



Shearwater Group plc

Company No 05059457

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

Annual Report and Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

Contents

Page	
2	Company information
3	Business review of activities
6	Strategic report
9	Report of the Directors
12	Corporate governance statement
15	Statement of Directors' responsibilities
16	Report of the independent auditors
18	Statement of comprehensive income
19	Statement of financial position
20	Statement of changes in equity
21	Statement of cash flows
22	Notes to the financial statements

Company Information

FOR THE YEAR ENDED 31 MARCH 2017

Directors	David Williams (Chairman) Michael Stevens (Chief Executive Officer) Robin Southwell (Non-Executive Director) Stephen Ball (Non-Executive Director) Giles Willits (Non-Executive Director) Christopher Eadie (Executive Director)
Registered Office	22 Great James Street London WC1N 3ES
Company Secretary	Christopher Eadie
Company Number	05059457
Nominated Adviser and Broker	WH Ireland Limited 24 Martin Lane London EC4R 0DR
Auditors	BDO LLP 55 Baker Street London W1U 7EU
Solicitors	Mayer Brown International LLP 201 Bishopsgate London EC2M 3AF
Registrars	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen West Midlands B63 3DA
Company website	www.theshearwatergroup.co.uk

Business Review of Activities

FOR THE YEAR ENDED 31 MARCH 2017

Overview

The financial year ended 31 March 2017 and the start of the new financial year have been transformational for Shearwater Group plc (the “Company”), as the Board has transitioned the Company away from natural resources to the information security, cyber and cyber security sectors. Through the implementation of this new strategy, the Company aims to build a UK based group focused on the provision of advanced digital resilience solutions for its customers, which in turn the Board believes will deliver enhanced returns to the Company’s shareholders.

Since the beginning of the financial year ended 31 March 2017, considerable progress has been made, including the appointment of a new senior leadership team with substantial experience operating within the high technology, cyber, information security, digital and communication sectors, and the launch of the Company’s new digital resilience strategy. In May 2017, the Company completed its first transaction as Shearwater Group plc through the acquisition of SecurEnvoy Limited (“SecurEnvoy”), which established the Company’s presence within the large and rapidly growing identity and access management sector. In July 2017, the Company completed its second transaction through the acquisition of Newable Consulting. Rebranded Xcina Consulting, this now forms a core component of the Company’s newly launched information security and assurance solutions business, Xcina. Please refer to Note 19 for further details of events after the reporting date.

Market opportunity

As digitalisation and the interconnectivity of enterprises, people and devices continues apace, organisations are rethinking traditional approaches to cyber security, which are aimed at meeting minimum levels of compliance to ways in which cyber security can be embedded within operational processes to protect core data and information assets, while still enabling businesses to compete effectively in an increasingly globalised and interconnected world. Developing this digital resilience will be key for all organisations and presents a significant market opportunity for those providers of digital resilience solutions which maintain trust between users, provide assurance around the protection of critical information assets, and support operational effectiveness.

Business strategy

The Company is focused on building a UK based group providing digital resilience solutions and services. Through the application of its “buy, focus, grow” strategy, the Company aims to identify investment and acquisition opportunities where the target company has a leading product, solution, service or consulting capability whose potential can be unlocked through active management and capital investment.

In line with this approach, in May 2017, the Company completed its first acquisition under its new digital resilience strategy, by acquiring SecurEnvoy, a leading provider of multifactor authentication software solutions. In July 2017, the Company made its second acquisition by acquiring the business and assets of Newable Consulting, a specialist risk, technology, governance, cyber security assurance and advisory consultancy. As innovative, UK based businesses, both companies are led by exceptional operators and are prime examples of the type of organisations which the Board believes will benefit from the Company’s clear strategy for growth, access to capital and to industry expertise through the Company’s experienced leadership team.

The Company also holds a number of legacy mining assets, which it is looking to divest of. These include two gold projects, which are held through a joint arrangement with Ormonde Mining plc (“Ormonde”) (AIM: ORM), a 20% carried interest in the Morille tungsten project and 715,000 ordinary shares (0.55%) held by the Company in ASX listed Plymouth Materials Limited (ASX: PLH) (“Plymouth”).

Business Review of Activities

CONTINUED

Business progress

During the financial year ended 31 March 2017 the Company's key transformation milestones have included:

- In October 2016, the Company established its new senior leadership team and raised a total of £1.5 million of gross proceeds before expenses through two placings in September 2016 and November 2016.
- In January 2017, the Company implemented its new operating structure and established its operational management team, raised a further £6.0 million of gross proceeds before expenses through a further placing and launched its new digital resilience strategy, which included the Company's change of name to Shearwater Group plc.

Following the end of the financial year, the Company's key transformation milestones have been:

- In April 2017, the Company announced it had secured its first transformational acquisition under its new strategy by conditionally agreeing to acquire SecurEnvoy for £20 million.
- In May 2017, the Company raised £9.0 million of gross proceeds before expenses to support the acquisition of SecurEnvoy and provide further growth capital, and also received shareholder approval to complete the acquisition of SecurEnvoy.
- In July 2017, the Company acquired the business and assets of Newable Consulting for £0.6 million, which was subsequently rebranded Xcina Consulting. The acquisition has provided a core component of Xcina, the Company's newly launched information security and assurance solutions business.

Key financials

For the twelve months to 31 March 2017 (and prior to the acquisition of SecurEnvoy and launch of Xcina), the Company reported a loss of £1,584k compared to a loss of £243k for the same period in 2016.

After adjusting for exceptional items of £429k associated with the Company's growth strategy, depreciation and amortisation of £1k and share based payments of £79k, the Company generated a loss before interest, tax, depreciation and amortisation for the period ("Underlying EBITDA") of £1,076k (2016: £179k). The significant driver of this increase is higher administrative costs, reflecting the establishment of the new Board, operational team and launch of the Company's new digital resilience strategy.

Cash management and cost control remain key priorities for the Company and the Board believes it now has an appropriate platform which will support the accelerated growth of the business over the coming years without any material increases in central administrative costs.

Key performance indicators (KPIs)

Revenue, costs and profit before tax, before one-off items, share based payment charges, finance charges, depreciation and amortisation ("Underlying EBITDA"): The Board and management monitor actual against budgeted revenue/costs/Underlying EBITDA on a monthly basis.

Finance: Control of bank and cash balances is a priority for the Company and these are budgeted and monitored closely to ensure that the Company maintains adequate liquidity to meet financial commitments as they arise.

Business Review of Activities

CONTINUED

Qualified person

As the Company continues to hold its legacy mining assets pending their disposal, Sean Finlay, Professional Geologist, Chartered Engineer, Consultant to the Company, and a qualified person as defined in the Guidance Note for Mining, Oil and Gas Companies, June 2009, of the London Stock Exchange, has reviewed and approved the technical mining information contained in this report.

Summary and outlook

As a result of the new transformation strategy, the Company now has the ideal foundations in place from which to drive further growth across the business. The Board will continue to identify acquisition targets which have a leading product, solution, service or consulting capability whose full potential can be unlocked through active management and capital investment, and while there can be no guarantee that all of the acquisition targets identified will come to fruition, the Company's current pipeline of organic and inorganic growth opportunities is considerable, and would provide a broad mix of capabilities across complementary end user markets.

This next year will see the Company focus on securing these growth opportunities as it progresses its strategy towards delivering on its objective of becoming a leading UK based group providing digital resilience solutions.

On behalf of the Board, I would like to thank our employees, our existing shareholders and our new shareholders for their continued support as we enter what is expected to be another incredibly exciting year in the Company's development.

David Williams

Chairman

5 September 2017

Strategic Report

FOR THE YEAR ENDED 31 MARCH 2017

Principal risks and uncertainties

The Company's activities will be carried out in the UK and Europe, with some operations also in the US and Asia Pacific regions. Accordingly, the principal risks and uncertainties are considered as follows:

1. **Business strategy**

The success of the Company is dependent upon achieving its strategic aims. The Board is focused on building a UK based group providing digital resilience solutions. The achievement of this will be determined by a number of factors, including the availability of suitable acquisition opportunities, the ability of the Company to deliver organic growth, and the Company's access to appropriate sources of capital to fund its growth initiatives.

Whilst the Board are confident that there are significant growth opportunities for the Company, there can be no assurances that suitable acquisition targets will become available, and that the Company is able to secure capital on reasonable terms in order to fund its growth initiatives. If either of these circumstances were to occur, it is unlikely that the Company will be able to meet its strategic aims, which could adversely affect the Company's future financial results or performance.

2. **Cyber security attacks**

Going forward as a publicly traded provider of digital resilience solutions, the Company is a high profile target for third parties wishing to gain unauthorised access to the Company's networks, or to bypass or breach its products. Any breach of the Company's networks or products, whether through a deliberate hack or unintentional event, may cause significant business disruption to the Company or its customers and result in the Company incurring the costs of remedying any breach. Furthermore, the Company's reputation may be damaged, leading to a loss of customer, industry and investor confidence, which could adversely affect the Company's business, financial condition, results or future operations.

3. **Customer reliance**

For the year ended 31 March 2018 the Company (via its wholly owned subsidiary, SecurEnvoy) benefits from a number of strong distributor and reseller relationships which will enable the business to sell its multifactor authentication products to a significant number of end user customers without needing to employ a substantial sales force. If the Company was to lose one or more of its major distributor or reseller contracts without securing additional sales, the resultant loss of sales could adversely affect the Company's business, financial condition, results or future operations.

4. **Intellectual property**

The Company's commercial success will depend upon in part, upon its ability to use its intellectual property, and any other intellectual property acquired or internally developed. In particular, this includes patents and know-how. Whilst the Company seeks to protect its intellectual property through the filing of patent applications where permissible, as well as entering into confidentiality obligations within employment contracts to protect the Company from the release of information relating to its know-how and other measures to protect the confidentiality of its know-how and trade secrets, this does not provide any assurances that a third party will not infringe upon the Company's intellectual property, release confidential information about it or claim technology which is registered to the Company. Furthermore, where the Company is exploiting one of its patent-protected technologies or products, these may infringe or may be alleged to infringe existing patents or patents that may be granted in the future which may result in costly litigation and could result in the Company having to pay substantial damages or limit the Company's ability to commercialise its products. As some patent applications in Europe and the US may be maintained in secrecy until the patents are issued, patent applications in Europe, the US and many foreign jurisdictions are typically not published until eighteen months after filing, therefore the Company cannot be certain that others have not filed patents that may cover its technologies, its products or the use of its products. Additionally, pending patent

Strategic Report

CONTINUED

applications which have been published can, subject to certain limitations, be later amended in a manner that could cover the Company's technologies, its products or the use of its products. As a result, the Company may become party to, or threatened with, future adversarial proceedings or litigation regarding patents with respect to its products and technology, or may itself commit significant resource in the protection of its own intellectual property, either of which could adversely affect the Company's business, financial condition, results or future operations.

5. Technology

The markets in which the Company operates (and plans to operate) are characterised by rapid technological development, changes in customer requirements and preferences, frequent new product and service launches incorporating new technologies, and the emergence of new industry standards and practices that could render the Company's existing technology and products obsolete. In order to compete successfully, the Company will continue to improve its products and to develop and market new products that keep pace with technological change and the threats that its end user customers face. If the Company is unable to anticipate and respond to technological changes and customer preferences in a timely and cost-effective manner, it is possible that existing customers and prospective customers may turn to competitor offerings, which could adversely affect the Company's business, financial condition, results or future operations.

6. Recruitment and retention of key personnel

The Company's success depends upon its ability to attract and recruit, retain and incentivise highly skilled employees across all areas of the business. Whilst the Board believe that they have the appropriate incentive structures in place, if the Company is unable to retain or successfully attract and recruit key employees across all and any areas of the business, it could delay or prevent the implementation of its strategy, which could adversely affect its business, financial condition, results or future operations.

7. Competition

The Company is at the early stage of its development, operating in a highly fragmented market, with a number of larger competitors which have greater financial, technical and human capital which can be deployed to gain a superior market position. As the Company's target markets continue to grow, new entrants will be attracted to the opportunities afforded by information security and cyber security sectors, which in turn may increase the number of market participants. Whilst the Board believes that the Company has the ability to successfully compete in its target markets, there can be no assurances that it will be able to maintain a competitive position against better resourced competitors or new entrants with superior product or service offerings nor keep innovating and developing its key products sufficiently to compete with new and larger competitors. If the Company becomes uncompetitive or fails to develop its products or innovate to the same level of others, its business, financial condition, results or future operations could be adversely affected.

8. Regulation

In part as a response to the increased frequency and severity of data breaches, new industry regulation and government legislation has been introduced in order to compel companies to enhance their information and cyber security measures. As a result of the continued and evolving cyber threats faced by companies, industry regulation, and in turn legislation may be amended, adapted and enhanced at relatively short notice, which will create a new set of data protection requirements for companies, which information and cyber security product and service vendors will need to address with their products. If the Company is unable to provide products or services to its end user customers which enable them to meet the changing regulatory or legislative requirements laid down by industry or government, then its current or prospective customers may turn to competitor offerings, which could adversely affect the Company's business, financial condition, results or future operations.

Strategic Report

CONTINUED

9. EU membership

On 23 June 2016, the UK electorate voted to discontinue its membership of the EU. Until further details are known regarding the terms on which the UK will exit, the Directors are not able to assess the impact on the Company, or what impact the wider regulatory and legal consequences of the UK leaving the EU would be on the Company.

On behalf of the Board

David Williams

Chairman

5 September 2017

Report of the Directors

FOR THE YEAR ENDED 31 MARCH 2017

The Directors present their annual report together with the audited financial statements for the year ended 31 March 2017.

Dividends

The Directors do not recommend the payment of a dividend for the year (2016: £nil).

Strategic report

A review of the business, future developments and the principal risks and uncertainties facing the Company are included within the Strategic Report and the Business Review of Activities Report on pages 3 to 8.

Directors

The Directors of the Company who held office during the year and their beneficial interests at the date of signing the financial statements are as follows:

Name of Director

D Williams	Appointed as Chairman on 20 April 2015
M Stevens	Appointed as Chief Executive Officer on 3 October 2016
C Eadie	Appointed as Executive Director on 8 September 2016
R Southwell	Appointed as Non-Executive Director on 10 October 2016
S Ball	Appointed as Non-Executive Director on 24 October 2016
G Willits	Appointed as Non-Executive Director on 9 December 2016
H Kanabar	Resigned as Non-Executive Director on 29 September 2016
S Finlay	Resigned as Non-Executive Director on 12 April 2017

Directors' interests in shares and share options

The Directors' who held office during the year had the following interests, including family interests, in the ordinary shares of the Company as follows:

	Number of shares held at 31 March 2017	Number of shares held at 31 March 2016
D Williams	101,083,994	51,083,994
M Stevens	10,625,000	–
C Eadie	5,125,001	n/a
R Southwell	10,625,000	–
S Ball	10,625,000	–
G Willits	5,625,000	–
H Kanabar – resigned 29 September 2016	n/a	841,668
S Finlay – resigned 12 April 2017	666,055	666,055

Report of the Directors

CONTINUED

Directors' interests in shares and share options (continued)

The Directors' interests in the share options of the Company as at 31 March 2017 were as follows:

	Number of options at 1 April 2016	Number of options granted during the year	Number of options lapsed during the year	Number of options at 31 March 2017	Exercise Price	Date of grant	First date of exercise	Final date of exercise
C Eadie	2,000,000	–	2,000,000	–	3.5p	27/04/11	27/04/11	26/04/16
C Eadie	–	1,000,000	–	1,000,000	1.0p	03/10/16	03/10/16	03/10/21
S Finlay	650,000	–	650,000	–	3.5p	27/04/11	27/04/11	26/04/16
S Finlay	–	500,000	–	500,000	1.0p	03/10/16	03/10/16	03/10/21
H Kanabar	650,000	–	650,000	–	3.5p	27/04/11	27/04/11	26/04/16
H Kanabar	–	500,000	–	500,000	1.0p	03/10/16	03/10/16	03/10/21
G Willits*	–	521,739	–	521,739	0.0p	12/12/16	12/12/17	30/06/18

*These options shall vest in twelve equal tranches commencing on 12/12/16 and ending on 12/12/17 so long as G Willits remains a non-executive director. These options become exercisable after 12/12/17 and on or before 30 June 2018.

The remuneration of Directors during the year is disclosed in note 5.

Directors' indemnities

The Company currently has in place, and had for the year ended 31 March 2017, Directors and Officers liability insurance for the benefit of all Directors of the Company.

Going concern

The Financial statements have been prepared on the going concern basis, following the Directors review of the Company's operations, current financial position and cash flow forecasts and future financing requirements. The Directors are satisfied that sufficient cash resources are available to meet the financial commitments as they arise and for at least twelve months from the date of signing the financial statements.

Further disclosure is provided in Note 1 of the financial statements.

Events after the reporting date

Details of this are included in the notes to the financial statements per note 19 of the financial statements.

Financial instruments

Details of the use of financial instruments by the Company are contained in note 16 of the financial statements.

The financial risk management policies and objectives are set out in detail in note 16 of the financial statements.

Statement as to disclosure of information to auditors

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

Report of the Directors

CONTINUED

Auditor

BDO LLP has expressed its willingness to continue in office as auditors and a resolution to re-appoint BDO will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Company proposes to convene the Annual General Meeting for 11 a.m. on 29 September 2017 at the offices of Mayer Brown International LLP, 201 Bishopgate, London EC2M 3AF. Notice of the Annual General Meeting is enclosed with this document.

On behalf of the Board

David Williams

Chairman

5 September 2017

Corporate Governance Statement

FOR THE YEAR ENDED 31 MARCH 2017

The Company, being listed on AIM, is not required to comply with the UK Corporate Governance Code (“the Code”) as amended in October 2014. However, the Company has given consideration to the provisions set out in the Code. The Directors support the objectives of the Code and intend to comply with those aspects that they consider relevant to the Company’s size and circumstances but do not consider it necessary to comply with the Code in its entirety. Details of these are set out below. A statement of the Directors’ responsibilities in respect of the financial statements is set out on page 15. Below is a brief description of the role of the Board and its committees, including a statement regarding the Company’s system of internal financial control.

The Board of Directors

The following table lists the full names, positions and ages of the current members of the Board:

The business address of each Director is 22 Great James Street, London, WC1N 3ES.

David Jeffreys Williams (Non-Executive Chairman) Age 65

David has over 36 years’ experience in investment markets, serving as Chairman in executive and non-executive capacities for a number of public and private companies. He has overseen the development of these companies, raising in excess of £1 billion of capital to support both organic and acquisitive growth initiatives. David was formerly chairman of Entertainment One Ltd. (LSE: ETO) and is currently a non-executive director of Breedon Group plc (AIM: BREE) and chairman of Oxford BioDynamics Plc (AIM: OBD). David serves as the chairman of the Remuneration Committee and Nomination Committee, and is a member of the Audit Committee.

Michael Joseph Stevens (Chief Executive Officer) Age 55

Michael has over 25 years’ experience operating within the security, cyber, aerospace, defence and high technology sectors. During this time, he has held a number of senior leadership roles with responsibility for driving growth and operational improvements across a portfolio of high technology, cyber and defence businesses. Most recently, Michael was head of international market development for Airbus Defence & Space and chief executive officer of Cassidian UK, which included Airbus’ cyber security division. Michael serves as a member of the Nomination Committee.

Robin Simon Southwell OBE (Non-Executive Director) Age 57

Robin has over 35 years’ experience of working in the aerospace and defence industry, including roles as chief executive officer of Airbus UK and Airtanker Ltd, as well as senior positions at BAE Systems, which included running their operations in Australasia and establishing the company’s asset management organisation. Robin is a Fellow of the Royal Aeronautical Society and has been appointed as a DTI Business Ambassador by the UK Government and received his OBE in 1997 for services to exports. Robin serves as a member of the Remuneration Committee.

Stephen Robert Ball (Non-Executive Director) Age 63

Stephen has over 35 years’ experience of working in senior roles in the technology, defence, information security and communications industries. Stephen was formerly chief executive officer of Lockheed Martin UK until his retirement in 2016. Prior to this, he was managing director of the company’s operations in Ampthill, Bedfordshire. Before joining Lockheed Martin, Stephen spent 21 years with HM Government Communications Centre (HMGCC), latterly as chief executive officer, working on specialist development and the manufacture of security and communications equipment. Stephen serves as a member of the Nomination and Audit Committees.

Corporate Governance Statement

CONTINUED

Giles Kirkley Willits (Non-Executive Director) Age 50

Giles has over twenty years' experience in senior leadership and financial roles, and was most recently the chief financial officer of FTSE 250 listed Entertainment One Ltd. (LSE: ETO), having worked with Entertainment One Ltd. initially as non-executive director, before assuming the chief financial officer role in 2007. Over this time Entertainment One Ltd. has grown to a market capitalisation of approximately £1 billion. Giles was formerly director of group finance of J Sainsbury plc and Woolworths Group plc, and currently serves as the Chairman of the Company's Audit Committee.

Christopher John Eadie (Executive Director) Age 48

Chris is a Chartered Accountant, having qualified with PricewaterhouseCoopers in 1996. Following this he held a number of senior financial roles within Cable and Wireless plc including five years as a director in the corporate finance team. Chris joined the Company in November 2006 as Chief Financial Officer, and currently oversees the finance function at the Company and is leading the Company's strategic review of its mining assets.

Advisory Panel

In January 2017, the Company established its Advisory Panel, which is chaired by Rt Hon. the Lord Reid of Cardowan. The Company is currently looking to add additional members to the Advisory Panel. The purpose of the Advisory Panel is to track developments in the digital resilience sector as well as supporting the Group in accessing growth opportunities via the network of contacts of each member of the Advisory Panel. The Advisory Panel will meet at least four times a year, with additional ad hoc meetings held with various Directors as required.

Lord Reid joined the Company as Chairman of its Advisory Panel in January 2017. Lord Reid has had an illustrious career in UK Government, serving in numerous UK cabinet positions, including Home Secretary and Secretary of State for Defence. He now sits in the House of Lords and is Executive Chairman of the Institute for Strategy, Resilience and Security at University College London.

Corporate Governance

The main features of the existing Group's corporate governance arrangements are:

The Board intends to meet at least six times per year for formal Board meetings. It will approve financial statements, dividends and significant changes in accounting practices and key commercial matters, such as decisions to be taken on whether to take forward or to cancel a material collaboration project or commercial agreement. There is a formal schedule of matters reserved for decision by the Board in place.

Currently, the Board includes two Non-Executive Directors who are considered by the Directors to be independent for the purposes of the QCA Code, Robin Southwell and Stephen Ball. Robin and Stephen joined the Board on 10 October 2016 and 24 October 2016 respectively, and prior to this neither had any association with the Company. Accordingly, the Directors consider that both Robin and Stephen satisfy the independence criteria set out in the QCA Code, with Stephen appointed the senior independent Non-Executive Director of the Company.

The Directors recognise that the QCA Code recommends that a company should have in place a risk management policy and a risk management register. The Board has committed to put in place a QCA Code-complaint risk management policy and risk management register within the next financial year.

Corporate Governance Statement

CONTINUED

Internal Financial Control

The Board is responsible for establishing and maintaining the Company's system of internal financial controls. Internal financial control systems are designed to meet the particular needs of the Company and the risk to which it is exposed, and by its very nature can provide reasonable, but not absolute, assurance against material misstatement or loss.

The Directors are conscious of the need to keep effective internal financial control. Due to the relatively small size of the Company's operations, the Directors are very closely involved in the day-to-day running of the business and as such have less need for a detailed formal system of internal financial control. The Directors have reviewed the effectiveness of the procedures presently in place and consider that they are appropriate to the nature and scale of the operations of the Company. The Directors will continue to reassess internal financial controls as the Company expands.

Board Committees

Audit Committee

The Audit Committee's principal functions include ensuring that the appropriate accounting systems and financial controls are in place, monitoring the integrity of the financial statements of the Company, reviewing the effectiveness of the Company's accounting and internal control systems, reviewing reports from the Group's auditors relating to the Company's accounting and internal controls, and reviewing the interim and annual results and reports to shareholders, in all cases having due regard to the interests of Shareholders. The Audit Committee meets at least three times a year, with regard to the reporting and audit cycle. Giles Willits has recent and relevant financial experience through his role as CFO of other UK listed companies and acts as Chairman. David Williams and Stephen Ball are the other members of the Audit Committee.

Remuneration Committee

The Remuneration Committee is responsible for determining and agreeing with the Board the framework for the remuneration packages for each of the Executive Directors. The Remuneration Committee considers all aspects of the Executive Directors' remuneration, including pensions, bonus arrangements, benefits, incentive payments and share option awards, and the policy for, and scope of any termination payments. The remuneration of the Non-Executive Directors is a matter for the Board. The Remuneration Committee meets at least twice a year (and at such other times as may be deemed necessary) and generates an annual remuneration report to be approved by the members of the Company at the annual general meeting. No Director may be involved in discussions relating to their own remuneration. David Williams acts as Chairman of the Remuneration Committee and Robin Southwell is the other member of the Remuneration Committee.

Nomination Committee

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board based upon the skills, knowledge and experience required to ensure the Board operates effectively. The Nomination Committee is expected to meet when necessary to do so. The Nomination Committee also identifies and nominates suitable candidates to join the Board when vacancies arise and makes recommendations to the Board for the re-appointment of any Non-Executive Directors. David Williams acts as Chairman of the Nomination Committee and Stephen Ball and Michael Stevens are the other members of the Nomination Committee.

Statement of Directors' Responsibilities

FOR THE YEAR ENDED 31 MARCH 2017

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

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 they have been prepared in accordance with IFRSs as adopted by the European Union, 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 requirements of 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.

Website publication

The Directors are responsible for ensuring the Annual Report and the Financial Statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Report of the Independent Auditors

to the members of Shearwater Group plc

FOR THE YEAR ENDED 31 MARCH 2017

We have audited the financial statements of Shearwater Group Plc for the year ended 31 March 2017 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flow and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2017 and of the company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

Report of the Independent Auditors

to the members of Shearwater Group plc

CONTINUED

Matters on which we are required to report by exception

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.

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

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

Nicole Martin (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor

London

United Kingdom

5 September 2017

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2017

	Notes	2017 £'000	2016 £'000
Impairment charge	9	–	(64)
Administrative expenses			
Exceptional items		(429)	–
Share based payments		(79)	–
Other administrative expenses		(1,077)	(179)
Total administrative expenses		(1,585)	(179)
Operating loss	3	(1,585)	(243)
Finance Income		1	–
Loss for the year before taxation		(1,584)	(243)
Taxation	6	–	–
Loss for the year after taxation		(1,584)	(243)
Loss after taxation		(1,584)	(243)
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Change in fair value of available-for-sale financial assets	9	76	27
Total comprehensive loss for the year		(1,508)	(216)
Loss per share expressed in pence per share			
Basic and Diluted	7	(0.54p)	(0.14p)

The notes on pages 22 to 42 form part of these financial statements.

Statement of Financial Position

AS AT 31 MARCH 2017

	Notes	2017 £'000	2016 £'000
Assets			
Non-current assets			
Intangible assets	8	935	926
Investment in subsidiary	10	–	–
Property, plant and equipment		1	–
Investments	9	118	42
Total non-current assets		1,054	968
Current assets			
Receivables	11	86	11
Cash and cash equivalents	16	7,073	45
Total current assets		7,159	56
Total assets		8,213	1,024
Liabilities			
Current liabilities			
Convertible Loan	12	–	50
Trade and other payables	13	737	67
Total current liabilities		737	117
Total liabilities		737	117
Net assets		7,476	907
Capital and reserves attributable to the equity holders of the company			
Share capital	14	5,353	1,719
Share premium		15,957	11,593
Available for sale reserve	9	103	27
Capital reserve		39	–
Retained deficit		(13,976)	(12,432)
Total equity		7,476	907

The financial statements were approved by the Board of Directors and authorised for issue on 5 September 2017 and are signed on its behalf by:

David Williams
Chairman

Company number: 05059457

The notes on pages 22 to 42 form part of these financial statements.

Statement of Changes In Equity

FOR THE YEAR ENDED 31 MARCH 2017

	Share capital £'000	Share premium £'000	Available for sale reserve £'000	Capital reserve £'000	Shares to be issued £'000	Retained deficit £'000	Total equity £'000
At 1 April 2015	1,461	11,596	–	–	140	(12,189)	1,008
Total loss for the year	–	–	–	–	–	(243)	(243)
Other comprehensive income							
Fair value adjustment on available for sale investment	–	–	27	–	–	–	27
Total comprehensive loss for the year	–	–	27	–	–	(243)	(216)
Issue of shares net of issue costs (note 14)	118	(3)	–	–	–	–	115
Shares to be issued	140	–	–	–	(140)	–	–
At 31 March 2016	1,719	11,593	27	–	–	(12,432)	907
Total loss for the year	–	–	–	–	–	(1,584)	(1,584)
Other comprehensive income							
Fair value adjustment on available for sale investment	–	–	76	–	–	–	76
Total comprehensive loss for the year	–	–	76	–	–	(1,584)	(1,508)
Share based payments (note 15)	–	–	–	39	–	40	79
Issue of shares net of issue costs (note 14)	3,634	4,364	–	–	–	–	7,998
At 31 March 2017	5,353	15,957	103	39	–	(13,976)	7,476

The following describes the nature and purpose of each reserve within owners' equity.

Reserve	Description and purpose
Share capital	Amounts subscribed for share capital at nominal value.
Share premium	Amounts subscribed for share capital in excess of nominal value less share issue costs.
Shares to be issued	Shares for which consideration has been received, but which are not issued yet.
Available for sale reserve	Unrealised gain or losses on fair value re-measurement on available for sale investments.
Capital reserve	Reserve account for equity-settled share-based payment transactions.
Retained deficit	Cumulative net gains and losses recognised in the income statement less distributions made.

The notes on pages 22 to 42 form part of these financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2017

	2017 £'000	2016 £'000
Cash flows from operating activities		
Loss for the year before tax	(1,584)	(243)
Adjustments for:		
Impairment charge	–	64
Depreciation of fixed assets	1	–
Finance income	(1)	–
Share based payments	79	–
Cash flow from operating activities before changes in working capital	(1,505)	(179)
(Increase)/decrease in other receivables	(75)	2
Increase/(decrease) in trade and other payables	670	(22)
Net cash flow used in operating activities	(910)	(199)
Investing activities		
Purchase of fixed assets	(2)	–
Interest income	1	–
Ormonde joint arrangement payments	(9)	(27)
Net cash flow used in investing activities	(10)	(27)
Financing activities		
Proceeds from issue of share capital	8,084	118
Expenses paid in connection with share issues	(236)	(3)
Proceeds from convertible loan	100	50
Net cash flow from financing activities	7,948	165
Net increase/(decrease) in cash and cash equivalents	7,028	(61)
Cash and cash equivalents at the beginning of the year	45	106
Cash and cash equivalents at the end of the year	7,073	45

The notes on pages 22 to 42 form part of these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

1 Accounting policies

The Company is a public limited Company incorporated and domiciled in the United Kingdom. The address of its registered office is 22 Great James Street, London, WC1N 3ES, England. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements are presented in Great Britain Pounds Sterling, which is also the Company's functional currency. All values are rounded to the nearest thousand Pounds (£'000), unless otherwise stated.

These financial statements for the year ended 31 March 2017 have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations as adopted by the European Union (collectively EU IFRS). It is required of Group management to exercise judgement in applying the Group's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 2.

Basis of measurement

The financial statements have been prepared on a historical cost basis, except for the following items (refer to individual accounting policies for details):

- Financial instruments – fair value through profit or loss
- Financial instruments – available for sale
- Contingent consideration
- Equity settled share-based payment liabilities

Basis of consolidation

Shearwater Group Plc holds an investment of £1 in Shearwater Subco Limited ("SWS"). This is the only Subsidiary of the group as at 31 March 2017. SWS did not generate any profits for the financial year and as at 31 March 2017, had 100 Class A ordinary shares in issue with a Nominal value of £0.01 and 160,000 Class B ordinary shares in issue with a nominal value of £ 0.000001. In accordance with Companies Act 2006, consolidated financial statements need not be prepared if the exclusion of a subsidiary undertaking from the consolidation is not material for the purpose of providing a true and fair view. As at 31 March 2017, SWS was the only subsidiary in the group and as a result of there being minimal transactions at an immaterial value, it has been concluded that it is immaterial to the group as such consolidated accounts have not been prepared.

The only transaction in Shearwater Subco Limited was Share capital of £1 and Share premium of £5,120.

Notes to the Financial Statements

CONTINUED

1 Accounting policies (continued)

Basis of accounting and adoption of new and revised standards

New Standards, interpretations and amendments effective from 1 January 2016

There were no new standards, amendments or interpretations, effective for the first time for financial reporting periods beginning on 1 April 2016 that had a significant effect on the financial statements.

New Standards, interpretations and amendments not yet effective

The following standards have been issued by the IASB and have been adopted by the EU:

Standard	Key requirement	Effective date
IFRS 9	Financial instruments	1 Jan 2018
IFRS 15	Revenue from contracts with customers	1 Jan 2018

The following standards have been issued by the IASB and have not yet been adopted by the EU:

Standard	Key requirement
IFRS 16	Leases
IAS 7 (amendments)	Statement of cash flows
IAS 12	Recognition of deferred tax assets for unrealised losses
IFRS 2	Classification and measurement of share-based payment transactions

The adoption of IFRS 16 is likely to result in an increase in both assets and liabilities in the balance sheet and an increase in operating profit and finance expenses in the income statement.

Following the recent acquisitions post year end, the Company will be assessing the impact of the above new accounting standards and in particular IFRS 15 during the year ending March 2018. The Company is still assessing the impact of the IFRS 9 standard on Available for sale assets.

The adoption of other amendments and interpretations are likely to not have a material impact on the financial statements of the Company.

Going concern

The Financial statements have been prepared on the going concern basis, following the Directors review of the Company's operations, current financial position and cash flow forecasts and future financing requirements and based on the Company's new strategic expansion plan and recent successful fundraises to support this strategy. The Directors are satisfied that sufficient cash resources are available to meet the financial commitments as they arise and for at least twelve months from the date of signing the financial statements.

Foreign currency transactions

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at the fair value in a foreign currency are translated using exchange rates at the date when the fair value was determined.

Investments in subsidiaries

Investments in subsidiary undertakings are shown at cost less provisions for impairment. Transactional costs directly attributable to the acquisition incurred are capitalised.

Notes to the Financial Statements

CONTINUED

1 Accounting policies (continued)

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged to the income statement on a straight line basis over the term of the lease.

Impairment of non-financial assets

The Company's non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying amount of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment loss is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its cash generating units ('CGUs').

Impairment charges are included in profit and loss, except to the extent they reverse gains previously recognised in other comprehensive income.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets

The Company's financial assets fall into two categories, loans and receivables and available for sale financial assets which are discussed below. The Company does not have any held to maturity or fair value through profit and loss financial assets.

(a) Loans and receivables

Receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

(b) Available for sale financial assets

These comprise of the Company's investments in entities not qualifying as subsidiaries, associate or jointly controlled entities. After initial measurement, available for sale financial assets are subsequently measured at fair value, with unrealised gain or losses recognised in other comprehensive income in the available for sale reserve (equity).

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be readily measured, are measured at cost.

Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognised in other comprehensive income, is recognised in profit and loss.

Notes to the Financial Statements

CONTINUED

1 Accounting policies (continued)

Cash and cash equivalents

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

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The Company's financial liabilities fall into one category, financial liabilities held at amortised cost, which is discussed below.

(a) Financial liabilities held at amortised cost

Financial liabilities are initially measured at fair value less transaction costs, and are subsequently measured at amortised cost, using the effective interest rate method. The Company's financial liabilities are trade payables, other short-term liabilities and the liability portion of convertible loans/debt.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Income taxes

The charge for taxation is based on the profit or loss for the year and takes into account deferred tax. Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax based in the computation of taxable profit or loss, and is accounted for using the balance sheet method.

Deferred tax assets are only recognised to the extent that it is probable that future tax profit will be available in the foreseeable future against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are measured at the rates that are expected to apply when the related asset is realised or liability settled, based on tax rates and laws enacted or substantively enacted at the reporting date.

Pension contribution

The Company makes contributions to the state pension scheme (Nest) for all of its eligible employees and Directors who have not opted out of the scheme. The Company also makes payments in lieu of pensions for some of its employees and Directors. Payments to these schemes are charged as an expense in the income statement in respect of pension costs payable in the year.

Notes to the Financial Statements

CONTINUED

1 Accounting policies (continued)

Share-based payments

In order to calculate the charge for share-based payments as required by IFRS2, the Company makes estimates principally relating to assumptions used in its option-pricing model as set out in note 15.

The cost of equity-settled transactions with suppliers of goods and services is measured by reference to the fair value of the good or service received, unless that fair value cannot be estimated reliably. The fair value of the good or service received is recognised as an expense as the Company receives the good or service. The cost of equity-settled transactions with employees, and transactions with suppliers where fair value cannot be estimated reliably, is measured by reference to the fair value of the equity instrument. The fair value of equity-settled transactions with employees is recognised as an expense over the vesting period. The fair value of the equity instrument is determined at the date of grant, taking into account market based vesting conditions. The fair value is determined using an option pricing model.

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 conditions are satisfied.

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest, or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous reporting date is recognised in the income statement, with a corresponding entry in equity.

Subsidiary incentive scheme

Equity settled share based payments to certain directors, employees and consultants providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value is expensed, with a corresponding increase in equity, on a straight line basis over the vesting period that the participants become unconditionally entitled to the awards. At each reporting date, the Company revises the amount recognised as an expense to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service conditions at the vesting date.

Joint arrangements

The Company is party to a joint arrangement when there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Company and at least one other party.

The Company classifies its interests in joint arrangements as either:

- **Joint ventures:** where the Company has rights only to the net assets of the joint arrangement
- **Joint operations:** where the Company has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Company considers:

- The structure of the joint arrangement
- The legal form of joint arrangements structured through a separate vehicle
- The contractual terms of the joint arrangement agreement
- Any other facts and circumstances.

The Company only had joint operations during the year, and at year end. The Company accounts for its interests in joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

Notes to the Financial Statements

CONTINUED

1 Accounting policies (continued)

Pre-production assets

Pre-production assets are categorized as intangible assets on the statement of financial position. Pre-licence expenditure is expensed as directed by IFRS 6. Expenditure on licence acquisition costs, geological and geophysical costs, costs of drilling exploration, appraisal and development drilling, and an appropriate share of overheads are capitalised in the relevant cash-generating unit. These costs which relate to the exploration, appraisal and development of mining interests are initially held as intangible non-current assets pending determination of commercial viability. On commencement of production these costs are transferred to production assets.

Convertible loan notes

Convertible notes are separated into liability and equity components based on the terms of the contract.

On issuance of the convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible instrument. This amount is classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in equity. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the conversion option is not re-measured in subsequent years.

Where the convertible fails the fixed-for-fixed criteria of IAS 32 the conversion feature is valued first with the balance being treated as the liability component which is recognised at fair value and subsequently at amortised cost using the effective interest rate method.

2 Accounting estimates and judgements

The preparation of financial information in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of financial information and the reported amounts of expenses during the reporting periods. Although these estimates are based on management's best knowledge of the amounts, event or actions, actual results ultimately may differ from those estimates. The key accounting estimates and judgments are set out below:

(a) Carrying value of mineral properties and pre-production assets

The Company assesses at each reporting period whether there is any indication that there may be facts or circumstances relating to these assets which may be impaired. If such indication exists, the Company estimates the recoverable amount of the asset. In the early stages of exploration an indication of impairment may arise from drilling and assay results or from management's decision to terminate the project. The recoverable amount is assessed by reference to the higher of 'value in use' where a project is still expected to be developed into production and 'fair value less cost to sell'. No impairment has been booked in either this year, or the prior year. See Note 8 for further discussion.

(b) Carrying value of investments

The Company regularly reviews its investments for impairment based on both quantitative and qualitative criteria that include the extent to which cost exceeds market value, the duration of any market decline and the financial position of and specific prospects for the issuer. The Company has reviewed the pre-acquisition costs incurred in relation to SecurEnvoy and has assessed a portion of these costs to be non-directly attributable to the cost of the investment. See Note 9 for further discussion.

(c) Share-based payments

In determining the fair value of share-based payments made during the period, a number of assumptions have been made by management. The details of these assumptions are set out in Note 15. The judgement applied relates to the incentive scheme is settled as equity and not in cash for the current reported period.

Notes to the Financial Statements

CONTINUED

3 Operating loss

Operating loss is stated after charging:

	2017 £'000	2016 £'000
Depreciation of fixed assets	1	–
Operating lease expense	41	–
External auditors' remuneration:		
– Audit fee for the annual audit of the Company and financial statements	21	20
– Other taxation compliance services	4	3
Share-based payments	79	–
Exceptional items:		
Acquisition transaction costs	429	–

Exceptional items relate to the pre-acquisition costs for SecurEnvoy which are considered to be non-directly attributable to the cost of the investment.

The Company has a policy in place to determine the appropriateness of awarding non-audit work to the auditors. Any such award requires the approval of the Audit Committee.

4 Staff costs

	2017 £'000	2016 £'000
Wages and salaries	277	58
Social security costs	28	(1)
Pension costs	11	2
Share-based payments	74	–
National insurance on share options	13	–
	403	59

Staffs costs comprise both Directors' and staff salaries, fees and benefits and share based payments for employees and are shown gross.

The share-based payment charge for the year was £79k (2016: £nil).

The weighted average monthly number of employees, including Directors, employed by the Company during the year was:

	2017	2016
Administration	6	4
Total	6	4

Notes to the Financial Statements

CONTINUED

5 Directors' emoluments	2017 £'000	2016 £'000
Directors' emoluments	217	33
Social security costs	23	–
Pension costs	10	–
Share-based payments	70	–
National Insurance on share options	13	–
Total Directors' emoluments	333	33

The remuneration of Directors during the year was as follows:

	Directors' emoluments 2017 £	Pension costs 2017 £	Share- based payments 2017 £	Total 2017 £	Total 2016 £
Executive Directors					
D Williams	25,000	250	7,381	32,631	–
M Stevens	105,000	6,300	18,452	129,752	–
C Eadie	39,045	3,303	14,020	56,368	–
Non-Executive Directors					
S Ball	10,898	109	–	11,007	–
R Southwell	11,979	120	–	12,099	–
G Willits	–	–	16,401	16,401	–
M Jones	–	–	–	–	625
S Finlay	17,496	–	7,010	24,506	17,496
H Kanabar	7,500	–	7,010	14,510	15,000
Total 2017	216,918	10,082	70,274	297,274	33,121
Total 2016	33,121	–	–	–	33,121

The highest paid Director received emoluments (excluding share based payments) totalling £129,752 (2016: £17,496).

S Finlay is paid via Mostop Ltd, a private service company.

H Kanabar is paid via Poonam & Roshni Ltd, a private service company.

Directors' interests and share options are disclosed in the Directors' report.

In 2017 and 2016, key management personnel are considered to comprise of the Directors.

Notes to the Financial Statements

CONTINUED

6 Taxation

No current or deferred tax charge has arisen in the current year.

The Company has incurred tax losses for the year and a corporation tax charge is not anticipated. At 31 March 2017, the Company had tax losses of £7.9m (2016: £7.2m) carried forward which can be used against future profits. However, these losses are only recoverable against future profits, the timing of which is uncertain and as a result no deferred tax asset is being recognized in relation to these losses.

The total of potential deferred tax assets relating to tax losses which have not been recognised in the financial statements amount to £1.3m (2016: £1.3m).

Current taxation

The tax assessed for the year is different from the standard rate of Corporation Tax in the UK. The differences are explained below:

	2017 £'000	2016 £'000
Loss before taxation	(1,584)	(243)
Loss at the standard rate of Corporation tax in the UK of 20% (2016: 20%)	(317)	(48)
Effects of:		
Expenses not deductible for tax purposes	181	12
Deferred tax asset not recognised	136	36
Tax charge	–	–

The Company did not recognise any deferred tax assets or liabilities at 31 March 2017 or 2016.

The Directors believe that there have been no breaches of foreign tax regulations and that all necessary provisions have been made in these accounts.

7 Loss per share

Basic loss per share is calculated by dividing the loss attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

For diluted loss per share, the weighted average number of shares in issue is adjusted to assume conversion of all the dilutive potential ordinary shares. The potential dilutive shares are anti-dilutive in 2016 and 2017 as the Company is loss making.

At the reporting date, there were 3,378,882 (2016: 3,950,000) potentially dilutive ordinary shares. Dilutive potential ordinary shares relate to share options.

	2017 £'000	2016 £'000
Net loss attributable to equity holders of the parent:		
From total operations	(1,584)	(243)
Weighted average number of shares:	2017 Number	2016 Number
Weighted average number of shares	291,850,286	170,580,011

Notes to the Financial Statements

CONTINUED

8 Intangible assets

	Gold exploration £'000
Cost	
As 1 April 2015	899
Additions	27
At 1 April 2016	926
Additions	9
At 31 March 2017	935
Net book value	
At 31 March 2017	935
At 31 March 2016	926
At 31 March 2015	899

On 14 March 2011, the Company entered into a joint arrangement with Ormonde Mining plc in respect of four gold exploration permits in North West Spain. The Company has a 56.5% (2016: 56.8%) interest in two permit areas in the Zamora province (Pino del Oro) and 51.4% (2016: 51.4%) interest in the two permit areas in the Salamanca province (Cabeza and Peralonso). The Company has assessed that it holds joint control over the licences, due to the fact that the key strategic decisions are made by the unanimous consent of both parties. The joint arrangement was not structured through a separate entity, and is therefore classified as a joint operation.

Under the terms of the joint operation, funding of the projects is now carried out on a pro-rata basis by the Company and Ormonde in line with each party's interest in the various projects.

Given the new direction and strategy of the Company, there is now a process underway to divest of these mining assets.

The Directors have reviewed the carrying value of the exploration assets and consider them to be fairly stated and not impaired as at 31 March 2017. The exploration assets have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, however based on a number of factors including the successful exploration work performed to date, third party analysis of the assets and the interest in the assets from potential third party investors the Directors are comfortable with the carrying value.

Notes to the Financial Statements

CONTINUED

9 Investments

	Investment in Morille Mining £'000	Investment in Plymouth Minerals Ltd £'000	Total £'000
Cost			
As at 1 April 2015	64	15	79
Fair value gain	–	27	27
Impairment	(64)	–	(64)
At 31 March 2016	–	42	42
Fair value gain	–	76	76
At 31 March 2017	–	118	118
Net book value			
At 31 March 2017	–	118	118
At 31 March 2016	–	42	42
At 31 March 2015	64	15	79

Morille Mining

Following the disposal of an 80% stake in the Morille tungsten project to Plymouth in 2014, the Company retained a 20% interest in the project through its 20% shareholding in Morille Mining SLU.

Given that the Company is unable to exert any operational influence over the Morille tungsten project, the Directors have determined to account for the Company's residual interest in the Morille project as an Investment rather than as an Associate. The Directors consider that accounting for the asset as an investment rather than an Associate is appropriate given the substance of the transaction and the difference between the definitions of an associate and an investment under IFRS.

The investment is held at cost, as it is an investment in an equity instrument that does not have a quoted market price in an active market and the fair value of which cannot be readily measured.

Impairment has been assessed through analysis of publically-available technical information regarding the main licence area being explored by Morille. In addition, calculations of the implied market value based on the market capitalisation of Plymouth have been made. Following Plymouth's decision to place the Morille tungsten project in Spain into hibernation due to very low tungsten prices and from an assessment of these and other factors, the Directors have determined that the investment is fully impaired.

Plymouth Minerals Limited

On 4 November 2014, the Company received 715,000 ordinary shares in Plymouth Minerals Limited (ASX: PLH) listed on the Australian Securities Exchange as the deferred payment of €50,000 (£42,000) worth of shares under the Morille project share purchase agreement, as final consideration for the acquisition of the project. The share price on 31 March 2017 was AUS \$0.27 (31 March 2016: AUS \$0.10) resulting in a fair value gain of £76,000 (2016: £27,000).

Notes to the Financial Statements

CONTINUED

10 Investment in Subsidiary

Name	Country of incorporation or residence	Proportion of ownership interest (per cent)	Proportion of voting power (per cent)	Trading status
Shearwater Subco Limited	England and Wales	100%	100%	Active

The registered office address for Shearwater Subco Limited is 22 Great James Street, London WC1N 3ES, England.

On 18 January 2017, the Subsidiary issued 160,000 "B" ordinary shares of £0.000001 in the capital of the Subsidiary which are designated as B1 Shares ("B1 Shares") to certain directors or employees of and consultants to the Company at a price of £0.032 per share pursuant to the Subsidiary Incentive Scheme.

The 100% ownership relates to the Ordinary Shares. B1 Shares have no voting rights attached.

Further details of the Subsidiary Incentive Scheme are set out in note 15.

The Directors and consultants who hold the B1 shares in the subsidiary are as follows:

Name	Number of B1 Shares owned
Directors:	
M Stevens	75,000
D Williams	30,000
G Willits	35,000
Others:	
Consultants	20,000

Consolidated accounts have not been prepared as Shearwater Subco Limited was the only subsidiary in the Group and as a result of there being minimal transactions at an immaterial value. The only transaction in Shearwater Subco Limited was Share capital of £1 and Share premium of £5,120.

11 Receivables

	2017 £'000	2016 £'000
VAT recoverable	64	4
Prepayments	22	7
	86	11

The fair value of receivables approximates their carrying value and none are overdue.

Notes to the Financial Statements

CONTINUED

12 Convertible loan	2017 £'000	2016 £'000
Loan	–	50

On 17 June 2016, the Company raised £100,000 through a convertible loan. The loan was unsecured, accrued no interest and was not repayable. The loan converted at the price of 1 pence per ordinary share. When converted, the loan holders were also entitled to a warrant for every share they received. Each warrant was converted at 2p per share.

David Williams, Chairman of the Company, provided £50,000 of the convertible loan finance. His participation in the loan constituted a related party transaction in accordance with AIM Rule 13. The Independent Directors, being the Directors other than David Williams, having consulted with the Company's nominated advisor WH Ireland, considered the terms of the loan transaction with David Williams to be fair and reasonable insofar as its shareholders are concerned.

On 25 November 2016 David Williams converted his interest in the convertible loan note issued on 11 February 2016 into equity at a price of 1p per share.

Prior to conversion on 20 January 2017, on 13 January 2017 David Williams transferred his interest of £50,000 in the convertible loan note issued on 17 June 2016 to Giles Willits, Non-executive Director. The transfer did not include the warrants attached to the loan note.

Subsequent to the above transfer, Giles Willits and the other loan note holder have each converted the loan notes into equity at a price of 1p per share, in accordance with the terms of the loan note. In addition, David Williams and the other loan note holder have each exercised the warrants attaching to the loan note issued, each at a conversion price of 2p per share.

The fair value of the loan is not materially different from the carrying value.

13 Trade and other payables	2017 £'000	2016 £'000
Current		
Trade payables	103	31
Other taxation and social security	22	1
Inter-company Shearwater Subco Ltd	5	–
Accruals	607	35
	737	67

The fair value of trade and other payables is not materially different from their carrying values.

Notes to the Financial Statements

CONTINUED

14 Share capital

	2017		2016	
	£0.01 ordinary shares Number	£'000	£0.01 ordinary shares Number	£'000
Allotted, issued and fully paid ordinary shares				
At beginning of year	171,850,286	1,719	146,091,930	1,461
Issue of shares	363,400,000	3,634	25,758,356	258
At end of year	535,250,286	5,353	171,850,286	1,719

Share capital

The following issues of shares were undertaken in the year ended 31 March 2017:

On 26 July 2016, 2,500,000 new ordinary shares of 1p were issued to new strategic investors at a price of 1p per ordinary share for a total cash consideration of £25,000. In addition, the Company granted 31,500,000 share options to subscribe for new ordinary shares of 1p each in the Company to the new investor. The options are exercisable until 19 July 2017 at an exercise price of 1p each.

On 30 September 2016 119,500,000 new ordinary shares of 1p were issued by way of conditional placing at a price of 1p per ordinary share for a total cash consideration of £1,195,000.

On 13 October 2016 2,400,000 new ordinary shares of 1p were issued in settlement of services received from a professional adviser.

On 1 November 2016 32,500,000 new ordinary shares of 1p were issued to newly appointed Directors and a member of an advisory board at a price of 1p per ordinary share for a total cash consideration of £325,000.

On 9 December 2016 5,000,000 new ordinary shares of 1p were issued following conversion of convertible loan note of £50,000 at a price of 1p per ordinary share.

On 10 January 2017 150,000,000 new ordinary shares of 1p were issued by way of placing to new and existing Shareholders at a price of 4p per ordinary share for a total cash consideration of £6,000,000.

On 20 January 2017 10,000,000 new ordinary shares of 1p were issued following conversion of loan notes of £50,000 each at a price of 1p per ordinary share for a total loan note value of £100,000.

On 20 January 2017 10,000,000 new ordinary shares of 1p were issued following conversion of warrants attached to the loan notes at a price of 2p per ordinary share for a total cash consideration of £200,000.

On 1 February 2017 31,500,000 new ordinary shares of 1p were issued in respect of options exercised relating to an agreement with Tiger Brave Investments Limited dated 21 July 2016 at a price of 1p per ordinary share for a total cash consideration of £315,000.

The following issues of shares were undertaken in the year ended 31 March 2016:

On 15 April 2015, 25,758,356 new ordinary shares of 1p were issued by way of placing to new and existing Shareholders at a price of 1p per ordinary share for a total cash consideration of £257,584.

Notes to the Financial Statements

CONTINUED

15 Share based payments

	2017 £'000	2016 £'000
Share Options	40	–
Subsidiary Incentive Scheme	39	–
	79	–

Share Options

The following options over ordinary shares remained outstanding at 31 March 2017:

	Options at 1 April 2015 and 2016	Options issued during the year	Options lapsed during the year	Options at 31 March 2017	Exercise price	Date of grant	First date of exercise	Final date of exercise
Options – Directors:								
C Eadie	2,000,000	–	2,000,000	–	3.5p	27/04/11	27/04/11	26/04/16
C Eadie	–	1,000,000	–	1,000,000	1.0p	03/10/16	04/10/16	03/10/21
S Finlay	650,000	–	650,000	–	3.5p	27/04/11	27/04/11	26/04/16
S Finlay	–	500,000	–	500,000	1.0p	03/10/16	04/10/16	03/10/21
H Kanabar	650,000	–	650,000	–	3.5p	27/04/11	27/04/11	26/04/16
H Kanabar	–	500,000	–	500,000	1.0p	03/10/16	04/10/16	03/10/21
G Willits	–	521,739	–	521,739	0.0p	12/12/16	12/12/17	30/06/18
Options – Others:								
M Jones	650,000	–	650,000	–	3.5p	27/04/11	27/04/11	26/04/16
Other	–	857,143	–	857,143	0.0p	24/01/17	24/01/18	31/03/20
Total	3,950,000	3,378,882	3,950,000	3,378,882				

The following illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

	2017 Number	2017 WAEP Pence	2016 Number	2016 WAEP Pence
Outstanding at beginning of year	3,950,000	3.5	3,950,000	3.5
Issued	3,378,882	0.6	–	–
Exercised	–	–	–	–
Lapsed during the year	3,950,000	3.5	–	–
Outstanding at 31 March	3,378,882	0.6	3,950,000	3.5
Exercisable at 31 March	2,000,000	1.0	3,950,000	3.5

Notes to the Financial Statements

CONTINUED

15 Share based payments (continued)

The share-based payment charge for options granted to Employees and Directors have been calculated using the Black-Scholes Model and using the following parameters:

	2017
Share price at grant date	1.85p to 7.38p
Exercise price	0.0p to 1.0p
Expected option life (year)	1.5yrs to 5yrs
Expected volatility (%)	80%
Expected dividends	–
Risk-free interest rate (%)	3.0%
Option fair value	1.4p to 7.38p

The expense recognised for share-based payments in respect of Employees, Directors and consultant services received during the year ended 31 March 2017 was £40k (2016: £nil).

This represented £28k in respect of share options and £12k in respect of share-based compensation.

Options held by Directors are disclosed in the Report of the Directors on pages 9 to 11.

The market price of shares as at 31 March 2017 was 5.12p (2016: 0.85p). The range during the financial year was 0.85p to 9.15p.

The weighted average remaining contractual life of options outstanding at the end of the year was 3 years 7 months (2016: 1 month).

Subsidiary Incentive Scheme

On 29 September 2016, the Group established a share incentive scheme for certain directors and consultants to the Company, via the Company's subsidiary, Shearwater SubCo Limited (the "Subsidiary"), in order to align the interests of the scheme participants directly with those of shareholders.

Pursuant to the Subsidiary Incentive Scheme, the Subsidiary issued 160,000 "B" ordinary shares of £0.000001 in the capital of the Subsidiary ("Incentive Shares") on 18 January 2017 at a price of £0.032 per share. Subject to the Growth and Vesting Conditions both being satisfied, participants may elect to sell their respective B Shares to the Company and the Company shall acquire those B Shares in consideration for cash or by the issue of new ordinary shares, at the Company's discretion. The Company's intention is to settle these through the issue of new ordinary shares in the Company plc.

The value of the Incentive Shares is discussed below. Neither of the Growth or Vesting Conditions were satisfied during the year and none of the Incentive Shares were forfeited or expired during the year. The Subsidiary Incentive Scheme is now closed and the Directors do not anticipate making any further grants under the scheme.

Growth Condition

The Growth Condition is that the compound annual growth of the Company's equity value must be at least 12.5% per annum. The Growth Condition takes into account new shares issued, dividends and capital returned to shareholders.

Notes to the Financial Statements

CONTINUED

15 Share based payments (continued)

Vesting Condition

The Incentive Shares are subject to a vesting period which ends on 29 September 2019 and can be extended to 29 September 2021 if the Growth Condition has not been met. The participants can exercise its right to require the Company to purchase its Incentive Shares at any time up to 29 September 2021.

Value

Subject to the provisions detailed above, the Incentive Shares can be sold to the Company for an aggregate value equivalent to 16% of the increase in "Shareholder Value" in the Company. Shareholder Value is broadly defined as the increase in market capitalisation of all ordinary shares of the Company issued up to the date of sale, allowing for any dividends and other capital movements.

Director Incentive Shares

The Incentive Shares issued to Directors are shown in the table below.

	Participation in increase in Shareholder value	Issue Price	Nominal value of Participation Shares	Number of Participation Shares 1 April 2016	Number of Participation Shares purchased	Number of Participation Shares 31 March 2017	Number of Shearwater Group plc Shares Issued	Share based payment charge
Michael Stevens	7.5%	£0.032	£0.000001	–	75,000	75,000	–	£18,452
David Williams	3.0%	£0.032	£0.000001	–	30,000	30,000	–	£7,381
Giles Willits	3.5%	£0.032	£0.000001	–	35,000	35,000	–	£8,611

Valuation of Incentive Shares

The share-based payment charge for the Incentive Shares has been calculated using a binomial valuation model at the grant date. The fair value amounted to £938,000 which has been recognised over the period to 29 September 2021. In the current year, £39,364 (2016: £nil) has been recognised as an expense in the Statement of Comprehensive Income in respect of Incentive Shares.

The binomial valuation model uses the following assumptions:

Date of grant	18 January 2017
Share price at grant date (adjusted for unusual volatility)	4 pence
Exercise price	Nil
Contractual life	1825 days
Hurdle rate	12.50%
Expected volatility	12.40%
Risk free rate	0.56%
Expected dividends	Nil

Notes to the Financial Statements

CONTINUED

16 Financial instruments

The Company uses financial instruments, other than derivatives, comprising cash at bank and various items such as trade and other payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Company's operations.

Categories of financial assets and financial liabilities:

	2017 £'000	2016 £'000
Available-for-sale financial assets		
Investment in Morille	–	–
Investment in Plymouth Ltd	118	42
Loans and receivables		
Cash and cash equivalents	7,073	45
Total financial assets	7,191	87
Financial liabilities at amortised cost		
Convertible loan	–	50
Trade and other payables	715	67
Total financial liabilities	715	117

General objectives, policies and processes

The Board has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's Finance function. The Board receives monthly reports from the Executive Director (Christopher Eadie) through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility.

The main risks arising from the Company's financial instruments are liquidity risk, credit risk, market price risk, currency risk, and interest rate risk. Further details regarding these policies are set out below:

Liquidity risk

The Company mainly finances its operations through the issue of equity share capital and is also financed through a convertible loan which was issued during the year. The Company seeks to manage financial risk, to ensure sufficient liquidity to meet foreseeable requirements and to invest cash profitably at low risk.

The Company holds investments in bank deposits as a liquid resource to fund the projects of the Company. The Company also hold shares in Plymouth Minerals Ltd (see note 9), which are quoted on the Australian Stock Exchange and considered to be readily realised into cash. The Company's strategy for managing cash is to maximise interest income whilst ensuring its availability to match the profile of the Company's expenditure. Liquidity risk is further managed by tight controls over expenditure.

Notes to the Financial Statements

CONTINUED

16 Financial instruments (continued)

Market price risk

The Company holds some strategic equity investments in other companies where those complement the Company's operations (see note 9). The Directors believe that the exposure to market price risk from this activity is acceptable in the Company's circumstances. The effect of a 10% increase in the value of the listed equity instruments measured at fair value (i.e. the shares in Plymouth Minerals Ltd) would have increased net assets, by £12k. A 10% decrease in their value would have decreased net assets by the same amount.

Maturity analysis of financial liabilities:

	2017 £'000	2016 £'000
Less than 3 months	715	67
Less than 12 months	–	50
	715	117

Credit risk

The Company's credit risk is primarily attributable to the cash held on deposit at financial institutions. It is the Company's policy to only use recognised financial institutions for these deposits. The Company does not have any trade receivables. Please also refer to going concern disclosures in the Report of the Directors on pages 9 to 11.

Currency of net monetary asset

The net monetary assets of the Company are denominated as follows:

	2017 £'000	2016 £'000
UK Pounds:		
Cash and cash equivalents	7,073	45
Trade and other payables	(715)	(66)
Other Taxation and social security	(22)	(1)
	6,336	(22)

Interest rate risk

The Company's exposure to changes in interest rates relates primarily to cash at bank. Cash is held either on current or on short-term deposits at floating rates of interest determined by the relevant bank's prevailing base rate.

The Company has financed its operations through the issue of equity share capital and a convertible loan.

The Company earned interest on its cash assets at rates between 0% and 0.50% (2016: 0% and 0.50%).

An increase of 0.5% in the interest rates will increase finance income by £10k (2016: £nil), with a corresponding movement in net cash.

Notes to the Financial Statements

CONTINUED

16 Financial instruments (continued)

Cash and cash equivalents	2017	2016
	£'000	£'000
Floating interest rate	7,073	45

The Company's cash at bank is held with an institution (National Westminster Bank plc) with a BBB+ credit rating (S&P).

Fair value disclosures

The fair values of the Company's financial instruments are considered not materially different from the book value. The investment in Morille is however impaired, as disclosed in note 9. The investment in Morille represents an equity instrument that does not have a quoted price in an active market. Fair value information has not been disclosed in the accounts, as the fair value cannot be reliably measured.

The company's only financial assets and liabilities held at fair value is the available for sale financial asset for the Plymouth shares, this is classified as level 1 financial instrument, by virtue of its shares being publicly listed. The company has no level 2 and 3 financial instruments. There have been no transfers during the year. Details of the fair value technique applied can be found in note 9.

17 Financial commitments

The total of future minimum lease payments under non-cancellable operating leases are as follows:

	2017	2016
	£'000	£'000
Land and buildings		
– Not later than one year	104	–
– Later than one year and not later than five years	26	–
Total	130	–

The total of future minimum payments under contractual commitments in respect of acquisition of SecurEnvoy are as follows:

	2017	2016
	£'000	£'000
SecurEnvoy Acquisition Costs		
– Not later than one year	665	–
– Later than one year and not later than five years	–	–
Total	665	–

Notes to the Financial Statements

CONTINUED

18 Related party transactions

On 30 September 2016, David Williams, and Christopher Eadie (via his wife) subscribed for new Ordinary Shares at a value of £300,000 and £35,000 respectively (issued at 1 pence per share) as part of a placing carried out by the Company and announced on 21 September 2016. This constituted a related party transaction under the AIM Rules for Companies. The independent Directors at that time consulted with WH Ireland and considered the terms of the transaction with David Williams and Christopher Eadie to be fair and reasonable insofar as the Shareholders are concerned.

On 9 January 2017, David Williams, Michael Stevens, Christopher Eadie (via his wife), Robin Southwell, Stephen Ball and Giles Willits subscribed for, in aggregate, 18,125,000 new Ordinary Shares (£725,000 at the price of 4 pence per share) as part of the placing announced by the Company on 21 December 2016. The Directors participation in the placing constituted a related party transaction under the AIM Rules for Companies. Sean Finlay, who was an independent director for those purposes at the time of the transaction, considered, having consulted with WH Ireland, that the terms of the Directors subscription were fair and reasonable insofar as the Shareholders of the Company are concerned.

Other than disclosed in Notes 5, 12, 14, 15 and 19, there were no related party transactions for the Company during the current and prior period.

19 Events after the reporting period

On 20 April 2017, the Company announced the proposed acquisition of SecurEnvoy for £20 million, proposed placing of up to 200,000,000 new Ordinary Shares at £0.04 per share, proposed open offer of up to 25,477,108 new Ordinary Shares at £0.04 per share, and admission of the Company's enlarged share capital to trading on AIM. Following the Company's General Meeting which took place on 8 May 2017, the Company's shareholders approved the acquisition of SecurEnvoy and the requisite placing and open offer, and the acquisition of SecurEnvoy was completed on 9 May 2017. The £20 million of consideration was satisfied through the payment of £10 million in cash and £10 million through the issuance of 200,000,000 new Ordinary Shares at £0.05 per share. The acquisition of SecurEnvoy established the Company's presence within the large and rapidly growing identity and access management sector.

Certain Directors were issued new Ordinary Shares pursuant to the placing and open offer approved by Shareholders on 8 May 2017. David Williams, Chairman subscribed for 12,500,000 new Ordinary Shares in the placing. In addition, Michael Stevens, Chief Executive Officer and Non-Executive Directors Robin Southwell, Stephen Ball and Giles Willits, each subscribed for 625,000 new Ordinary Shares in the placing. Christopher Eadie (via his wife), Executive Director, applied for 625,000 new Ordinary Shares in the open offer.

The new Ordinary Shares were issued to those Directors at the issue price of £0.04 per share.

On 26 July 2017, the Company announced the acquisition of the business and assets of Newable Consulting for an initial consideration of £600,000. As part of the transaction, Newable Consulting agreed to subscribe for 3,620,806 new Ordinary Shares at £0.04143 per share. Subject to the future financial performance of Newable Consulting, a further payment of up to £100,000 may be made to Newable Consulting, which will be settled through the issuance of new Ordinary Shares.

At the date of authorisation of these financial statements, a detailed assessment of the fair values of the identifiable net assets for both SecurEnvoy and Newable Consulting, have not been completed, and can therefore not be included within this note.

Post year end the Company incorporated four new companies, Xcina Limited, Xcina Consulting Limited, SecurEnvoy GmbH and SecurEnvoy, Inc. Xcina Limited is a wholly owned subsidiary of Shearwater Subco Limited and an intermediary holding company of Xcina Consulting Limited. SecurEnvoy GmbH and SecurEnvoy, Inc. are overseas trading subsidiaries of SecurEnvoy Limited.



Shareholder Notes

