology may rely, in part, on the ability of the Company's immediate parent company to raise further finance. While the Company's parent company has been successful to date in raising funds as required, there can be no guarantee that a future fundraise will be successful. The Company has a limited operating history upon which its performance and prospects can be evaluated.

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 Company's technology. This would have a significant adverse effect on the Company's business.

Third party risk
The majority of products incorporating the Company's technology are in the early to mid-stages of being produced on a fully commercial scale. As a result, the Company is dependent on a limited number of 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 Company's business and its financial position.

The Company 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 Company for any reason and/or materially and adversely change the terms upon which it deals with the Company, difficulties may be experienced by the Company in sourcing alternative suppliers on acceptable terms. Any such disruption to the Company's supply arrangements may have a material adverse effect on the growth of the Company's business and its financial position.

Dependence on key executives and personnel and the ability to attract and retain appropriately qualified personnel
The Company'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 Company cannot give assurances that members of the senior management team and the executive Directors will continue to remain within the Company. Finding and

hiring any such replacements could be costly and might require the Company 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 Company operates may have an adverse effect on the demand for the Company's products. A more prolonged economic downturn may lead to an overall decline in the volume of the Company's sales, restricting the Company's ability to generate a profit.

As a UK domiciled business, the Company 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 Company. 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 Company's future revenues.

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

The Company operates or is seeking to develop its operations in several geographic regions and countries, some of which are categorised as developing or have unstable political or social climates 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 Company, 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 Company's operations and could have a material adverse effect on the Company's business, financial condition or results.

Foreign exchange risk
Given the international nature of its business, the Company 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.

Exposure to credit, liquidity foreign currency and market risk
Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The company is potentially exposed to credit risk from credit sales, but the directors consider this to be a low risk. At 31 December 2019, the company had £55,605 of trade receivables outstanding (after provision for bad and doubtful debts) (31 December 2018: £62,236).

The company is exposed to credit risk in respect of these 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 company's financial results. The company 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.

At 31 December 2018, the directors have made provisions for bad and doubtful debts amounting to £81,052 (2018: £49,887).

Liquidity risk arises from the company's management of working capital. It is the risk that the company will encounter difficulty in meeting its future obligations as they fall due. The company'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.

Foreign currency risk arises from adverse changes in exchange rates between Sterling, the US dollar and the Euro. Transaction exposures arise mainly from purchases and sales made in US dollars. The Company's policy is to seek to reduce exposure to currency fluctuations and to achieve this aim, it enters into forward foreign currency contracts where appropriate.

Market risk is the risk that changes in market prices, such as interest rates or foreign exchange rates will affect the company'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 company's holding of cash and cash equivalent balances. 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 UK 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.

On behalf of the board:

Paul Denny

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P M Denney – Director

Date: ....15 MAY 2020....

Directors' report
for the year ended 31 December 2019

The directors present their report together with the audited financial statements of the company for the year ended 31 December 2019.

Dividends
The directors do not recommend the payment of a dividend (2018: £nil)

Research and development
The company has continued to research and develop its polymer technologies during the period. The company incurred research and development expenditure of £2,786,180 (2018: £5,794,408) which has been charged to the Statement of Comprehensive Income.

Future developments
The company intends to continue operating in the area of development and commercialisation of polymer technologies across large industries that use significant amounts of water and chemistry. The Company is in the process of transitioning to a pure licencing model and therefore has exited or is exiting the areas of its business in which direct sales are made to end users. The Company expects this development to continue in all areas of the business going forward and has signed a number of commercial deals to this end.

Directors
The directors shown below have held office during the whole of the period from 1 January 2019 to the date of this report unless otherwise stated.

Dr S D Jenkins
M J Nichols
P M Denney
J A W Samuel (resigned 12 February 2019)
C J Cullinane (appointed 19 February 2020)

Financial Instruments
The company finances its activities with a combination of cash and short-term deposits as disclosed in note 16. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the company's operating activities. Financial instruments give rise to foreign currency, interest rate, credit and liquidity risk. Information on how these risks arise is set out below, as are the objectives, policies and processes for their management and the methods used to measure each risk.

Going Concern
The company's business position, together with the risk factors likely to affect its future development, performance and position are set out in the Strategic Review on pages 2 to 4. The company is currently loss making due to the early stage of commercial operations and is 2019 was a year of transition to a pure licencing business and a rebalancing of the cost base to reflect this.

The company retains the support of it's immediate parent company, the Xeros Technology Group and is reliant on this support in order to continue as a going concern. In May 2020, the Xeros Technology Group finalised a further equity fundraise, raising £6m before fees to allow it to continue towards its objective of reaching cash breakeven and profitability. The Directors believe that the completion of this fundraises provides the Group with sufficient cash to reach this aim.

The company and the Group of which it is a member are subject to a number of risks, including those as set out in the strategic report on pages 3 to 6. These risks include the global macro-economic conditions, such as the impact of the COVID-19 on both the company 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, it is clear that a prolonged period of disruption may have a negative impact upon the company's ability to work closely with international license partners and therefore execute the company's strategy

Given the ongoing support of Xeros Technology Group plc, the Directors believe that the Company is in a position to continue in operational existence for the foreseeable future and as a result continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Disclosure of information to auditor
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor
The auditor, Grant Thornton UK LLP, will be deemed to be reappointed under section 487(2) of the Companies Act 2006.

On behalf of the board:

Paul Denney
P M Denney – Director

Date: 15 MAY 2020

Statement of Directors' Responsibilities
for the year ended 31 December 2019

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

Company law required the directors to prepare the financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards and applicable law, including FRS 101 '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 these state of affairs and profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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.

On behalf of the board:

Paul Denny
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P M Denney – Director

Date: ....15 MAY 2020....

Independent Auditor's Report to the Members of Xeros Limited

Opinion

We have audited the financial statements of Xeros Limited (the 'company') for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation 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 company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 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, 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.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the directors' conclusions, we considered the risks associated with the company's business model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

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.

Opinions on other matters prescribed by the Companies Act 2006

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

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 9, 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 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 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.

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.

Grant Thornton UK LLP

Mark Overfield BSc FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Leeds
15 May 2020

Statement of Comprehensive Income

for the year ended 31 December 2019

	Notes	2019 £	2018 £
Revenue	4	**715,911**	1,096,970
Cost of sales		**(463,910)**	(989,227)
Gross Profit		**252,001**	107,743
Administrative expenses		**(10,242,621)**	(12,948,327)
		(9,990,620)	(12,840,584)
Other operating (costs)/income		**(180,410)**	2,786,209
Operating loss		**(10,171,030)**	(10,054,375)
Interest receivable and similar income	6	**12,733**	45,431
		(10,158,297)	(10,008,944)
Impairment of Group balances	7	**(7,165,170)**	(51,006,784)
		(17,323,467)	(61,015,728)
Interest payable and similar expenses	8	**(10,194)**	(56)
Loss before taxation		**(17,333,661)**	(61,015,784)
Tax on loss	11	**897,972**	1,034,449
Loss for the financial year		**(16,435,689)**	(59,981,335)
Other comprehensive income		**-**	-
Total comprehensive income for the year		**(16,435,689)**	(59,981,335)

*The company has applied IFRS 16 in 2019 using the modified retrospective method. Using this method the comparative information is not restated.

Statement of Financial Position

As at 31 December 2019

	Notes	2019 £	2018 £
Fixed assets			
Property, plant & equipment	12	**479,340**	520,031
Investments	13	**-**	1,570,398
		479,340	2,090,429
Current assets			
Inventories	14	**341,742**	449,204
Debtors	15	**337,607**	771,633
Cash & cash equivalents	16	**266,822**	976,964
		946,171	2,197,801
Creditors			
Amounts falling due within one year	17	**(100,461,675)**	(87,257,672)
		(100,461,675)	(87,257,672)
Net current liabilities		**(99,515,504)**	(85,059,871)
Total assets less current liabilities		**(99,036,164)**	(82,969,442)
Non-current liabilities			
Provisions for liabilities	20	**(38,415)**	(38,415)
Right of use liabilities		**(91,146)**	-
		(129,561)	(38,415)
Net liabilities		**(99,165,725)**	(83,007,857)
Capital and reserves			
Called up share capital	21	**24**	24
Share premium	22	**15,503,140**	15,503,140
Capital contributions	22	**2,328,518**	2,002,794
Retained earnings	22	**(116,997,407)**	(100,513,815)
Shareholders' funds		**(99,165,725)**	(83,007,857)

* The company has applied IFRS 16 in 2019 using the modified retrospective method. Using this method the comparative information is no restated.

The notes to the financial statements on pages 16 – 33 form part of these financial statements.

The financial statements were approved by the Board of Directors on 15 May 2020 and were signed on its behalf by:

Paul Denney
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P M Denney
Director

Statement of Changes in Equity
for the year ended 31 December 2019

	Called up share capital	Share premium	Capital contribution	Retained earnings	Total equity
	£	£	£	£	£
Balance as at 1 January 2018	24	15,503,140	1,319,988	(40,532,480)	(23,709,328)
Changes in equity					
Total comprehensive income	-	-	-	(59,981,335)	(59,981,335)
Share based payment charge	-	-	682,806	-	682,806
Balance as at 1 January 2019	24	15,503,140	2,002,794	(100,513,815)	(83,007,857)
Impact of change in accounting policy	-	-	-	(47,903)	(47,903)
Balance as at 1 January 2019 – restated	24	15,503,140	2,002,794	(100,561,718)	(83,055,760)
Changes in equity					
Total comprehensive income	-	-	-	(16,435,689)	(16,435,689)
Share based payment charge	-	-	325,724	-	325,724
Balance as at 31 December 2019	24	15,503,140	2,328,518	(116,997,407)	(99,165,725)

* During the year the Company applied IFRS 16 using the modified retrospective method. Using this method, the comparative information is not restated.

Notes to the Financial Statements
for the year ended 31 December 2019

1. Authorisation of Financial Statements and Compliance with FRS 101

The financial statements of Xeros Limited (the "company") for the period ended 31 December 2019 were authorised for issue by the board of directors on 15 May 2020 and the statement of financial position was signed on the board's behalf by PM Denney. Xeros Limited is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The company's financial statements are presented in Sterling and all values are rounded to the nearest pound (£) except when otherwise indicated.

The company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of Xeros Technology Group plc.

The results of Xeros Limited are included in the consolidated financial statements of Xeros Technology Group plc which are available from Unit 2 Evolution, Advanced Manufacturing Park, Whittle Way, Catcliffe, Rotherham, S60 5BL.

The principal accounting policies adopted by the company are set out in note 3.

2. Statutory Information

Xeros Limited is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

3. Accounting Policies

Basis of preparation
These financial statements have been prepared in accordance with Financial Reporting Standard 101 – Reduced Disclosure Framework ("FRS101"). Subsequent amendments to FRS101 which are effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions have been taken.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2019.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital and tangible fixed assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;

- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

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

- IFRS 2 Share Based Payments in respect of group settled share-based payments;
- certain disclosures required by IFRS 9 Financial Instruments, certain disclosures required by IFRS 15 and the disclosures required by IFRS 7 Financial Instrument Disclosures; and
- the effect of IFRS 16 transition/disclosures.

Changes in accounting policies
Except for the changes below, the Company has consistently applied the accounting policies to all periods presented in these financial statements.

IFRS 16 'Leases'
IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Lease Form of a Lease').

The adoption of this new Standard has resulted in the Company recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having an initial lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as a lease under IAS 17 and IFRIC 4.

The Company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Company has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 5%.

The Company has benefitted from the use of hindsight for determining the lease term when considering options to extend and terminate leases

Revenue recognition
Revenue on machine sales in 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 IFRS 15, the Company assesses the contract against the five steps of IFRS 15. This process includes the assessment of the performance obligations within the contract revenue across these performance obligations once identified. This is particularly relevant where customer contracts are agreed with multiple elements, such as those sales where a machine is sold in a bundle with an ongoing service contract, is split according to the amount of consideration expected to be received for the transfer of relevant goods or services to the customer. This consideration is calculated using cost data and an appropriate margin.

Revenue is shown net of Value Added Tax.

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.

The Company recognised revenue from licencing its IP in the year, the amount of which was immaterial.

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

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

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

Impairment of fixed assets
At each reporting date, the company reviews the carrying amounts of its fixed assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

Investments
Investments are held at cost less any provisions for impairment.

Financial assets and liabilities
Financial assets and financial liabilities are recognised in the statement of financial position when the company 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.

(i) Trade debtors
Trade debtors are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment. Appropriate provisions for estimated credit losses are recognised in the statement of comprehensive income when there is objective evidence that the assets are impaired.

(ii) 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.

(iii) Investments - deposits
Investments - deposits comprise bank deposits maturing more than three months after the statement of financial position date.

(iv) 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 company are recorded at the proceeds received, net of direct issue costs.

(v) Trade creditors
Trade creditors 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.

(vi) Classification of financial instruments
Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy.

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 - Purchase cost on a first-in, first-out basis
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.

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 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 company'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 have been accounted for on an accruals basis depending on 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 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.

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 company;
- the project is technically and commercially feasible;
- the company intends to and has sufficient resources to complete the project;
- the company 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 is deemed that the probability of future economic benefit is currently uncertain.

Foreign currencies
The financial statements are presented in Sterling, which is the currency of the primary economic environment in which the company operates (its functional currency).

In preparing the financial statements, 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 statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the statement of financial position 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 translated using the exchange rates as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates as at the date when the fair value was determined.

Leases
As a lessee
For any new contracts entered into on or after 1 January 2019, the Company 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 Company 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 Company
• The Company 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 Company 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 Company 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 Company, 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 Company 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 Company also assesses the right-of-use asset for impairment when such indicators exist.

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

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

As the Company transfers substantially all the risks and benefits of ownership of the asset, the arrangement is classified as a finance lease and a receivable is recognised for the initial direct costs of the lease and the present value of the minimum lease payments. As payments fall due, finance income is recognised in the income statement so as to achieve a constant rate of return on the remaining net investment in the lease. Assets held for rentals to customers under operating leases are recorded as fixed assets and are depreciated on a straight-line basis to their estimated residual values over their estimated useful lives. Operating lease income is recognised within revenue on a straight-line basis over the term of the rental period. 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.

Employee benefit costs
The company operates a defined contribution pension scheme. Contributions payable to the company's pension scheme are charged to the statement of comprehensive income in the period to which they relate.

Grants

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

Income from grants is included within 'other operating income' in the statement of comprehensive income.

Share based payments
Certain employees and consultants (including Directors and senior executives) of the company receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments of the parent company, Xeros Technology Group plc ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by the parent company, 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 company's best estimate of the number of equity instruments that will ultimately vest in the parent company. 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 as recharged to the company by Xeros Technology Group plc, with a corresponding credit arising in the form of a capital contribution.

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.

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

Revenue recognition
The Company offers an integrated service and care package. This package includes the transfer of equipment and on ongoing commitment to service and support. Where appropriate, the Company accounts for the sales under these packages as finance leases. As part of determining the appropriate revenue recognition policy for such packages, the Company is required to allocate the total contract revenue between the carious contract elements in line with IFRS15. Due to the unique nature of the produce and the stage of development of the Group, such assessment is

based on limited historical information and required a level of judgement. These judgements may be revised in future years.

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

Going concern
The company's business position, together with the risk factors likely to affect its future development, performance and position are set out in the Strategic Review on pages 2 to 6. The company is currently loss making due to the early stage of commercial operations and is in the process of a transition to a pure licencing business and is rebalancing its cost base to reflect this.

The company retains the support of its immediate parent company, the Xeros Technology Group and is reliant on this support in order to continue as a going concern. In May 2020, the Xeros Technology Group finalised a further equity fundraise, raising £6m before fees to allow it to continue towards its objective of reaching cash breakeven and profitability. The Directors believe that the completion of this fundraises provides the Group with sufficient cash to reach this aim.

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 May 2021. These forecasts indicate that, due to the ongoing support of Xeros Technology Group plc the Company is able to settle its liabilities as they fall due in the forecast period. In these forecasts the directors have considered appropriate sensitivities such as the level of 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.

Given the ongoing support of Xeros Technology Group plc, the Directors believe that the Company is in a position to continue in operational existence for the foreseeable future and as a result continue to adopt the going concern basis of accounting in preparing the annual financial statements.

4. Revenue

Turnover recognised in the income statement is analysed as follows:

	2019 £	2018 £
Sale of goods	**436,939**	941,247
Rendering of services	**175,817**	155,723
Licence revenue	**103,155**	-
Revenue	**715,911**	1,096,970

Turnover by geographical area:

	2019 £	2018 £
Europe	**502,934**	415,600
North America	**109,822**	681,370
Rest of the World	**103,155**	-
Revenue	**715,911**	1,096,970

During the period ended 31 December 2019, the company had one customer who generated more than 10% of revenue. This customer, the company's wholly owned subsidiary, Xeros Inc. generated 15% of revenue.

During the period ended 31 December 2018, the company had one customer who generated more than 10% of revenue. This customer, the company's wholly owned subsidiary, Xeros Inc. generated 62% of revenue.

5. Employees and Directors

	2019 £	2018 £
Wages and salaries	**3,738,123**	4,022,868
Social security costs	**459,736**	464,246
Other pension costs	**115,603**	100,880
	4,313,462	4,587,994

The average number of employees during the year was as follows:

	2019 No.	2018 No.
Directors	**3**	4
Operational staff	**62**	74
	65	78

	2019 £	2018 £
Directors remuneration	**182,625**	149,286
Directors pension contributions to money purchase schemes	**5,517**	4,250
	188,142	153,536

Included within director's remuneration for 2018 is £5,000 in respect of sums paid to third parties for the services of directors. There were no such sums paid in 2019.

6. Interest receivable and similar income

	2019 £	2018 £
Deposit accounts interest	-	29,680
Finance income from lease receivables	**11,611**	14,358
Other interest receivable	**1,122**	1,393
	12,733	45,431

7. Impairment of Group balances

	2019 £	2018 £
Impairment of investments in subsidiary undertaking	**1,570,398**	2,235,922
Impairment of inter-group receivable	**5,594,772**	48,770,862
	7,165,170	51,006,784

The directors have considered the recoverability of the carrying value of the investments in subsidiary undertakings and the amounts due from subsidiary undertakings in respect of inter-group loans and have made the above provisions during the year.

8. Interest payable and similar expenses

	2019 £	2018 £
Deposit accounts interest	**45**	56
Right of use asset interest cost	**10,149**	-
	10,194	56

9. Profit and loss before taxation

The profit or loss before taxation is stated after charging/(crediting):

	2019 £	2018 £
Cost of inventories recognised as an expense	**247,596**	976,626
Other operating leases	**84,466**	211,174
Depreciation – owned asset	**182,772**	185,341
Deprecation – right of use assets	**54,473**	-
Foreign exchange differences	**180,410**	(2,786,209)
Research and development costs	**2,786,180**	5,794,408

10. Auditors remuneration

	2019 £	2018 £
Fees payable to the company's auditor for the audit of the company's financial statements	**25,000**	25,000
	25,000	25,000

11. Taxation

	2019 £	2018 £
Current tax	**(897,792)**	(1,034,449)
	(897,792)	(1,034,449)

Factors affecting the tax charge:

	2019 £	2018 £
Current tax	**(897,972)**	(1,034,449)
	(897,972)	(1,034,449)
Loss multiplied by the standard rate of corporation tax in the UK of 19%	**(3,293,396)**	(11,592,999)
Effects of:		
Expenses not deductible for tax purposes	**61,888**	134,450
Impairment provision not deductible for tax purposes	**1,361,382**	9,691,289
Current year loss for which no deferred tax asset was recognised	**1,870,126**	1,767,260
R&D tax credits received in respect of prior year	**(897,972)**	(1,034,449)
Tax income	**(897,972)**	(1,034,449)

Amounts received or receivable by the company in respect of R&D tax credits are recognised in the financial statements on an accruals basis dependent on the level of certainty regarding acceptance of the claims by HMRC.

12. Property, plant and equipment

	Right of use assets	Leasehold improvements	Plant and machinery	Fixtures and fittings	Computer equipment	Total
	£	£	£	£	£	£
Cost						
As at 1 January 2019	-	635,485	367,026	99,629	197,390	1,299,530
Additions on change in accounting policy	177,037	-	-	-	-	177,037
Additions	-	7,205	137,961	750	795	146,711
Disposals	-	(95,747)	(239,290)	(51,810)	(106,508)	(493,355)
As at 31 December 2019	177,037	546,943	265,697	48,569	91,677	1,129,923
Depreciation						
As at 1 January 2019	-	361,224	202,728	76,760	138,787	779,499
Charge for the year	54,473	73,789	48,635	21,669	38,680	237,246
Disposals	-	(95,747)	(112,097)	(51,810)	(106,508)	(366,162)
As at 31 December 2019	54,473	339,266	139,266	46,619	70.959	650,583
Net book value						
As at 31 December 2019	**122,564**	**207,677**	**126,431**	**1,950**	**20,718**	**479,340**
As at 31 December 2018	-	274,261	164,298	22,869	58,603	520,031

13. Investments

	Shares in Group undertakings
	£
Cost	
As at 1 January 2019	3,806,320
As at 31 December 2019	3,806,320
Accumulated impairment	
As at 1 January 2019	2,235,922
Charge for the year	1,570,398
As at 31 December 2019	3,806,320
Net book value	
As at 31 December 2019	**-**
As at 31 December 2018	1,570,398

The directors have considered the recoverability of the carrying value of the investments in subsidiary undertakings and have made a provision of £1,570,398 (2018: £2,235,922) during the year.

The company's investments at the Statement of Financial Position date in the share capital of companies include the following:

Xeros Inc

Class of shares	% holding
Common Stock $0.001 par value	100

Xeros Inc. is incorporated in Delaware, USA. Xeros Inc's registered office is 195 Dupont Drive, Providence, Rhode Island, 02907, USA. It's nature of business is the provision polymer technology-related equipment.

Xeros High Performance Workwear Inc.

Class of shares	% holding
Common Stock $0.001 par value	100

Xeros High Performance Workwear Inc. is incorporated in Delaware, USA. Xeros High Performance Workwear Inc.'s registered office is 195 Dupont Drive, Providence, Rhode Island, 02907, USA. It's nature of business is the cleaning and repair of high performance workwear. The investment in Xeros High Performance Workwear Inc. is held through Xeros Inc.

14. Inventories

	2019 £	2018 £
Raw materials	**118,315**	114,204
Finished goods	**223,427**	335,000
	341,742	449,204

In the year ended 31 December 2019, raw materials, consumables and changes in work in progress and finished goods recognised as cost of sales amounted to £247,596 (2018: £976,626).

In the year ended 31 December 2019, provisions were made against the value of finished goods of £nil (2018: £874,000).

15. Debtors

	2019 £	2018 £
Amounts falling due within one year:		
Trade debtors	**55,605**	62,236
Amounts owed by group undertakings	**-**	-
Amounts receivables in respect of finance leases	**50,166**	51,734
Other debtors	**12,736**	14,984
Other tax and social security	**(34,117)**	206,724
Prepayments	**140,606**	283,625
	224,996	619,303
Amounts falling due after more than one year:		
Other debtors	**112,611**	152,330
	112,611	152,330
Total debtors	**337,607**	771,633

16. Cash at bank and in hand

All of the company's cash and cash equivalents at 31 December 2019 and 31 December 2018 are at floating interest rates. Balances are denominated in UK Sterling (£), Euro (€) and US Dollars ($). The Directors consider that the carrying value of cash and cash equivalents approximates to their fair value.

17. Creditors

	2019 £	2018 £
Amounts falling due within one year:		
Trade creditors	**395,481**	871,986
Amounts owed to group undertakings	**99,255,938**	85,665,245
Social security and other taxes	**87,908**	134,400
Other creditors	**25,831**	59,432
Accruals and deferred income	**627,824**	526,609
Right of use liabilities	**68,693**	-
	100,461,675	87,257,672
Amounts falling due after more than one year:		
Right of use liabilities	**91,146**	-
	91,146	-
Total creditors	**100,552,821**	87,257,672

Trade creditors are non-interest bearing and are normally settled on 30-day terms. Other creditors are non-interest bearing.

The company has a loan from its parent company, Xeros Technology Group plc amounting to £99,255,938 (2018: £85,665,245). No interest was payable on the balance. This loan is repayable on demand.

18. Leases

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

Leases of buildings range from between 1 and 3 years. Lease payments are generally fixed but some leases are subject to periodic rent reviews.

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. The Company is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings and factory premises the Company 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 Company 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	Number of assets leased	Remaining lease term	Number of leases with extension options
Land and buildings	1	3 years	-

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

	£
Balance as at 31 December 2018	-
Additions on change in accounting policy	177,037
Depreciation charged in the year	(54,473)
Balance as at 31 December 2019	122,564

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

	31 December 2019 £	31 December 2018 £
Current	**68,693**	-
Non-current	**91,146**	-
	159,839	-

There are no leases with termination options or extension options. The Company has no commitments to leased which have not yet commenced.

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of the lease liabilities at 31 December 2019 is as follows:

	Within 1 year	1 – 2 years	2 – 3 years	Total
Lease payments	(75,250)	(75,250)	(18,761)	(169,261)
Finance charges	6,557	2,782	83	9,422
Net present value	**(68,693)**	**(72,468)**	**(18,678)**	**(159,839)**

Lease payments not recognised as a liability
The Company has elected not to recognised a liability for short term leases (12 months or less) or for leases of law value assets. Payments made under such leases are expenses on a straight line basis.

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

	£
Short term leases	**84,466**
	84,466

As at 31 December 2019 the Company was committed to short term leases and the total commitment at that date was £20,000.

19. Financial Instruments

Non-derivative financial assets
At the reporting date, the company held the following non-derivative financial assets:

	2019 £	2018 £

Due within 3 months		
Cash and cash equivalents	**266,822**	976,964
Trade receivables	**55,605**	62,236
Other receivables	**28,785**	273,442
	351,212	1,312,642
Due after 12 months		
Other receivables	**112,611**	152,330

Non-derivative financial assets

At the reporting date, the company held the following financial liabilities, all of which were classified as other non-derivative financial liabilities:

	2019 £	2018 £
Due within 3 months		
Trade payables	**395,481**	871,986
Right of use liabilities	**68,693**	-
Other payables	**99,369,677**	86,385,686
	99,833,851	87,257,672
Due after 12 months		
Right of use liabilities	**91,146**	-

20. *Provisions for liabilities*

	2019 £	2018 £
Deferred tax	**38,415**	38,415
	38,415	38,415

A deferred tax asset has not been recognised in respect of trading losses which are available to be carried forward to offset against future tax liabilities due to uncertainty of timing of their crystallisation. At 31 December 2019, the company had trading losses of approximately £47,593,000 (2018: £37,422,000) to carry forward which represents a deferred tax asset of £9,042,000 (2017: £6,362,000).

21. Called up share capital

Allotted and issued:	Class	Nominal value	2019 £	2018 £
37,760 (2018: 37,760)	Ordinary	0.01p	**4**	4
31,490 (2018: 31,490)	A Ordinary	0.01p	**3**	3
64,144 (2018: 64,144)	B Ordinary	0.01p	**6**	6
102,881 (2018: 102,881)	C Ordinary	0.01p	**10**	10
7,825 (2018: 7,825)	C1 Ordinary	0.01p	**1**	1
			24	24

At 31 December 2019, the company had 244,100 shares in issue in total (31 December 2018: 244,100). All shares are held by the parent company.

The C Ordinary shares each carry one vote and the right to participate in the distribution of dividends. C Ordinary shares have priority over all other shares on a distribution of assets arising from a liquidation, a return of capital, a sale of share capital or all, or substantially all, of the assets of the company, a merger, or other distribution to shareholders, or an Initial Public Offering. C Ordinary shares have the right to convert to Ordinary shares on request in proportion to their current shareholding.

The C1 Ordinary shares each carry one vote and the right to participate in the distribution of dividends. C1 Ordinary shares have priority over all other shares on a distribution of assets arising from a return of capital, a sale of share capital or all, or substantially all, of the assets of the company, a merger, or other distribution to shareholders, or an Initial Public Offering. C1 Ordinary shares have the right to convert to Ordinary shares on request in proportion to their current shareholding.

The B Ordinary shares each carry one vote and the right to participate in the distribution of dividends. B Ordinary shares have priority over other shares (other than C Ordinary shares) on a distribution of assets arising from a liquidation. B Ordinary shares have a priority over other shares (other than C Ordinary and C1 Ordinary shares) on a distribution of assets arising from a return of capital, sale of share capital or all, or substantially all, of the assets of the company, a merger, or other distribution to shareholders, or an Initial Public Offering. B Ordinary shares have the right to convert to Ordinary shares on request in proportion to their current shareholding.

The A Ordinary shares each carry one vote and the right to participate in the distribution of dividends. A Ordinary shares have priority over other shares (other than B Ordinary and C Ordinary shares) on a distribution of assets arising from a liquidation. A Ordinary shares have priority over other shares (other than B Ordinary, C Ordinary and C1 Ordinary shares) on a distribution of assets arising from a return of capital, sale of share capital or all, or substantially all, of the assets of the company, a merger, or other distribution to shareholders, or an Initial Public Offering. A Ordinary shares have the right to convert to Ordinary shares on request in proportion to their current shareholding.

The Ordinary shares each carry one vote and the right to participate in the distribution of dividends. Ordinary shares carry certain rights to participate in a distribution of capital arising from a liquidation, sale of share capital or all, or substantially all, of the assets of the company, a merger, another distribution to shareholders, or an Initial Public Offering (following distribution to holders of all other classes of shares).

22. Reserves

	Retained earnings	Capital contribution	Share premium	Total
	£	£	£	£
As at 1 January 2019	(100,513,815)	2,002,794	15,503,140	(83,007,881)
Deficit for the year	(16,435,689)	-	-	(16,435,689)
Share based payment charge	-	325,724	-	325,724
IFRS 16 adjustment	(47,903)	-	-	(47,903)
As at 31 December 2019	(116,997,407)	2,328,518	15,503,140	(99,165,749)

23. Ultimate parent company

The ultimate parent company is Xeros Technology Group plc which is registered in England and Wales. The company is included in the group accounts for Xeros Technology Group plc which are publicly available and can be obtained from the company's registered office, Unit 2, Evolution, Advanced Manufacturing Park, Whittle Way, Catcliffe, Rotherham, S60 5BL.

24. Related party transactions

During the period the company entered into transactions, in the ordinary course of business, with other related parties. The company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with other group companies (being the parent undertaking, Xeros Technology Group plc and the subsidiary undertaking, Xeros Inc.). There were no other related party transactions in the year.

25. Share-based payment transactions

The company has taken advantage of the exemptions under paragraph 8(a)(i) to not disclose information relating to share options granted to directors and employees of the company on the basis that these relate to equity instruments of the parent company, Xeros Technology Group plc and the relevant disclosures have been made in the consolidated financial statements of that company.

26. Events after the reporting period

Impact of COVID-19

The full impact of COVID-19 on the macroeconomic environment became clear in early 2020, after the balance sheet date of this report. While the directors are monitoring the situation closely, they do not consider that the impact of COVID-19 after the reporting period has a material impact on the results as reported in these financial statements. No adjustments have been made to nor additional disclosures made in these financials statements as a result of COVID-19. It is not possible to estimate the impact of COVID-19 on the company.