



**SHEARWATER GROUP PLC**

Company No. 05059457

**ANNUAL REPORT AND  
FINANCIAL STATEMENT**

**FOR THE YEAR ENDED 31 MARCH 2018**

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## Company Information

FOR THE YEAR ENDED 31 MARCH 2018

<b>Directors</b>	<b>David Williams</b> (Chairman) <b>Michael Stevens</b> (Group Chief Executive Officer) <b>Robin Southwell</b> (Non-Executive Director) <b>Stephen Ball</b> (Non-Executive Director) <b>Giles Willits</b> (Non-Executive Director)
<b>Registered Office</b>	22 Great James Street London WC1N 3ES
<b>Company Secretary</b>	<b>Paul McFadden</b>
<b>Company Number</b>	05059457
<b>Nominated Advisor And Broker</b>	<b>Cenkos Securities plc</b> 6-8 Tokenhouse Yard London EC2R 7AS
<b>Auditors</b>	<b>BDO LLP</b> 55 Baker Street London W1U 7EU
<b>Solicitors</b>	<b>Mayer Brown International LLP</b> 201 Bishopsgate London EC2M 3AF
<b>Registrars</b>	<b>Neville Registrars Limited</b> Neville House Steelpark Road Halesowen West Midlands B62 8HD
<b>Company website</b>	<a href="http://www.theshearwatergroup.co.uk">www.theshearwatergroup.co.uk</a>

## Strategic and Business Review of Activities

FOR THE YEAR ENDED 31 MARCH 2018

### Chairman's Statement

As highlighted in my statement in the interim results for the Group for the six months ended 30 September 2017, we expected this financial year to be a particularly exciting one as we embarked on our journey of becoming a leading UK based digital resilience group. When we reflect on the acquisitions of SecurEnvoy and Newable Consulting, the launch of Xcina, and the traction of UK based businesses are seeing internationally, it has certainly turned out to be a very productive year.

When we consider making acquisitions or investing in growth, we critically evaluate what we believe we as a team can bring to bear in helping to unlock growth opportunities and support the scaling ambitions of those incoming teams. It is particularly pleasing to see how we are delivering against those objectives and the early growth that is coming through our portfolio companies.

The market opportunity for providers of digital resilience solutions remains as compelling as ever, however navigating a highly dynamic and evolving sector requires a considerable amount of experience and foresight to ensure that we continue to make the right decisions at the right time around where and how we can deliver growth. As a Group, we are fortunate to have industry experts delivering our strategy ably supported by a highly professional and hard working team that is now 100+ strong across all of our businesses. Achieving what we have in these past 12 months wouldn't have been possible without their expertise, dedication and enthusiasm, and I would like to thank all of our employees for their contributions during the year and their continued hard work in helping Shearwater become a leading digital resilience group.

Finally, I would also like to take the opportunity to thank our shareholders, who have shown immense support and loyalty to us as a Group as we have embarked on a substantial transformation plan over the past 18 months. I am delighted that we are beginning to see some of the benefits of our new strategy coming through, with a lot more yet to come from Shearwater.

We look forward to continuing to build on early progress as we move through the new financial year and are confident 2018/19 will bring even more exciting acquisition and organic growth opportunities for us as a Group.



**David Williams**

Chairman

31 July 2018

## Strategic and Business Review of Activities

FOR THE YEAR ENDED 31 MARCH 2018

### Chief Executive Officer's Review

#### Overview

This financial year has been one of significant progress for the Group. As part of our transformation strategy, we have continued to make important advances against our strategic objective of building a leading UK based digital resilience group.

Through the acquisition of SecurEnvoy, we have established a platform upon which we are now able to develop the Group's Identity and Access Management offering, and following the acquisition of Newable Consulting (rebranded Xcina Consulting), we have been able to launch and develop Xcina, the Group's full-service information security and assurance solutions company. During the period we have also seen excellent organic growth within both SecurEnvoy and Xcina Consulting since acquisition, as a result of the implementation of the planned growth initiatives.

Post period end, the Group expanded its software product offering through the acquisition of GeoLang, an award-winning Data Loss Protection enterprise software company, and augmented Xcina's service proposition through the acquisition of Crystal IT (rebranded Xcina IS). Both businesses continue to make excellent progress since joining the Group. Please refer to Note 23 for further details of events after the reporting period.

As a result of this growth and our expectations around the forthcoming year, the Group has also invested in establishing the appropriate infrastructure to support the development of our portfolio companies. This has included the setting up of overseas offices in the US and Germany, which will enable our portfolio companies to better serve international clients, and at a Group level, additional finance, information services, commercial and HR capability to ensure our portfolio companies are appropriately supported with shared services as they continue to grow and expand.

#### Market opportunity

Through digitalisation and the rapidly growing interconnectivity of enterprises, functions, people, objects and devices, organisations continue to face unprecedented levels of pressure in needing to evolve their business models so that they can digitally engage effectively with all stakeholders and manage and protect their critical data and information assets. All of this is occurring at a time when attack vectors are increasing, and the sophistication of threats is outpacing the capability and capacity to respond.

As a result, organisations are having to rethink traditional approaches to data and information management and security and move beyond standard protection measures aimed at meeting minimum levels of compliance. Organisations now have to consider how information security can be embedded within business processes and operations to manage, monitor and protect core data and information assets, while still competing effectively in an increasingly globalised and interconnected digitalised world.

Developing this digital resilience is key for all organisations irrespective of size as digital technologies have become increasingly interwoven and inseparable from business process such that functions are operating with decreasing human oversight and interaction, and organisations are digitally dependent upon the resilience of their systems. In this connected digital environment, failure or partial failure of any single underlying point, whether through malicious activity or human error, can cascade and have catastrophic effects across an enterprise or organisation.

This presents an attractive market opportunity for those providers of digital resilience solutions and services which maintain trust between users, provide assurance around the protection of critical data and information assets, and support the operational effectiveness of the wider enterprise.

#### Business strategy

The Group is focused on building a UK based group providing digital resilience solutions and services. Through the application of its "buy, focus, grow" strategy, the Group 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.

Through recent acquisitions and a number of organic growth initiatives, the Group is at the early stages of building a broad portfolio of information security, governance, risk and compliance, cyber and cyber security assets, which we believe in time will meet the ever-increasing digital resilience demands from the Group's customers, and provide the Company's current and prospective shareholders with exposure to a large and rapidly growing sector through a portfolio approach, which aims to balance risk and return in a highly dynamic and often unpredictable operating environment.

In driving our strategy, we continue to leverage the substantial operating experience we have within the Group covering technology, cyber, information security, digital and communication sectors, and prior track records of delivering shareholder value through accelerated buy and build processes.

### **Financial performance**

The Group generated revenue of £6.2 million in the period (2016/17: £nil), which reflected 10.7 months of trading from SecurEnvoy and 8.2 months of trading from Newable Consulting (rebranded Xcina Consulting) since acquisition respectively. Of the £6.2 million of Group revenue, 54% (2016/17: £nil) was generated through the licencing of the Group's owned software products and 46% (2016/17: £nil) through the provision of services.

The portfolio companies contributed £1.1 million of underlying EBITDA during the period, after taking into account investments made by the businesses in specific growth initiatives (2016/17: £nil). The profit made by portfolio companies is reduced by head office costs meaning the Group is loss making in the financial year.

The Group generated an underlying EBITDA loss of £0.8 million for the period, which reflected the cost of the Group's overhead, investments made in establishing and strengthening the Group's infrastructure, the launch of Xcina, and only partial trading contribution from the portfolio companies in the period (2016/17: underlying EBITDA loss of £1.1 million).

After exceptional items of £1.0 million (2016/17: £0.4 million), amortisation of acquired intangible assets, depreciation and share-based payments, the Group made an operating loss of £2.9 million (2016/17: operating loss of £1.6 million). Of the £1.0 million of exceptional items, £0.7 million related to the acquisition of SecurEnvoy, £0.1 million related to the acquisition of the business and assets of Newable Consulting, with the remaining £0.2 million of costs incurred as a result of other potential acquisition opportunities. Due to the volatility of the share-based payment charge which will vary year on year dependent on the level of completed acquisitions this is adjusted out in underlying EBITDA so as not to distort year on year trading comparisons.

### **Financial position**

At the period end, Group cash was £2.5 million (2016/17: £7.1 million) reflecting investments made in portfolio companies and their growth initiatives, including the costs incurred as a result of the creation and development of Xcina, and Group overheads. These costs were partially offset by strong cash generation at SecurEnvoy and a profitable contribution from Xcina Consulting. As previously disclosed it is the intention of the Board to dispose of the Gold Exploration rights which we anticipate will occur in the next financial year. Further detail is provided in note 11.

Cash management continues to be a priority for the Group and actual expenditure compared to budget is monitored closely to ensure that the Group maintains adequate liquidity to meet financial commitments as they arise.

Net cash used in operating activities was £(3.1) million for the period (2016/17: £(0.9) million). Net cash used in investing activities was £(10.0) million (2016/17: £0.0 million) and net cash generated by financing activities was £8.5 million (2016/17: £7.9 million). Overall net cash outflow for the period was £(4.6) million (2016/17: net cash inflow of £7.0 million).

### **Key performance indicators**

Integral to the performance management of the Group, the Board and management monitor actual against budgeted revenue, costs and underlying EBITDA on a monthly basis as part of the portfolio companies' monthly business reviews, finance meetings and scheduled Board meetings.

The Board and management believe that revenue and underlying EBITDA are key metrics to monitor the performance of the Group, as they provide a good basis to judge underlying performance and are recognised by the Group's shareholders.

Underlying EBITDA is defined as profit before tax, before one off exceptional items, share based payment charges, finance charges, depreciation and amortisation, and a reconciliation from underlying EBITDA to loss before tax is detailed in Note 2.

In addition, control of bank and cash balances is a priority for the Group and these are budgeted and monitored closely to ensure that the Group maintains adequate liquidity to meet all of its financial commitments as they arise.

### **Segmental performance summary** (including activities after the financial year end)

#### **Software (54% of Group revenue)**

Software, comprising SecurEnvoy during the period, generated £3.4 million of revenue for 10.7 months of trading included in the financial year ended 31 March 2018. On a pro rata basis, this represents 17 per cent. growth compared to the pre-acquisition period. At a portfolio company underlying EBITDA level, SecurEnvoy contributed £1.8 million to the total Segment EBITDA of £1.1 million, which reflected strong performance within the UK business, offset by investments made in the period, which are detailed below.

Since joining the Group in May 2017, SecurEnvoy has also made considerable progress against the stated objectives at the time of acquisition, and during the period has established its overseas presence in the US and Germany to support international growth ambitions, strengthened its senior leadership team through the hire of a new Chief Information Officer to lead the product development teams, and won its first contract under its newly launch B-2-C product offering.

Post the period end, SecurEnvoy also made significant advances against its product road map by developing its authentication security solutions offering to meet increasing customer demand for cloud-based solutions. In April 2018, the business launched its Cloud Service Partner proposition, and is scheduled to release its own cloud multi-factor authentication solution later this year. On the sales side, SecurEnvoy has expanded its channel partners in the US to fifteen, and most recently has been appointed as one of the first Premier Citrix Ready Partners for the rapidly growing Identity and Access Management sector. The Directors believe the business is now ideally positioned for growth and look forward to continuing to deliver against the post-acquisition plans.

In April 2018, the Company also welcomed GeoLang to the Group. As an award-winning Data Loss Protection ("DLP") enterprise software company, the acquisition established the Group's position within the rapidly growing DLP market and augmented the Group's GDPR and cyber security capability offering. Whilst no trading for GeoLang is included in the results for the financial year ended 31 March 2018, the business is already generating revenue having won its inaugural enterprise licence following acquisition. For the Group's interim results for the six months ending 30 September 2018, GeoLang's post acquisition trading will be included within the Software segment, whilst organisationally the business fits within Xcina where it is able to leverage the existing infrastructure created alongside the wider Shearwater Group in delivering its growth plan.

#### **Services (46% of Group revenue)**

Services, comprising Xcina Consulting during the period, generated £2.9 million of revenue for the 8.2 months of trading included in the financial year ended 31 March 2018. Prior to acquisition, Xcina Consulting generated £2.4 million of revenue for the twelve months ended 31 March 2017, and on a pro rata basis has delivered revenue growth of 79 per cent since acquisition. As a result, the business generated a positive contribution to the Group and continues to trade profitably and ahead of the Directors' expectations.

During the period and post period end, substantial progress has also been made in establishing Xcina as a full service information security and assurance solutions and services company. Launched following the acquisition of Newable Consulting in July 2017 (rebranded Xcina Consulting), Xcina has expanded its solutions offering from governance, compliance, technology risk and cyber security assurance and advisory services to include the following:

- Xcina Managed Security Services Provider ("MSSP"), which through its London-based Security Operations Centre ("SOC"), provides outsourced SOC services, data analytics, threat intelligence and incident response;
- Xcina Information Services ("IS"), formed through the acquisition of Crystal IT, which augments Xcina's existing services capability and provides resilience information services to SMEs; and
- Xcina Enterprise, which has been established to provide digital transformation and information security solutions to companies looking to embed digital resilience within business strategy.

As a result of the investments made in establishing Xcina and the launch of the new service lines detailed above, Services contributed a Segment Underlying EBITDA loss of £0.6 million for the period.

In April 2018, Xcina was appointed as an approved supplier of data and information assurance solutions to a global FTSE 100 company and was awarded its first contract under this supplier arrangement providing a Payment Card Industry Data Security Standard ("PCI DSS") architecture review initially worth £0.2 million. The Directors believe the award of this contract serves to highlight the applicability of Xcina's information and cyber security solutions across corporate customers of all sizes and potential for additional contract wins during the current financial year.

## **Outlook**

The new financial year will see a full years' contribution from a number of the Group's businesses and will benefit from the organic growth initiatives implemented during 2018. Overall trading for the Group continues in line with the Board's expectations.

The Software segment will include a full years' trading from SecurEnvoy and nearly a full year from GeoLang as the Group continues to support the business with its go-to-market strategy and moving it to a revenue-generating position. We will look to develop the Software segment around a core set of Software as a service ("SaaS") products with high levels of recurring revenue and strong cash flow generation to benefit the Group over the coming years.

Within Services, further organic growth is anticipated, which will support the Group's decision to largely organically develop its full service information security and assurance business, Xcina. It is expected that Xcina will deliver substantial value for shareholders compared to the acquisition of a market peer within the information security, governance, regulatory and compliance advisory sectors.

The market outlook for providers of digital resilience solutions continues to be extremely positive, with strong macro drivers creating a large number of opportunities for growth. Identifying those opportunities which if secured, can help our portfolio companies provide market leading solutions to assure and protect the data and information assets of our customers, whilst delivering enhanced returns will be key to our success as a Group.

By applying our portfolio approach to growth and creating the right environment to unlock growth from our acquisitions, the Group provides investors with access to, and participation in a large and rapidly growing sector, without overexposure to one particular technology or service offering.

The Board has identified a number of potential acquisitions which meet the Group's selection criteria and believes Shearwater is ideally positioned as we move through the new financial year to make great strides in its strategic aim of becoming a leading UK based digital resilience group.



**Michael Stevens**

Group Chief Executive Officer

31 July 2018



# Strategic and Business Review of Activities

FOR THE YEAR ENDED 31 MARCH 2018

## Principal risks and uncertainties

The Group has established a risk management process for identifying, assessing and mitigating the Company's principal risks and uncertainties. Individual portfolio companies consider material strategic, operational and financial risks every three months at their quarterly business reviews. Those risks are considered by the Company's executive leadership team and are assessed at monthly operational board meetings and where it is considered appropriate to do so, included on the Group's risk register and allocated to a member of the Company's executive leadership team who is then responsible for monitoring that risk and developing suitable mitigation actions. The Company's risk register is considered by the Board on a quarterly basis, with ad hoc reviews conducted as required.

The Company's activities are carried out in the UK, Europe, and the US. Accordingly, the principal risks and uncertainties are considered as follows:

### 1. Cyber security attacks

Going forward as a publicly traded provider of digital resilience solutions, the Group is a high profile target for third parties wishing to gain unauthorised access to the Group's networks, or to bypass or breach its products. Any breach of the Group's networks or products, whether through a deliberate hack or unintentional event, may cause significant business disruption to the Group or its customers and result in the Group incurring the costs of remedying any breach. Furthermore, the Group's reputation may be damaged, leading to a loss of customer, industry and investor confidence. In addressing this risk, the Group has established a secure network infrastructure, supported by its own in house team of information security and cyber security specialists, who are able to monitor, identify and respond to any incident, and if required, recover any data or information. With regards to the Group's owned software products, each is subjected to third party testing as part of the ongoing development process both prior to launch and also whilst the product is being used by the Group's customers. Where new threats emerge, product updates are made available and communicated to the Group's customers so that they are able to maintain continuity of protection.

### 2. Intellectual property

The Company's commercial success will depend upon in part, 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 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. In addressing this risk, the Group utilises specialist external support and expert advice from its legal counsel and patent attorneys, whom help capture and document the Group's intellectual property, and where appropriate, manage the patent creation, approval and renewal process.

### 3. 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. 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. In addressing this risk, the Group has created a Group wide technical forum, through which all of the portfolio company Chief Technical Officers are able to work

together to continue to improve the Group's products and to develop and market new products that keep pace with technological change and the threats that the Group's customers face.

#### **4. Recruitment and retention of key personnel**

The Group's success depends upon its ability to attract and recruit, retain and incentivise highly skilled employees across all areas of the business. If the Group 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. The Board recognises this risk and as a result have a Group-wide people strategy which encompasses among other things, culture, training and development, capability and competence assessments, succession planning and reward and recognition structures, to help attract and appropriately incentivise key personnel.

#### **5. Regulation**

In 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 Group is unable to provide products or services to its 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. In addressing this risk, the Group has appointed a Data Protection Officer, who is responsible for ensuring the Group's continued compliance with the new data protection requirements which have most recently come into force. Furthermore, based upon the collective experience of the Board and the Group's Advisory Panel, the Group is well placed to monitor and process industry or legislative developments which can impact its portfolio companies.

#### **6. 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 Group, or what impact the wider regulatory and legal consequences of the UK leaving the EU would be on the Group. Any updates from the UK Government are assessed by the Directors and the impact is discussed as a Board. The Directors have discussed the potential impact to the Group and in particular to its working relationship with its German entity and EU clients and believe that due to the autonomy given to the local entity, the business is currently well protected based on the current status of the leave negotiations.

On behalf of the Board



**Michael Stevens**

Group Chief Executive Officer

31 July 2018

## Report of the Directors

FOR THE YEAR ENDED 31 MARCH 2018

The Directors present their annual report together with the audited financial statements for the year ended 31 March 2018.

### Dividends

The Directors do not recommend the payment of a dividend for the year (2016/17: £nil).

### Strategic report

A review of the business, future developments and the principal risks and uncertainties facing the Company are included within the Strategic and Business Review of Activities on pages 2 to 8.

### Directors

The Directors of the Company who held office during the year are as follows:

#### Name of Director

D Williams	Appointed as Chairman on 20 April 2015
M Stevens	Appointed as Group Chief Executive Officer on 3 October 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
S Finlay	Resigned as Non-Executive Director on 13 April 2017
C Eadie	Resigned as Executive Director on 29 September 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 2018	Number of shares held at 31 March 2017
D Williams	119,833,994	101,083,994
M Stevens	11,250,000	10,625,000
R Southwell	11,250,000	10,625,000
S Ball	11,250,000	10,625,000
G Willits	6,250,000	5,625,000
C Eadie (resigned 29 September 2017)	5,750,001	5,125,001
S Finlay (resigned 13 April 2017)	666,055	666,055

The Directors' interests in the share options of the Company as at 31 March 2018 were as follows:

	Number of options at 31 March 2017 & 2018	Exercise price	Date of grant	First date of exercise	Final date of exercise
G Willits*	521,739	1.0p	09/12/16	09/12/17	30/06/18
C Eadie	1,000,000	1.0p	03/10/16	03/10/16	03/10/21
S Finlay	500,000	1.0p	03/10/16	03/10/16	03/10/21

\*These options vested in twelve equal tranches commencing on 12/12/16 and ending on 12/12/17 and were exercised by G Willits on 4 June 2018.

The remuneration of Directors during the year is disclosed in note 6.

### **Directors' indemnities**

The Company currently has in place, and had for the year ended 31 March 2018, 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 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 23 of the financial statements.

### **Research and development activities**

Due to the everchanging and competitiveness within the market the Group operates within, it actively supports the continued research and development of our software (SaaS) services to ensure that the Group remains at the forefront of the markets we serve. All research and development expenditure is recognised when incurred in the statement of comprehensive income.

### **Financial instruments**

Details of the use of financial instruments by the Company are contained in note 20 of the Financial Statements. The financial risk management policies and objectives are set out in detail in note 20 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.

### **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 11a.m. on 27 September 2018 at the offices of Mayer Brown International LLP, 201 Bishopsgate, London EC2M 3AF. Notice of the Annual General Meeting will be circulated shortly to Shareholders.

On behalf of the Board



**David Williams**

Chairman

31 July 2018

## Corporate Governance Statement

FOR THE YEAR ENDED 31 MARCH 2018

As an AIM listed company, the Group is not required to comply with the UK Corporate Governance Code ('the Code') as amended in April 2016. However, the Group has given consideration to the provisions set out in the Code. The Directors support the objectives of the Code and currently comply with those aspects that they consider relevant to the Group's size and circumstances but do not consider it necessary to comply with the Code in its entirety. Details of the Group's current corporate governance practices are set out on page 12. A statement of the Directors' responsibilities in respect of the financial statements is set out on page 14.

Following the issuance of AIM Notice 50 and the subsequent amendment to AIM Rule 26, the Company is undertaking a review of its corporate governance practices. It is the Board's intention to adopt those aspects of the newly issued QCA Code from 28 September 2018 which the Board believe are appropriate for the size, scale and complexity of the Company. Where the Board believe that a departure from the QCA Code is warranted, an explanation will be provided in the Company's next Interim Report in addition to an explanation detailing aspects of the Company's corporate governance practices against the principles of the QCA Code.

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 is a list of 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** (Chairman) Age 66

David has a reputation for building companies in the public and private sectors and has chaired a large number of these, both in an executive and non-executive capacity. In developing these companies he has raised in excess of £1 billion of capital to support organic and acquisition growth strategies. He was formerly chairman of Entertainment One Ltd. and currently chairs Oxford Biodynamics Plc. He is also a founder and non-executive director of Breedon Group plc. David serves as the chairman of the Remuneration Committee and Nomination Committee, and is a member of the Audit Committee.

#### **Michael Joseph Stevens** (Group Chief Executive Officer) Age 56

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. 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 58

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 64

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.

**Giles Kirkley Willits** (Non-Executive Director) Age 51

Giles has over twenty years' experience in senior leadership and financial roles and is currently the chief financial officer of IG Design Group plc (AIM: IGR). Prior to this, Giles was also 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. grew 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.

**Advisory Panel**

The Group's Advisory Panel is chaired by Rt Hon. the Lord Reid of Cardowan. 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 Group 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 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.

As noted in the Strategic and Business Review of Activities on page 7, the Board has in place a risk management policy and a risk management register for identifying, assessing and mitigating the Company's principal risks and uncertainties.

**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. During the period, the Directors enhanced the Group's finance function with a number of new hires, including the appointment of a Head of Finance, whom is responsible for the day to day management of all finance aspects of the business. As part of this process, the Directors have also implemented a more formal system of internal financial control, which has developed as the Group has scaled with the acquisitions it has made in the period. 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 further.

**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 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. 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 2018

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 Group and Company financial statements in accordance with International Financial Reporting Standards ('IFRS') 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 Group and Company and of the profit or loss of the Group and 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.



## **Independent auditor's report to the members of Shearwater Group plc**

### **Opinion**

We have audited the financial statements of Shearwater Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the consolidated statement of comprehensive income, the consolidated and company statements of changes in equity, the consolidated and company statements of financial position, the consolidated and company cashflow statements and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2018 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

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

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

### **Key audit matters**

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

<b>Matter</b>	<b>How we addressed the matter in our audit</b>
<p><i>Accounting for the acquisition of SecurEnvoy Limited and Newable Consulting Limited (renamed Xcina Consulting Limited)</i></p> <p>As explained in note 9 of the financial statements, on 09 May 2017 the Group completed its acquisition of SecurEnvoy Limited and on 26 July 2017 its acquisition of Newable Consulting Limited (renamed Xcina Consulting Limited).</p> <p>We focused on these transactions because they are material to the consolidated financial statements and because there is a degree of judgement in the identification and valuation of the assets and liabilities acquired.</p>	<p>Our audit procedures included assessing the appropriateness of the accounting treatment adopted and challenging the directors' assessment of the fair value of the assets acquired and liabilities assumed with reference to a Purchase price allocation ("PPA") provided by management.</p> <p>We used our own valuation specialists to evaluate and conclude on the results of management's procedures and PPA to determine the fair value of the intangible assets acquired. This included:</p> <ul style="list-style-type: none"> <li>- evaluating the completeness and existence of intangible assets recognised;</li> <li>- assessment of the valuation methodologies applied;</li> <li>- assessment of the key assumptions made by management, such as discount rates and growth rates compared to our independently calculated range;</li> <li>- benchmarking the assumptions used with other transactions in the sector; and</li> <li>- performing sensitivity analysis to understand the extent to which changes in key assumptions may give risk to a materially different valuation for the intangible asset.</li> </ul> <p>We assessed the sufficiency of the disclosures relating to the acquisition taking into account the requirements of the accounting standards and testing the completeness and accuracy of the disclosures.</p>
<p><i>Possible impairment of exploration rights</i></p> <p>As disclosed in note 11 of the financial statements and in the Financial Position discussion in the CEO review, there is £936k worth of exploration rights that have been capitalised.</p> <p>IFRS 6 <i>Exploration for and Evaluation of Mineral Resources</i> prescriptively requires exploration rights to be assessed for impairment if specific criteria are not met. One specific criteria is that substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned. This criteria has not been met which necessitated an impairment review in accordance with IAS 36 <i>Impairment of assets</i>.</p> <p>Under IAS 36 <i>Impairment of assets</i> management prepared an impairment assessment calculating the asset's recoverable amount to be its fair value less costs to sell.</p> <p>However, the period for which the entity has the right to explore in the specific area has expired. Management are working towards renewals of the exploration rights, however no sale process can proceed until the rights are renewed, leading to uncertainty over the recoverable amount.</p>	<p>BDO have reviewed management's IFRS 6 assessment of impairment indicators and are in agreement that an impairment assessment was necessitated.</p> <p>Our audit procedures performed to conclude on whether the Exploration rights warrant an impairment as per IAS 36 included:</p> <ul style="list-style-type: none"> <li>- Obtained and reviewed management's impairment assessment for IAS 36 compliance.</li> <li>- Reviewing minutes of meetings held between the company and the Director General of Energy and Mines for Spain noting the strong possibility of the exploration rights being renewed which will enable the Company to proceed with sale negotiations.</li> <li>- BDO have challenged the Board of Directors and the Audit Committee on the carrying value of the exploration rights and discussed with them whether an impairment was required. The Board and Audit Committee concluded that the carrying value was appropriate and that there was no impairment warranted.</li> <li>- BDO have also discussed with the Board of Directors and the Audit Committee the fact that there have been informal offers made for the exploration rights. These offers have been considered to be the basis of management's calculated recoverable amount.</li> </ul> <p>These discussions with the Board of Directors and Audit Committees have been represented to BDO in a formal management representation letter.</p>
<p><i>Revenue recognition</i></p> <p>The group's revenue recognition policy can be found in note 1.f to the financial statements.</p>	<p>A summary of procedures performed to address the risk include:</p>

<p>We consider a significant risk of material misstatement to arise from the recognition of revenue around the year end on consulting contracts within Xcina Consulting Limited.</p> <p>Therefore the key audit matter is the recognition of revenue in the correct period.</p>	<ul style="list-style-type: none"> <li>- Testing a sample of transactions from the accrued revenue listing by obtaining the invoices raised subsequent to the year end detailing price per day and the days spent on the project, recalculating the accrued revenue to be recognised at year end.</li> <li>- Agreed the cash receipts received post year end for those accrued revenue transactions sampled.</li> <li>- Where cash had not been received, the invoice details were agreed to contract or correspondence with project management.</li> <li>- Agreed a sample of unbilled revenue transactions from the sales listing to the accrued revenue listing ensuring completeness of the accrued revenue listing.</li> <li>- Reviewed a sample of sales invoices raised before and after year end to ensure that accounted for in the correct period and accrued for appropriately.</li> </ul>
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### Our application of materiality

We apply the concept of materiality in performing our audit and evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £9,700 (2016: £8,475). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

Group Overall materiality	£194,000 (2017: £226,000)
Group Performance materiality	£145,500 (2017: £169,500)
Basis for determining	7% of group loss before tax (2017: 3% of Net Assets)
Rationale for benchmark applied	We used loss before tax as a benchmark because this is the first year that the group has traded, and therefore shareholder value and focus has been determined to be on the current year loss as a measure for shareholders in assessing the performance of the Group.
Parent company Overall materiality	£40,000 (2017: £226,000)
Parent company Performance Materiality	£30,000 (2017: £169,500)

### Component materiality

Component materiality is established when performing audits on complete financial information of subsidiaries within the group, where the subsidiary is considered significant to the group.

We determined component materiality as follows:

Range of component materiality	6% to 85% of group materiality
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### An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including the group's system of internal control, and assessing the risks of material misstatement in the financial statements at the group level.

In determining the scope of our audit we considered the level of work to be performed at each component in order to ensure sufficient assurance was gained to allow us to express an opinion on the financial statements of the Group as a whole. We tailored the extent of the work to be performed by us at each component based on our assessment of the risk of material misstatement at each component. We identified four centrally controlled components as significant, and have audited these for group reporting purposes. All of the audit work was undertaken by BDO LLP.

For two of the components not considered significant, we performed specific scope procedures based on their relative size, risks in the business and our knowledge of those entities appropriate to respond to the risk of material misstatement. Review procedures were performed by the group audit team on the remaining one reporting component not considered significant to the group.

### **Other information**

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

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

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

### **Matters on which we are required to report by exception**

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

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

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

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

### Use of our report

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

BDO LLP

Nicole Martin (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London

31 July 2018

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

## Consolidated statement of comprehensive income

for the year ended 31 March 2018

	Note	2017/18 £ (000)	2016/17 £ (000)
<b>Revenue</b>	3	6,240	-
Cost of sales		(2,604)	-
<b>Gross profit</b>		<b>3,636</b>	-
Administrative expenses		(6,520)	(1,585)
<b>Operating loss</b>		<b>(2,884)</b>	<b>(1,585)</b>
Finance income		2	1
<b>Loss before tax</b>		<b>(2,882)</b>	<b>(1,584)</b>
Income tax charge	7	(3)	-
<b>Loss for the year and attributable to equity holders of the Company</b>		<b>(2,885)</b>	<b>(1,584)</b>

<b>Operating loss analysed as:</b>			
Underlying EBITDA		(837)	(1,076)
Amortisation of acquired intangibles	4	(647)	-
Depreciation of fixed assets	4	(14)	(1)
Share-based payments	4	(366)	(79)
Exceptional items	4	(1,020)	(429)
Finance income		2	1
<b>Loss before tax</b>		<b>(2,882)</b>	<b>(1,584)</b>

### Other comprehensive income

Items that may be reclassified to profit and loss:

Change in fair value of available-for-sale assets		(67)	76
<b>Total comprehensive loss for the year</b>		<b>(2,952)</b>	<b>(1,508)</b>

### Loss per share

Basic and diluted (pence per share)	8	<b>(0.31)</b>	<b>(0.54)</b>
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The notes on pages 24 to 45 are an integral part of these consolidated financial statements.

## Consolidated statement of financial position

as at 31 March 2018

	Note	Group		Company	
		2018 £ (000)	2017 £ (000)	2018 £ (000)	2017 £ (000)
<b>Assets</b>					
<b>Non-current assets</b>					
Goodwill	10	12,956	-	-	-
Other intangible assets	11	8,220	935	986	935
Investments in subsidiaries	12	-	-	20,221	-
Available for sale assets	13	51	118	51	118
Property, plant and equipment	14	76	1	18	1
Amounts owed by subsidiary undertaking		-	-	1,662	-
<b>Total non-current assets</b>		<b>21,303</b>	<b>1,054</b>	<b>22,938</b>	<b>1,054</b>
<b>Current Assets</b>					
Trade and other receivables	15	1,949	86	47	86
Cash and cash equivalents		2,493	7,073	540	7,073
<b>Total current assets</b>		<b>4,442</b>	<b>7,159</b>	<b>587</b>	<b>7,159</b>
<b>Total assets</b>		<b>25,745</b>	<b>8,213</b>	<b>23,525</b>	<b>8,213</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	16	1,755	732	1,243	737
<b>Total current liabilities assets</b>		<b>1,755</b>	<b>732</b>	<b>1,243</b>	<b>737</b>
<b>Non-current liabilities</b>					
Deferred tax	17	1,847	-	-	-
<b>Total non-current liabilities assets</b>		<b>1,847</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>		<b>3,602</b>	<b>732</b>	<b>1,243</b>	<b>737</b>
<b>Net assets</b>		<b>22,143</b>	<b>7,481</b>	<b>22,282</b>	<b>7,476</b>
<b>Capital and reserves</b>					
Share capital	18	9,644	5,353	9,644	5,353
Share premium	18	28,923	15,962	28,923	15,957
Available for sale reserve		36	103	36	103
Other reserves		401	39	401	39
Retained deficit		(16,861)	(13,976)	(16,722)	(13,976)
<b>Equity attributable to owners of the Company</b>		<b>22,143</b>	<b>7,481</b>	<b>22,282</b>	<b>7,476</b>
<b>Total equity and liabilities</b>		<b>25,745</b>	<b>8,213</b>	<b>23,525</b>	<b>8,213</b>

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2016 and has not presented its own statement of comprehensive income in these financial statements. The loss for the financial year for the parent Company was £2.7 million (2017: £1.6 million).

The notes on pages 24 to 45 are an integral part of these consolidated financial statements. The financial statements on pages 20 to 45 were approved and authorised for issue by the Board and signed on their behalf on 31 July 2018.



**M Stevens**  
Chief Executive Officer

Registered number: 05059457

## Consolidated statement of changes in equity

for the year ended 31 March 2018

Group	Share capital (Note 18) £ (000)	Share premium (Note 18) £ (000)	Available for sale reserve £ (000)	Other reserve £ (000)	Retained deficit £ (000)	Total Equity £ (000)
<b>At 1 April 2016</b>	1,719	11,593	27	-	(12,432)	907
Loss for the year	-	-	-	-	(1,584)	(1,584)
Other comprehensive loss for the period	-	-	76	-	-	76
<b>Total comprehensive loss for the period</b>	-	-	<b>76</b>	-	<b>(1,584)</b>	<b>(1,508)</b>
<b>Contributions by and distributions to owners</b>						
Issue of share capital	3,634	4,605	-	-	-	8,239
Share issue costs	-	(236)	-	-	-	(236)
Share based payments	-	-	-	39	40	79
<b>At 31 March 2017</b>	<b>5,353</b>	<b>15,962</b>	<b>103</b>	<b>39</b>	<b>(13,976)</b>	<b>7,481</b>
Loss for the year	-	-	-	-	(2,885)	(2,885)
Other comprehensive loss for the period	-	-	(67)	-	-	(67)
<b>Total comprehensive loss for the period</b>	<b>5,353</b>	<b>15,962</b>	<b>36</b>	<b>39</b>	<b>(16,861)</b>	<b>4,529</b>
<b>Contributions by and distributions to owners</b>						
Issue of share capital	4,291	13,491	-	-	-	17,782
Share issue costs	-	(530)	-	-	-	(530)
Share based payments	-	-	-	362	-	362
<b>At 31 March 2018</b>	<b>9,644</b>	<b>28,923</b>	<b>36</b>	<b>401</b>	<b>(16,861)</b>	<b>22,143</b>
Company	Share capital (Note 18) £ (000)	Share premium (Note 18) £ (000)	Available for sale reserve £ (000)	Other reserve £ (000)	Retained deficit £ (000)	Total Equity £ (000)
<b>At 1 April 2016</b>	1,719	11,593	27	-	(12,432)	907
Loss for the year	-	-	-	-	(1,584)	(1,584)
Other comprehensive loss for the period	-	-	76	-	-	76
<b>Total comprehensive loss for the period</b>	-	-	<b>76</b>	-	<b>(1,584)</b>	<b>(1,508)</b>
<b>Contributions by and distributions to owners</b>						
Issue of share capital	3,634	4,600	-	-	-	8,234
Share issue costs	-	(236)	-	-	-	(236)
Share based payments	-	-	-	39	40	79
<b>At 31 March 2017</b>	<b>5,353</b>	<b>15,957</b>	<b>103</b>	<b>39</b>	<b>(13,976)</b>	<b>7,476</b>
Loss for the year	-	-	-	-	(2,746)	(2,746)
Other comprehensive loss for the period	-	-	(67)	-	-	(67)
<b>Total comprehensive loss for the period</b>	<b>5,353</b>	<b>15,957</b>	<b>36</b>	<b>39</b>	<b>(16,722)</b>	<b>4,663</b>
<b>Contributions by and distributions to owners</b>						
Issue of share capital	4,291	13,491	-	-	-	17,782
Share issue costs	-	(530)	-	-	-	(530)
Share based payments	-	-	-	362	-	362
<b>At 31 March 2018</b>	<b>9,644</b>	<b>28,918</b>	<b>36</b>	<b>401</b>	<b>(16,722)</b>	<b>22,282</b>

The notes on pages 24 to 45 are an integral part of these consolidated financial statements.



## Consolidated Cash Flow Statement

for the year ended 31 March 2018

	Note	Group		Company	
		2017/18 £ (000)	2016/17 £ (000)	2017/18 £ (000)	2016/17 £ (000)
<b>Cash flows from operating activities</b>					
Loss for the period		(2,885)	(1,584)	(2,747)	(1,584)
Adjustments for:					
Depreciation of property, plant and machinery	4	14	1	4	1
Amortisation of acquired intangible assets	4	647	-	-	-
Finance income		(2)	(1)	(1)	(1)
Share-based payment charge	4	366	79	366	79
Income tax		3	-	-	-
<b>Cash flow from operating activities before changes in working capital</b>		<b>(1,857)</b>	<b>(1,505)</b>	<b>(2,378)</b>	<b>(1,505)</b>
(Increase)/decrease in trade and other receivables		(1,412)	(75)	39	(75)
(Decrease)/increase in trade and other payables		457	670	(1,149)	670
<b>Cash used in operations</b>		<b>(2,812)</b>	<b>(910)</b>	<b>(3,488)</b>	<b>(910)</b>
Net foreign exchange movements		(19)	-	-	-
Tax paid		(280)	-	-	-
<b>Net cash used in operating activities</b>		<b>(3,111)</b>	<b>(910)</b>	<b>(3,488)</b>	<b>(910)</b>
<b>Investing activities</b>					
Acquisition of subsidiaries, net of cash acquired		(9,839)	-	(11,466)	-
Purchase of property, plant and machinery	14	(72)	(2)	(20)	(2)
Purchase of software	11	(19)	-	-	-
Interest received		2	1	1	1
Gold exploration payments		(50)	(9)	(50)	(9)
<b>Net cash used in investing activities</b>		<b>(9,978)</b>	<b>(10)</b>	<b>(11,535)</b>	<b>(10)</b>
<b>Financing activities</b>					
Proceeds from issue of share capital		9,020	8,084	9,020	8,084
Expenses paid in connection with share issues		(530)	(236)	(530)	(236)
Proceeds from convertible loan		-	100	-	100
<b>Net cash generated by financing activities</b>		<b>8,490</b>	<b>7,948</b>	<b>8,490</b>	<b>7,948</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(4,599)</b>	<b>7,028</b>	<b>(6,533)</b>	<b>7,028</b>
Foreign exchange movement on cash and cash equivalents		19	-	-	-
Cash and cash equivalents at the beginning of the period		7,073	45	7,073	45
<b>Cash and cash equivalents at the end of the period</b>		<b>2,493</b>	<b>7,073</b>	<b>540</b>	<b>7,073</b>

The notes on pages 24 to 45 are an integral part of these consolidated financial statements.

## Notes to the Financial Statements

### General Information

The Group is a public limited company incorporated and domiciled in the UK. The address of its registered office is 22 Great James Street, London, WC1N 3ES.

The Group is listed on the alternative investment market on the London Stock Exchange. The Group provides digital resilience solutions to a range of end user markets.

### 1. Statement of accounting policies

The significant accounting policies applied in preparing the financial statements are outlined below. These policies have been consistently applied for all the years presented, unless otherwise stated.

#### a) Basis of preparation

The Consolidated and Company financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), including International Accounting Standards ('IAS') and interpretations ('IFRS ICs') issued by the International Accounting Standards Board ('IASB') and its Committees, and as adopted in the EU, and in accordance with the Companies Act 2006 as applicable to Companies using IFRS.

The Consolidated financial statements have been prepared under the historic cost convention, except for certain financial instruments that have been measured at fair value. The Consolidated financial statements are presented in Sterling, the functional currency of Shearwater Group plc, the Parent Company. All values are rounded to the nearest thousand pounds (£'000s) except where otherwise indicated.

#### b) Going concern

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these consolidated financial statements. The Group is forecast to become profitable in fiscal year March 2020.

#### c) Critical accounting judgements estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for income and expenses during the year and that affect the amounts reported for assets and liabilities at the reporting date.

#### Business Combinations

Management make judgments, estimates and assumptions in assessing the fair value of the net assets acquired on a business combination, in identifying and measuring intangible assets arising on a business combination, and in determining the fair value of the consideration. If the consideration includes an element of contingent consideration, the final amount of which is dependent on the future performance of the business, management assess the fair value of that contingent consideration based on their reasonable expectations of future performance. Further information can be found in note 9.

#### Share based payments

Management make judgements, estimates and assumptions in determining the fair value of share-based payments costs. The details of these are set out in note 19. The judgement applied relates to the consideration of the incentive scheme and how it is settled. There is judgement in the inputs to the fair value model which is calculated using Black Scholes methodology.

#### Exploration assets

Management make judgements, estimates and assumptions in assessing the fair value of exploration assets. The company assesses at each reporting date 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 Group estimates recoverable amount of the asset. The recoverable amount is assessed by reference to the fair value less cost to sell based on the assumption that the exploration rights will be renewed enabling a sale. No impairment has been booked in either this year or the prior year.

## 1. Statement of accounting policies continued

### d) Basis of consolidation

The group's consolidated financial statements incorporate the results and net assets of Shearwater Group plc and all its subsidiary undertakings made up to 31 March each year. Subsidiaries are all entities over which the group has control (see note 12). The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases. Where necessary, adjustments are made to the

financial statements of subsidiaries to bring the accounting policies used into line with those used by the group. All inter-group transactions, balances, income and expenses are eliminated on consolidation.

### e) Business combinations and goodwill

Business combinations are accounted for using the acquisition accounting method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities of the acquired business at fair value. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets and liabilities is recognised in the consolidated statement of financial position as goodwill and is not amortised. To the extent that the net fair value of the acquired entity's identifiable assets and liabilities is greater than the cost of the investment, a gain is recognised immediately in the consolidated statement of comprehensive income.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired. Goodwill assets considered significant in comparison to the Group's total carrying amount of such assets have been allocated to cash-generating units or groups of cash-generating units. Where the recoverable amount of the cash-generating unit is less than its carrying amount including goodwill, an impairment loss is recognised in the consolidated statement of comprehensive income.

Acquisition costs are recognised in the consolidated statement of comprehensive income as incurred.

### f) Revenue

Revenue comprises the fair value of the consideration received or receivable from the licensing of software and for the provision of services to customers in the ordinary course of the Group's activities. Revenue is shown net of sales tax, discounts and after eliminating intra-group sales.

#### *Revenue from software licences*

The Group recognises revenue from the licencing of software when all the following conditions are satisfied:

- all licencing obligations have been performed;
- the rights to use the software has been assigned in exchange for a fixed fee;
- the Group retains no continuing managerial rights to use the software; and
- the contract is non-cancellable.

#### *Revenue for the provision of services*

The Group recognises revenue from the provision of services when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Revenue recognised in the statement of comprehensive income but not yet invoiced is held on the statement of financial position within accrued income. Revenue invoiced but not yet recognised in the statement of comprehensive income is held on the statement of financial position within deferred revenue.

### g) Segmental reporting

For internal reporting and management purposes, the Group is organised into two reportable segments based on the types of products and services from which each segment derives its revenue – software and services. The Group's operating segments are identified on the basis of internal reports that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

### h) Exceptional items

The group's statement of comprehensive income separately identifies exceptional items. Such items are those that in the Directors' judgement are one-off in nature and need to be disclosed separately by virtue of their size and incidence. In determining whether an item or transaction should be classified as an exceptional item, the Directors' consider quantitative as well as qualitative factors such as the frequency, predictability of occurrence and significance. This is consistent with the way that financial performance is measured

## 1. Statement of accounting policies continued

by management and reported to the Board. Exceptional items may not be comparable to similarly titled measures used by other companies. Disclosing adjusted items separately provides additional understanding of the performance of the Group.

### i) Current and deferred income tax

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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries operate and generate taxable income. Management periodically evaluate positions taken in tax returns with respect to situations where applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets are only recognised to the extent that it is probable that future taxable 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.

### j) Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired as part of a business combination are recognised outside goodwill if the assets are separable or arises from contractual or other legal rights and their fair value can be measured reliably. Expenditure on internally developed intangible assets is taken to the consolidated statement of comprehensive income in the period in which it is incurred.

Intangible assets with a finite life have no residual value and are amortised over their expected useful lives as follows:

Computer software	3-5 years straight line basis
Customer relationships	1-15 years straight line basis
Software	10 years straight line basis

The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income within administrative expenses. The amortisation period and the amortisation method for intangible assets with finite useful lives are reviewed at least annually.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

### k) Property, plant and machinery

Property, plant and equipment is stated at historical cost less accumulated depreciation. Cost includes the original purchase price of the asset plus any costs of bringing the asset to its working condition for its intended use. Depreciation is provided at the following annual rates, on a straight-line basis, in order to write down each asset to its residual value over its estimated useful life.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Plant and machinery	20-33 per cent per annum
Office equipment	25 per cent per annum

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised, as adjusted items if significant, within the Statement of comprehensive income.

### l) Investments in subsidiaries

Fixed asset investments, which all relate to investments in subsidiaries, are stated at cost less provision for any impairment in value.

### m) Financial instruments

#### Financial assets

The Group's financial assets fall into the following categories which are discussed below. The Group does not have any held to maturity or fair value through profit and loss financial assets.

## 1. Statement of accounting policies continued

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value plus transaction costs. They are subsequently carried at amortised cost using the effective interest method, with changes in carrying value recognised in the statement of comprehensive income.

### Trade and other receivables and cash and cash equivalents

Financial assets within trade and other receivables are initially recognised at fair value, which is usually the invoiced amount. They are subsequently carried at amortised cost using the effective interest method (if the time value of money is significant), less provisions made for doubtful receivables. Provisions are made specifically, where there is evidence of a risk of non-payment taking into account aging, previous losses experienced and general economic conditions.

If collection is expected in 12 months or less, the trade or other receivable is classified as a current asset. It is otherwise classified as a non-current asset.

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 change in value.

The convertible loan of £0.1 million was converted into equity in the current year.

### Available for sale financial assets

These comprise of the Group'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 equity under available for sale reserve.

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 the statement of comprehensive income.

### Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or Group of financial assets is impaired. Where there is objective evidence that an impairment loss has arisen on an asset carried at amortised cost, the carrying amount is reduced and the impairment loss is recognised in the statement of comprehensive income. The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

## Financial liabilities

### Trade and other payables

Financial liabilities within trade and other payables are initially recognised at fair value, which is usually the invoiced amount. They are subsequently carried at amortised cost using the effective interest method (if the time value of money is significant).

If due within 12 months or less, the trade or other payable is classified as a current liability. It is otherwise classified as a non-current liability.

### n) Share-based payments

In order to calculate the charge for share-based payments as required by IFRS 2, the Group makes estimates principally relating to assumptions used in its option-pricing model as set out in note 19.

The cost of equity-settled transactions with employees, and transactions with suppliers where fair value cannot be estimated reliably, is measured with reference to the fair value of the equity instrument. The fair value of equity-settled 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 likely vest, or in the case of an instrument subject to market condition, be treated as vesting as described above. The

## 1. Statement of accounting policies continued

movement in cumulative expense since the previous reporting date is recognised in the statement of comprehensive income, with the corresponding entry in equity.

### o) 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.

### p) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Rentals incurred in respect of operating leases (net of any incentives received from the lessor) are charged to the Statement of comprehensive income on a straight-line basis over the period of the lease.

### q) New standards and interpretations not applied

The following new standard, amendments and interpretations have not been adopted in the current year.

<b>International Financial Reporting Standards (IFRS/IAS)</b>		<b>Effective for accounting periods starting after</b>
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Leases	1 January 2019

Management is currently assessing the impact of the above new standards. During the year to 31 March 2019 the Group will put in place necessary processes to capture all of the adjustments and additional disclosures required for those standards taking effect before this date. There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

IFRS 9 comes into effect for accounting periods beginning on or after 1 January 2018. Given the nature of the financial assets and liabilities of the Group and the parent Company, the key areas for consideration are trade receivables and intercompany receivables with the introduction of expected credit loss calculations. Management do not believe that there will be any material impact on valuation of these assets.

IFRS 15 Revenue from contracts with customers replaces IAS 18 Revenue and related interpretations, introducing a new single, principles-based approach to recognition and measurement of revenue from all contracts with customers. The new approach requires identification of performance obligations in a contract and revenue to be recognised when or as those performance obligations are satisfied, as well as additional disclosure. The Group has reviewed the impact of adopting IFRS 15 and the directors do not believe that this will have a material impact on reported revenues.

With respect to IFRS 15 implementation Shearwater Group plc generates income from its customers via two income streams:

- Software licences ('SaaS'); whereby the customer pays an annual fee for a secure key to access two factor authentication software. Currently 100% of revenue is recognised when the client receives a secure key to access the software. Under IFRS 15 it is the intention that revenue will continue to be recognised in full when the secure key is provided as the company does not have any further contractual obligation to provide after sales support.
- Provision of other services; which constitutes consultancy services on a range of topics including data protection, project management, governance and compliance. At present revenue customer contracts stipulate a number of consultancy days that make up the contracted consideration. Consultancy days generally comprise of field work and (where required) report writing and delivery which we consider to be of equal value to the client. Revenue is then recognised over the number of consultancy days provided within the period. This remains unchanged under IFRS 15.

IFRS 16 comes into effect for accounting periods beginning on or after 1 January 2019. The standard requires almost all leases to be recorded in the statement of financial position. This requires the recognition of a right-of-use asset and lease liability. The lease liability is measured as the present value of the future lease payments, discounted at the interest rate implicit in the lease if determinable, or otherwise at the lessee's incremental borrowing rate. The asset is measured as equivalent to the lease liability, adjusted for other costs including initial direct costs or obligations under the lease such as restoration costs. The asset is subsequently

## 1. Statement of accounting policies continued

depreciated on a straight-line basis to the expected maturity date of the lease. The liability is increased by interest and reduced by the lease payments made. The impact of this standard is currently being assessed.

## 2. Measure of profit

To provide Shareholders with a better understanding of the trading performance of the Group, underlying EBITDA has been calculated as loss before tax after adding back the following items, which can distort the underlying performance of the Group:

- Amortisation of acquired intangibles
- Depreciation
- Share-based payments
- Exceptional items
- Finance income

Underlying EBITDA reconciles to loss before tax as follows:

	2017/18	2016/17
	£ (000)	£ (000)
<b>Loss before tax</b>	<b>(2,882)</b>	<b>(1,584)</b>
Amortisation of acquired intangibles	647	-
Depreciation of fixed assets	14	1
Share-based payments	366	79
Exceptional items	1,020	429
Finance income	(2)	(1)
<b>Underlying EBITDA</b>	<b>(837)</b>	<b>(1,076)</b>

## 3. Segmental information

In accordance with IFRS 8, the Group's operating segments are based on the operating results reviewed by the Board, which represents the chief operating decision maker. The Group reports its results in two segments as this accurately reflects the way the Group is managed.

The Group is organised into two reportable segments based on the types of products and services from which each segment derives its revenue – software and services.

Segment information for the 12 months ended 31 March 2018 is presented below and excludes intersegment revenue as they are not material, and assets as the Directors do not review assets and liabilities on a segmental basis.

	Software	Services	Total
	2017/18	2017/18	2017/18
	(audited)	(audited)	(audited)
	£ (000)	£ (000)	£ (000)
<b>Revenue</b>	3,372	2,868	6,240
Segment underlying EBITDA	1,668	(575)	1,093
Group costs			(1,930)
<b>Underlying EBITDA</b>			<b>(837)</b>
Amortisation of acquired intangibles			(647)
Depreciation of fixed assets			(14)
Share-based payments			(366)
Exceptional items			(1,020)
Finance income			2
<b>Loss before tax</b>			<b>(2,882)</b>

### 3. Segmental information continued

No prior year comparatives are included as the Group was not trading in the last financial year. Whilst the Group has established operations in Germany and the US these regions were not fully established until the end of the financial year therefore segmental information based on geographical location would not be appropriate.

### 4. Operating loss

Operating loss is stated after charging:

	2017/18 £ (000)	2016/17 £ (000)
Depreciation of fixed assets	14	1
Amortisation of acquired intangibles	647	-
Operating lease expense	211	41
External auditors' remuneration:		
- Audit fee for annual audit of the Group and financial statements	55	21
- Other taxation and compliance services	5	4
Share based payments	366	79
Exceptional items	1,020	429

Exceptional items relate to acquisition costs for SecurEnvoy (£0.7m), Newable Consulting (£0.1m) (rebranded Xcina Consulting) and other potential future acquisitions (£0.2m).

### 5. Staff costs

Total staff cost within the Group comprise of all Directors and employee costs for the financial year. The totals below include 10.7 months of staff costs for SecurEnvoy (acquired May 2017) and 8.2 months of staff costs for Newable Consulting (acquired July 2017).

	Group		Company	
	2017/18 £ (000)	2016/17 £ (000)	2017/18 £ (000)	2016/17 £ (000)
Wages and salaries	2,638	277	700	277
Social security costs	295	28	87	28
Pension costs	69	11	21	11
Share-based payments	366	74	366	74
National insurance on share options	-	13	-	13
	<b>3,368</b>	<b>403</b>	<b>1,174</b>	<b>403</b>

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

	Group		Company	
	2017/18	2016/17	2017/18	2016/17
Administration	11	6	7	6
Production	8	-	-	-
Sales and marketing	22	-	-	-
	<b>41</b>	<b>6</b>	<b>7</b>	<b>6</b>



## 6. Key management personnel and Directors compensation

The remuneration of key management personnel during the year was as follows:

	2017/18 £ (000)	2016/17 £ (000)
Wages and salaries	472	217
Social security costs	44	23
Pension costs	2	10
Share-based payments	193	70
National insurance on share options	-	13
	<b>711</b>	<b>333</b>

The remuneration of Directors during the year was as follows:

2018	Total salary and fees £ (000)	Pension costs £ (000)	Total £ (000)
<b>Executive Directors</b>			
M Stevens	337	2	339
C Eadie (resigned 29 September 2017)	26	-	26
<b>Non-Executive Directors</b>			
D Williams	50	-	50
S Ball	25	-	25
R Southwell	25	-	25
G Willits	8	-	8
S Finlay (resigned 13 April 2017)	1	-	1
	<b>472</b>	<b>2</b>	<b>474</b>

2017	Total salary and fees £ (000)	Pension costs £ (000)	Total £ (000)
<b>Executive Directors</b>			
M Stevens	105	7	112
C Eadie (resigned 29 September 2017)	39	3	42
<b>Non-Executive Directors</b>			
D Williams	25	-	25
S Ball	11	-	11
R Southwell	12	-	12
G Willits	0	-	0
S Finlay (resigned 13 April 2017)	17	-	17
H Kanabar (resigned 29 September 2016)	8	-	8
	<b>217</b>	<b>10</b>	<b>227</b>

The highest paid Director received remuneration (excluding share-based payments) totalling £339,446 (2017: £130,000).

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

In 2018 and 2017, key management personnel are considered to comprise of the Directors.

## 7. Taxation

	2017/18 £ (000)	2016/17 £ (000)
<b>Current tax:</b>		
UK corporation tax at current rates on UK losses for the year	(465)	(136)
Adjustments in respect of previous years	-	-
	<b>(465)</b>	<b>(136)</b>
Foreign tax	3	-
Adjustments in respect of previous years	-	-
<b>Total current tax</b>	<b>(462)</b>	<b>(136)</b>
Deferred tax asset not recognised	465	136
<b>Income tax charge</b>	<b>3</b>	<b>-</b>
Reconciliation of taxation:		
<b>Loss before tax</b>	<b>(2,882)</b>	<b>(1,584)</b>
Loss multiplied by the average rate of corporation tax in the year of 19% (2017: 20%)	(548)	(317)
<b>Tax effects of:</b>		
Depreciation and amortisation in excess of capital allowance	(2)	-
Expenses not deductible for tax purposes	131	181
Foreign tax rate differences	(1)	-
Enhanced R&D relief	(42)	-
Deferred tax asset not recognised	465	136
<b>Income tax charge</b>	<b>3</b>	<b>-</b>

On 26 October 2015, the UK corporation tax rate was reduced from 20% to 19% from 1 April 2017 and a further change was announced on 23 November 2016 to reduce the rate from 19% to 17% from 1 April 2020.

The Group has gross tax losses and temporary timing differences of £0.5 million (2016/17: £0.1 million) for which no deferred tax asset has been recognised as the timing of their utilisation is uncertain.

## 8. 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 period.

For diluted loss per share, the weighted average number of shares in issue is adjusted to assume conversion of all the potential dilutive ordinary shares. The potential dilutive shares are anti-dilutive for the twelve months ended 31 March 2018 and the twelve months ended 31 March 2017 as the Group is loss making.

At the reporting date, there were 18,815,074 (2017: 3,378,882) potentially dilutive ordinary shares. Dilutive potential ordinary shares relate to share options.

## 8. Loss per share continued

The calculation of the basic and diluted earnings per share from total operations attributable to Shareholders is based on the following data:

	2017/18 £ (000)	2016/17 £ (000)
<b>Net loss from total operations</b>		
Earnings for the purposes of basic and diluted earnings per share being net loss attributable to Shareholders	(2,885)	(1,584)
<b>Number of shares</b>	<b>No</b>	<b>No</b>
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	917,725,525	291,850,286
<b>Earnings per share</b>	<b>Pence</b>	<b>Pence</b>
Basic and diluted	<b>(0.31)</b>	<b>(0.54)</b>

## 9. Acquisitions

### a) SecurEnvoy – May 2017

On 9 May 2017, the Group acquired 100% of the issued share capital of SecurEnvoy Limited ("SecurEnvoy") for a total consideration of £19.6 million (after customary adjustments for working capital and net debt), comprising £11.0 million gross cash consideration and £8.6 million share consideration. For accounting purposes, the fair value of the ordinary shares issued in the Group was based on 200,000,000 ordinary shares at the closing share price on the date of completion. This purchase was accounted for as an acquisition.

SecurEnvoy is a leading MFA software company headquartered in the UK with operations in the US, Europe and Australia, and established the Company's presence within the large and growing IAM sector.

The following table summarises the fair values of the assets acquired, the liabilities assumed, and the total consideration transferred as part of this acquisition:

	Fair value £ (000)
Goodwill	12,366
Other intangible assets	7,752
Property, plant and equipment	16
Trade and other receivables	452
Cash and cash equivalents	1,627
Trade and other payables	(772)
Deferred tax liabilities	(1,825)
<b>Net assets acquired</b>	<b>19,616</b>
Satisfied by:	
Cash	11,016
Shares in Shearwater Group plc	8,600
<b>Total consideration transferred</b>	<b>19,616</b>

The net cash outflow arising from the acquisition was £9.4 million in the twelve months ended 31 March 2018, comprising cash consideration of £11.0 million less cash and cash equivalents acquired of £1.6 million.

## 9. Acquisitions continued

Acquisition related costs amounted to £1.2 million; of this £0.5 million related to the issuance of new equity and has been charged to the share premium account, and £0.7 million has been charged to the statement of comprehensive income for the twelve month period to 31 March 2018 within exceptional items.

SecurEnvoy contributed £3.4 million to the Group's revenue and underlying EBITDA of £1.7 million for the period from the date of the acquisition to 31 March 2018.

On acquisition SecurEnvoy held trade receivables with a book and fair value of £0.2 million. The Group is confident that the full amount will be ultimately received.

### b) Newable Consulting – July 2017

On 26 July 2017, the Group acquired the business and assets of Newable Consulting ("Newable Consulting") for an initial consideration of £0.6 million. As part of the transaction, Newable Consulting agreed to subscribe for 3,620,806 new ordinary shares at £0.04143 per share. Based on performance to 31 March 2018 a further payment of up to £0.1 million will be made to Newable Consulting which will be settled through the issuance of new ordinary shares. On acquisition, Newable Consulting was rebranded Xcina Consulting and formed a core component of the Group's new information and assurance company, Xcina.

	Fair value £ (000)
Goodwill	590
Other intangible assets	111
Deferred tax liabilities	(21)
<b>Net assets acquired</b>	<b>680</b>
Satisfied by:	
Cash	450
Shares in Shearwater Group plc	163
Deferred contingent consideration	67
<b>Total consideration transferred</b>	<b>680</b>

The net cash outflow arising from the acquisition was £0.4 million in the twelve months ended 31 March 2018, comprising cash consideration of £0.6 million less cash received for the subscription of shares of £0.2 million.

Acquisition related costs amounted to £0.1 million which have been charged to the statement of comprehensive income for the twelve-month period to 31 March 2018 within exceptional items.

Xcina Consulting contributed £2.9 million to the Group's revenue and £0.2 million of underlying EBITDA for the period from the date of the acquisition to 31 March 2018.

In the case of both SecurEnvoy and Newable Consulting, goodwill arising from the acquisition consists largely of the future revenue opportunities of the service offering not yet realised, expertise within the workforce as well as synergies and economies of scale expected as a result of utilising the Group's shared services function. None of the goodwill recognised is expected to be deductible for income tax purposes.

## 10. Goodwill

	SecurEnvoy £ (000)	Newable consulting £ (000)	Total £ (000)
<b>Cost</b>			
At 1 April 2017	-	-	-
Recognised on acquisition	12,366	590	12,956
<b>At 31 March 2018</b>	<b>12,366</b>	<b>590</b>	<b>12,956</b>
<b>Net book amount</b>			
<b>At 31 March 2018</b>	<b>12,366</b>	<b>590</b>	<b>12,956</b>
<b>At 31 March 2017</b>	-	-	-

## 10. Goodwill continued

The Group tests goodwill annually for impairment. The recoverable amount of goodwill is determined as the higher of the value in use calculation or fair value less cost of disposal for each cash generating unit ('CGU'). The value in use calculations use pre-tax cash flow projections based on financial budgets and forecasts approved by the Board covering a three-year period. These pre-tax cash flows beyond the three-year period are extrapolated using estimated long-term growth rates. For both SecurEnvoy and Newable Consulting a weighted average cost of capital of 15% and a terminal value of 2.5% has been used when testing goodwill. Sensitivity analysis has been performed adjusting where long-term forecast revenues have been adjusted by 5%, weighted average cost of capital increased by 1% and the terminal value reduced to 2% and in each case no impairment has arisen.

The goodwill for SecurEnvoy and Newable Consulting are represented as two separate cash generating units.

## 11. Intangible assets

Group	Customer relations £ (000)	Software £ (000)	Gold exploration £ (000)	Total £ (000)
<b>Cost</b>				
At 1 April 2017	-	-	935	935
Recognised on acquisition	4,260	3,602	-	7,862
Additions	-	19	51	70
<b>At 31 March 2018</b>	<b>4,260</b>	<b>3,621</b>	<b>986</b>	<b>8,867</b>
<b>Accumulated amortisation</b>				
At 1 April 2017	-	-	-	-
Additions	324	323	-	647
<b>At 31 March 2018</b>	<b>324</b>	<b>323</b>	<b>-</b>	<b>647</b>
<b>Net book amount</b>				
<b>At 31 March 2018</b>	<b>3,936</b>	<b>3,298</b>	<b>986</b>	<b>8,220</b>
<b>At 31 March 2017</b>	<b>-</b>	<b>-</b>	<b>935</b>	<b>935</b>

Company	Gold exploration £ (000)
<b>Cost</b>	
At 1 April 2017	935
Recognised on acquisition	-
Additions	51
<b>At 31 March 2018</b>	<b>986</b>
<b>Accumulated amortisation</b>	
At 1 April 2017	-
Additions	-
<b>At 31 March 2018</b>	<b>-</b>
<b>Net book amount</b>	
<b>At 31 March 2018</b>	<b>986</b>
<b>At 31 March 2017</b>	<b>935</b>

It is the intention of the Group to dispose of the Gold exploration rights during calendar year 2018.

## 11. Intangible assets continued

The Group has incurred £0.3 million for research and development expenditure within SecurEnvoy to ensure that service offering remains competitive within the market. This has not been capitalised and has been expensed in the statement of comprehensive income as incurred.

## 12. Investments in subsidiaries

Company	Total £ (000)
<b>Investments in subsidiaries at 1 April 2017</b>	-
Acquisition of SecurEnvoy Limited	19,616
Investment in Shearwater Subco Limited	605
<b>Investments in subsidiaries at 31 March 2018</b>	<b>20,221</b>

The following table gives brief details of the entities controlled and included in the consolidated financial statements of the Group at 31 March 2018. Subsidiaries marked (\*) are directly owned by Shearwater Group plc, all other subsidiaries are indirectly owned.

The Company gave an allotment of shares to Shearwater Subco Limited which was passed down to Xcina Consulting Limited to fund the acquisition of the business and assets of Newable Consulting.

Name of company	Country of incorporation or residence	Registered address	Percentage owned
Shearwater Subco Limited*	England and Wales	22 Great James Street, London, WC1N 3ES	100
SecurEnvoy Limited*	England and Wales	22 Great James Street, London, WC1N 3ES	100
Xcina Limited	England and Wales	22 Great James Street, London, WC1N 3ES	100
Xcina Consulting Limited	England and Wales	22 Great James Street, London, WC1N 3ES	100
SecurEnvoy Inc	USA	1209 Orange Street, Wilmington, Delaware	100
SecurEnvoy GMBH	Germany	Freibadstr. 30, 81543, Munchen	100

## 13. Available for sale assets

Group and Company	Total £ (000)
<b>Cost</b>	
At 1 April 2016	42
Fair value gain	76
<b>At 31 March 2017</b>	<b>118</b>
Fair value loss	(67)
<b>At 31 March 2018</b>	<b>51</b>

On 4 November 2014, the Group received 715,000 ordinary shares in Plymouth Minerals Limited (ASX: INF previously 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 2018 was AUS \$0.13 (2017: AUS \$0.27) resulting in an impairment of £67,000 (2017: fair value gain of £76,000).

**14. Property, plant and machinery**

<b>Group</b>	<b>Total £ (000)</b>
<b>Cost</b>	
At 1 April 2016	-
Additions	2
<b>At 31 March 2017</b>	<b>2</b>
Recognised on acquisition	16
Additions	72
<b>At 31 March 2018</b>	<b>90</b>
<b>Accumulated depreciation</b>	
At 1 April 2016	-
<b>At 31 March 2017</b>	<b>-</b>
Charge for the period	14
<b>At 31 March 2018</b>	<b>14</b>
<b>Net book amount</b>	
<b>At 31 March 2018</b>	<b>76</b>
<b>At 31 March 2017</b>	<b>1</b>
<b>At 1 April 2016</b>	<b>-</b>

Depreciation of property, plant and equipment is charged to administrative expenses within the statement of comprehensive income.

<b>Company</b>	<b>Total £ (000)</b>
<b>Cost</b>	
At 1 April 2016	-
Additions	2
<b>At 31 March 2017</b>	<b>2</b>
Additions	20
<b>At 31 March 2018</b>	<b>22</b>
<b>Accumulated depreciation</b>	
At 1 April 2016	-
<b>At 31 March 2017</b>	<b>-</b>
Charge for the period	4
<b>At 31 March 2018</b>	<b>4</b>
<b>Net book amount</b>	
<b>At 31 March 2018</b>	<b>18</b>
<b>At 31 March 2017</b>	<b>1</b>
<b>At 1 April 2016</b>	<b>-</b>

## 15. Trade and other receivables

	Group		Company	
	2018 £ (000)	2017 £ (000)	2018 £ (000)	2017 £ (000)
Trade receivables	1,012	-	-	-
Accrued income	610	-	-	-
Prepayments and other receivables	205	22	47	22
VAT recoverable	122	64	-	64
Amounts owed by group companies	-	-	-	-
	<b>1,949</b>	<b>86</b>	<b>47</b>	<b>86</b>

Amounts due from all subsidiaries are interest free, unsecured and are repayable on demand.

The ageing analysis of these receivables is as follows:

	2018 £ (000)
Up to 3 months overdue	205
3 to 6 months overdue	6
	<b>211</b>

No comparative information is included as all trading companies were acquired this financial year. The Company does not have any trade receivable debt.

As at 31 March 2018 trade receivables of £211,121 were past due but not impaired. They relate to the customers with no default history. No debtor balances have been impaired.

## 16. Trade and other payables

	Group		Company	
	2018 £ (000)	2017 £ (000)	2018 £ (000)	2017 £ (000)
Accruals and other payables	766	607	282	607
Trade payables	632	103	164	103
Other taxation and social security	279	22	151	22
Deferred contingent consideration	67	-	-	-
Corporation tax	11	-	-	-
Amounts owed to group companies	-	-	646	5
	<b>1,755</b>	<b>732</b>	<b>1,243</b>	<b>737</b>

Amounts due to all subsidiaries are interest free, unsecured and are repayable on demand.

## 17. Deferred tax

	Group 2018 £ (000)
<b>Non-current liabilities</b>	
Liability at 31 March 2017	-
Deferred tax charge in the statement of comprehensive income	-
Acquisition of subsidiaries	1,847
<b>Total current tax</b>	<b>1,847</b>



## 17. Deferred tax continued

The deferred tax liability arises from the acquisition of SecurEnvoy and Newable. There are no deferred tax liabilities resulting from trading.

No deferred tax liability exist in the Company.

## 18. Share capital & other reserves

Group	Number of ordinary shares of 1p each	Ordinary shares £ (000)	Share Premium £ (000)	Total £ (000)
<b>Issued and fully paid ordinary shares</b>				
At 1 April 2016	171,850,286	1,719	11,593	13,312
Shares issued	363,400,000	3,634	4,369	8,003
At 31 March 2017	535,250,286	5,353	15,962	21,315
Shares issued	429,108,914	4,291	12,961	17,252
<b>At 31 March 2018</b>	<b>964,359,200</b>	<b>9,644</b>	<b>28,923</b>	<b>38,567</b>

### Share capital

The following issues of shares were undertaken in the twelve month period ended 31 March 2018:

On 9 May 2017, 200,000,000 new ordinary shares of 1p were issued to new and existing investors at a placing price of £0.04 per share raising gross cash proceeds of £8.0 million. In addition, a further 25,488,108 new ordinary shares of 1p were issued to existing shareholders by way of an open offer at a price of £0.04 per share raising gross cash proceeds of £1.0 million. The £9.0 million aggregated gross cash proceeds were used to part satisfy the £9.4 million of net cash consideration paid to the shareholders of SecurEnvoy, which was acquired by the Group on 9 May 2017.

On the same day, a further 200,000,000 new ordinary shares of 1p were issued to the shareholders of SecurEnvoy at a price of £0.05 per share to satisfy the share consideration as part of the acquisition.

On 26 July 2017, 3,620,806 new ordinary shares of 1p were issued to Newable Consulting Limited at a placing price of £0.04143 per share. The ordinary shares were subscribed for to satisfy the share consideration paid to Newable Consulting for the acquisition of its business and assets by the Group.

### Share premium

This comprises of the amount subscribed for share capital in excess of the nominal value.

### Available for sale reserves

This comprises of gains/losses arising on financial assets classified as available for sale. A fair value loss was recognised in the year in relation to Plymouth Minerals (see note 13).

### Other reserves

These comprises of amounts expensed in relation to the share incentive scheme (see note 19).

## 19. Share based payments

	Group	
	2017/18 £ (000)	2016/17 £ (000)
Share options	166	40
Subsidiary incentive scheme	200	39
	<b>366</b>	<b>79</b>

### Share options

The following options over ordinary shares remained outstanding at 31 March 2018:

	Options at 1 April 2016	Options issued during the year	Options lapsed during the year	options at 31 March 2017	Options issued during the year	options at 31 March 2018	Exercise price	Date of grant	First date of exercise	Final date of exercise
<b>Options ' -</b>										
<b>Directors:</b>										
G Willits	0	521,739	0	521,739	0	521,739	1.0p	09/12/16	09/12/17	30/06/18
<b>Employees:</b>										
Employees	650,000	0	650,000	0	0	0	3.5p	27/04/11	27/04/11	26/04/16
Employees	0	0	0	0	6,950,000	6,950,000	4.0p	09/05/17	09/05/18	08/05/22
Employees	0	0	0	0	1,500,000	1,500,000	4.0p	28/09/17	28/09/18	27/09/22
Employees	0	0	0	0	4,557,692	4,557,692	4.0p	13/11/17	13/11/18	12/11/22
Employees	0	0	0	0	500,000	500,000	4.0p	08/01/18	08/01/19	07/01/23
Employees	0	0	0	0	1,928,500	1,928,500	4.0p	01/03/18	01/03/19	28/02/23
<b>Non-employees</b>										
C Eadie	2,000,000	0	2,000,000	0	0	0	3.5p	27/04/11	27/04/11	26/04/16
C Eadie	0	1,000,000	0	1,000,000	0	1,000,000	1.0p	03/10/16	03/10/16	03/10/21
S Finlay	650,000	0	650,000	0	0	0	3.5p	27/04/11	27/04/11	26/04/16
S Finlay	0	500,000	0	500,000	0	500,000	1.0p	03/10/16	03/10/16	03/10/21
H Kanabar	650,000	0	650,000	0	0	0	3.5p	27/04/11	27/04/11	26/04/16
H Kanabar	0	500,000	0	500,000	0	500,000	1.0p	03/10/16	03/10/16	03/10/21
Other	0	857,143	0	857,143	0	857,143	1.0p	24/01/17	24/01/18	31/03/20
<b>Total</b>	<b>3,950,000</b>	<b>3,378,882</b>	<b>3,950,000</b>	<b>3,378,882</b>	<b>15,436,192</b>	<b>18,815,074</b>				

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

	2017/18		2016/17	
	Number	WAEP Pence	Number	WAEP Pence
Outstanding at the beginning of year	3,378,882	0.6	3,950,000	3.5
Issued	15,436,192	4.0	3,378,882	0.6
Lapsed during the year	-	-	3,950,000	3.5
Outstanding at 31 March	18,815,074	3.4	3,378,882	0.6
Exercisable at 31 March	3,378,882	0.6	2,000,000	1.0

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

## 19. Share based payments continued

	<b>2018</b>
Share price at grant date	1.85p to 7.38p
Exercise price	1.0p to 4.0p
Expected option life (year)	0 years to 6.0 years
Expected volatility (%)	10.6% to 80.0%
Expected dividends	0%
Risk-free interest rate (%)	0.79% to 3.00%
Option fair value	1.4p to 7.36p

The expense is recognised for share-based payments in respect of Employees, directors and consultant services received during the year ended 31 March 2018 was £166k (2016/17: £40k).

This represented £88k in respect of share options and £78k in respect of share-based compensation (2017: £28k in respect of share options and £12k in respect of share-based compensation).

The expected volatility of the original share plan utilised a volatility rate of 80% to reflect the lack of established assets on the Group's balance sheet. As the Group has grown the new scheme options shares (bar those issued to the SecurEnvoy participants) have been issued utilising the 5-year volatility rate for the AIM all share index.

Options held by Directors are disclosed in the Directors Report on pages 9 to 10.

The market price of shares as at 31 March 2018 was 2.78p (2016/17: 5.12p). The range during the financial year was 2.78p to 5.12p. At the date of signing the financial statements the share price was 5.99p.

The weighted average remaining contractual life of options outstanding at the end of the year was 4 years 5 months (2017: 3 years and 7 months).

### Subsidiary incentive scheme

On 29 September 2016, the Group established a share incentive scheme for certain Directors and consultants to the Group, via the Group'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 Group and the Group shall acquire those B shares in consideration for cash or by the issue of new ordinary shares at the Group's discretion. The Group's intention is to settle these through the issue of new ordinary shares in the Group.

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 conditions

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

### Vesting conditions

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 Group 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 Group for an aggregate value equivalent to 16% of the increase in market capitalisation of all ordinary shares of the Group issued up to the date of sale, allowing for any dividends and other capital movements.

### Directors Incentive Shares

The incentive shares issued to Directors are shown in the table below:

## 19. Share based payments continued

	Participation in increase in shareholder value	Issue price	Nominal value of incentive shares	Number of incentive shares 1 April 2017	Number of incentive shares 31 March 2018	Number of Shearwater Group plc shares issued	Share based payment charge
M Stevens	7.5%	£0.032	£0.000001	75,000	75,000	0	£93,544
D Williams	3.0%	£0.032	£0.000001	30,000	30,000	0	£37,418
G Willits	3.5%	£0.032	£0.000001	35,000	35,000	0	£43,654

A further 20,000 incentive shares were subscribed for by non-employees.

### 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 £937,623 which has been recognised over the period to 29 September 2021. In the current year £199,552 (2017: £39,364) has been recognised as an expense in the statement of comprehensive income in respect of incentive shares. All 160,000 incentive scheme shares were subscribed for by participants at unrestricted market value.

The binomial valuation model uses the following assumptions:

	2018
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

## 20. Financial instruments

The Group 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 Group's operations.

Categories of financial assets and financial liabilities:

	Group		Company	
	2018	2017	2018	2017
	£ (000)	£ (000)	£ (000)	£ (000)
Available for sales financial assets	51	118	51	118
<b>Loans and receivables</b>				
Trade and other receivables	1,022	-	-	-
Cash and cash equivalents	2,493	7,073	540	7,073
	<b>3,566</b>	<b>7191</b>	<b>591</b>	<b>7191</b>
<b>Financial liabilities at amortised cost</b>				
Trade and other payables	(1,186)	(715)	(174)	(715)

### General objectives, policies and processes

The Board has overall responsibility for the determination of the Group'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 Group's Finance function. The Board receives monthly reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

## 20. Financial instruments continued

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

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

### Liquidity risk

The Group mainly finances its operations through the issue of equity share capital. The Group seeks to manage financial risk, to ensure sufficient liquidity to meet foreseeable requirements and to invest cash profitably at low risk.

The liquidity risk of each Group entity is managed centrally by the Group's finance function. Each entity has a predefined facility which is based on the budget which is set and approved by the Board in advance, which provides detail of each entities cash requirements. Any additional expenditure over budget requires sign off by the Board. A rolling 12-month cashflow forecast is reviewed by management on a monthly basis and cash balances are reviewed daily.

The Group also hold shares in Plymouth Minerals Ltd (see note 13), which are quoted on the Australian Stock Exchange and considered to be readily realised into cash. The Group's strategy for managing cash is to maximise interest income whilst ensuring its availability to match the profile of the Group's expenditure. Liquidity risk is further managed by tight controls over expenditure.

The Group has a £65,000 credit facility with its bank in the form of corporate credit cards. The balance outstanding is automatically paid off in full on a monthly basis. At year end only £30,000 was utilised.

### Credit risk

The group's principal financial assets are receivables and bank balances. The Group is consequently exposed to the risk that its customers cannot meet their obligations as they fall due.

The Group policy is that the lines of business assess the creditworthiness and financial strength of customers at inception and on an ongoing basis. The Group as reviews the credit rating of the bank.

Set out below is an analysis of the Group's trade and other receivables by due date prior to any impairment.

	Not yet due	0-30 days	30-60 days	60-90 days	Over 90days	Total
	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)	£ (000)
Trade receivables	801	60	91	54	6	1,012
Other receivables	10	-	-	-	-	10
	<b>811</b>	<b>60</b>	<b>91</b>	<b>54</b>	<b>6</b>	<b>1,022</b>

Receivables within the 0-30 day's category or above are past due, but the Group considers them to be collectable and not impaired. No provision is held for bad debt.

### Currency risk

The Group is exposed to foreign currency risk on sales and purchases which are denominated in a currency other than sterling. Exposures to exchange rates are predominately denominated US dollars (\$) and Euros (€). Owing to size of overseas operations the group does not currently use derivatives to hedge translation exposures arising on the consolidation of it's overseas operations.

The effect of a 10% strengthening of the US dollar (\$) against sterling (£) at the reporting date on the US dollar (\$) denominated trade receivables, payables and cash and cash equivalents carried at that date would, all other variables held constant, have resulted in a reduction of the pre-tax loss in the year and an increase in net assets of £13,188. A 10% weakening in the exchange rate would, on the same basis, have increased the pre-tax loss in the year and decreased net assets by £11,989.

The effect of a 10% strengthening of the euro (€) against sterling (£) at the reporting date on the euro (€) denominated trade receivables, payables and cash and cash equivalents carried at that date would, all other variables held constant, have resulted in a reduction of the pre-tax loss in the year and an increase in net assets of £85,777. A 10% weakening in the exchange rate would, on the same basis, have increased the pre-tax loss in the year and decreased net assets by £77,979.

## 21. Financial commitments

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

	Group		Company	
	2017/18	2016/17	2017/18	2016/17
	£ (000)	£ (000)	£ (000)	£ (000)
<b>Land and buildings</b>				
- One year	199	104	199	104
- Between two and five years	-	26	-	26
	<b>199</b>	<b>130</b>	<b>199</b>	<b>130</b>

	Group		Company	
	2017/18	2016/17	2017/18	2016/17
	£ (000)	£ (000)	£ (000)	£ (000)
<b>Acquisition costs</b>				
- One year	105	665	105	665
	<b>105</b>	<b>665</b>	<b>105</b>	<b>665</b>

Current year acquisition costs are for the future minimum payments under contractual commitments in respect of the acquisition of GeoLang (see note 23). Prior year acquisition costs are for the total of future minimum payments under contractual commitments in respect of the acquisition of SecurEnvoy.

## 22. Related party transactions

On 9 May 2017, David Williams, Michael Stevens, Robin Southwell, Stephen Ball and Giles Willits subscribed for new ordinary shares of 1p at a placing price of £0.04 as part of the placing through which gross proceeds were raised to part satisfy the cash consideration paid to the shareholders of SecurEnvoy. David Williams subscribed for ordinary shares at a value of £0.5 million and the other Directors (excluding Chris Eadie) subscribed for ordinary shares at a total value of £0.1 million in aggregate. This constituted a related party transaction under the AIM Rules for Companies. Chris Eadie, 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 Group are concerned.

Related party transaction taking place after 31 March 2018 are disclosed in events after the reporting date note below. (note 22).

The Company made recharges totalling £1,212,957 (2016/17: nil) to its fellow group undertakings in respect of management services and recharges: SecurEnvoy £548,990, Xcina Consulting £287,543, Xcina Limited £376,424.

Amounts due from (+) and to (-) subsidiary undertakings by the Company are set out below:

Shearwater Subco Limited £ (5,120)  
 SecurEnvoy Limited £ (640,776)  
 Xcina Consulting Limited £ 750,479  
 Xcina Limited £ 911,424

No dividends were made to the Company in either years by subsidiary undertakings.

There were no other related party transactions for the Group during the period.

## 23. Events after the reporting period

On 4 April 2018, the Group acquired the entire share capital of GeoLang Holdings Limited, an award-winning pre-revenue DLP enterprise software company. The total consideration for the acquisition is £1.7million, which is to be settled through the issuance of 43,165,750 ordinary shares of the Group at an issue price of 4 pence per ordinary share to the GeoLang shareholders. At the same time, the Group agreed to repay £0.3 million of GeoLang's indebtedness.

On acquisition GeoLang had £0.02 million cash, The Group acquired GeoLang from its founding management team, who are continuing in the business. The process of fair valuing GeoLang has not been completed at the date of these financial statements. Subject to this process to fair value, the group acquired approximately £0.3 million of net liabilities. The excess consideration above

### **23. Events after the reporting period continued**

the fair value of these acquired net liabilities will be recognised as goodwill and intangible asset following completion of the exercise to fair value. All amounts are disclosed as provisional.

On 26 April 2018, the Group acquired the business and assets of Crystal IT Services Limited, a Cardiff based provider of cyber security and business information technology solutions. On joining the Group, Crystal IT was rebranded Xcina IS. The total consideration for the acquisition was £35,000, which has been settled in cash.

On acquisition Crystal IT had £2,199 in cash, The Group acquired Crystal IT from its founder, who has continued in the business. The process of fair valuing the assets of Crystal IT has not been completed at the date of these financial statements. Subject to this process to fair value, the group acquired approximately £8,000 of net assets. The excess consideration above the fair value of these acquired net liabilities will be recognised as goodwill and intangible asset following completion of the exercise to fair value. All amounts are disclosed as provisional.

On 18 June 2018 Giles Willits exercised 521,739 options following which the Company issued an allotted 521,739 new ordinary shares to him.