



SHEARWATER GROUP PLC
Company No. 05059457

**ANNUAL REPORT AND
FINANCIAL STATEMENT**

FOR THE YEAR ENDED 31 MARCH 2019

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Company Information

FOR THE YEAR ENDED 31 MARCH 2019

Directors	David Williams (Chairman) Philip Higgins (Chief Executive Officer) Paul McFadden (Chief Financial Officer) Robin Southwell (Non-Executive Director) Stephen Ball (Non-Executive Director) Giles Willits (Non-Executive Director)
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Company Secretary	Paul McFadden
Company Number	05059457
Nominated Advisor And Joint Broker	Centos Securities plc 6-8 Tokenhouse Yard London EC2R 7AS
Joint Broker	Joh. Berenberg, Gossler & Co. KG 60 Threadneedle Street London EC2R 8HP
Auditors	BDO LLP 55 Baker Street London W1U 7EU
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Strategic Report

FOR THE YEAR ENDED 31 MARCH 2019

Chairman's Statement

Overview

The financial year ended 31 March 2019 proved to be one of substantial progress for the Group despite some specific challenges, which have now been addressed. We had a significant number of key strategic and operational successes, which will stand us in excellent stead in the new financial year.

The highlights include the acquisition of Brookcourt Solutions in October 2018, which has transformed the Group and materially outperformed since its acquisition, the organic growth delivered by SecurEnvoy, and the step up in revenue at GeoLang. However, the financial performance of the Group overall was impacted by costs, now removed, which were incurred in the pursuit of initiatives in certain areas of the business which did not generate the expected returns on capital we require.

We believe strongly in our strategy and the magnitude of the opportunities we have in order to become a leading, UK based operational and digital resilience group.

We remain highly ambitious, operating in a large, complex and rapidly growing market. We believe we are well on the way to establishing a number of highly complementary, leading businesses and are now ideally positioned to improve our financial performance in not only the current year, but also build value for the long term.

Financial highlights

Revenues increased by £17.3 million to £23.5 million (2018: £6.2m) reflecting only 5.5 months of contribution from Brookcourt Solutions, and good organic growth at SecurEnvoy.

The Group reported an underlying EBITDA loss of £1.4 million (FY18: £0.8 million underlying EBITDA loss) as a result of a number of initiatives, largely within Xcina, which have since been removed. However, Brookcourt Solutions outperformed in the short time it has been part of the Group and SecurEnvoy and Xcina Consulting made positive underlying contributions.

Operational highlights

In the last 18 months, good progress has been made on the acquisitions front and also on product innovation.

Alongside the transformational acquisition of Brookcourt Solutions, in April 2019 the Group also acquired certain assets of Secarma, one of the UK's leading cyber security testing solutions and services businesses, which was renamed Pentest on acquisition. The acquisition significantly strengthened the Group's existing cyber security testing services with world-leading "red teaming" capability and has provided for multiple cross selling opportunities, which are already being realised.

Within the Software side of the business, considerable product development and innovation work has been undertaken both within SecurEnvoy and GeoLang to advance the capability of our Identity and Access Management and Data Security offerings. We are extremely excited about the potential for these businesses in the new financial year and beyond, and the increased levels of cash generation and revenue visibility this will bring to the Group.

Board and our people

Over the course of the last financial year, it became clear to the Board that Shearwater would benefit from new executive leadership. Phil Higgins, who has substantial industry expertise and experience growing and delivering value within a fast-growing company environment, was appointed Chief Executive Officer on 12 April 2019.

Phil is ideally placed to drive the future growth of the business, having initially been appointed to the Board as an Executive Director on 11 December 2018 following the acquisition of Brookcourt Solutions. Phil was the Chief Executive Officer and co-founder of Brookcourt Solutions, which now forms the largest business within the Group.

His transition to this role has been very smooth, and under his stewardship we look forward to Shearwater capitalising on the considerable opportunities for growth, which the business is experiencing.

I would also like to take this opportunity to welcome Paul McFadden to our Board, as Chief Financial Officer. Paul has been with the business since May 2018 and joined the Board as a Director in October 2018. Prior to this Paul was Group Financial Controller at Wilmington plc.

Marcus Willett CB OBE also joined the Group's Advisory Panel in January this year. He will work alongside Lord Reid of Cardowan, the Advisory Panel's Chairman, and we all will benefit greatly from Marcus' 33-year career in GCHQ, where he was most recently, deputy head of the organisation. We are now fortunate to have a Board and Advisory Panel with a wide range of contacts to draw on as we move forward.

I would like to make a particular point of thanking our employees, both long standing and those that have joined from recent acquisitions. Their continued hard work and professionalism is greatly appreciated. It is also important for me to thank our loyal shareholders for their continued support.

Outlook

The market for leading operational and digital resilience solutions remains compelling and with Shearwater, we have a unique blend of owned proprietary security technologies and solutions, which can help our customers protect, assure and manage their data and information in the most demanding of environments.

We have started the new financial year with a new executive team and renewed vigour and optimism. Over the last few months, the Group's operational structure has been simplified and restructured to ensure we have the right people in the right roles to allow us to operate more effectively. This in turn has facilitated intra-group collaboration and at present a total of 80+ cross selling opportunities which are currently being reviewed and realised.

We are making great progress and have delivered our maiden quarter of profitable performance as a Group at an underlying EBITDA level. This is a tremendous achievement across the business, delivered at a time of considerable change, and as a result, we are set up for strong revenue growth, profitability and cash generation for the year as a whole.

As we progress through the new financial year, our stakeholders can keep pace with the Group's developing news and successes through all our media channels including the RNS and RNS Reach news feeds, our corporate web site and social media platforms.

Overall, after a strong Q1, the Group is trading in line with our expectations and with a material improvement in cash generation, our cash balance as at 30 June 2019 is up 183% at £1.7 million.

We are looking forward with increased confidence in our ability to execute our strategy and deliver shareholder value.



David Williams

Chairman

30 July 2019

Strategic Report

FOR THE YEAR ENDED 31 MARCH 2019

Chief Executive Officer's Review

Strategic overview

With over 30 years IT industry experience and as Chief Executive Officer of the Group, I can clearly see how uniquely Shearwater sits within our industry. A true British independent company operating in a world where we have an ever-increasing market space with individual and corporate risk, governance and security threats being the norm.

We are committed to building Shearwater into an established and respected UK plc by providing our customers with agile and innovative operational and digital resilience solutions.

Through the application of our “buy, focus, grow” strategy, we aim to identify investment and acquisition opportunities where the target company has a leading product, solution, service or consulting capability whose potential can be unlocked.

We are witnessing Shearwater at its infancy. A company that has strategic direction, and whose technologies and services help companies and individuals reduce their risk footprint whilst improving their operational and digital resilience.

The blend of our own proprietary security technologies alongside market leading solutions means the business has an excellent opportunity to capture substantial market share through each of its businesses.

With very little client overlap we are now capitalising on the 80+ cross selling opportunities within the Group, seven of which have already resulted in contract wins. Whilst this cross-sell opportunity is substantial, it isn't just about driving revenues for the Group – it's about how we improve our customer's overall service experience, helping to solve their security needs and keeping their data and information assets safe and secure, whilst enhancing their ability to do business.

Acquisitions growth will remain an important component to augment organic growth, and we will continue to evaluate selective M&A opportunities which are profitable, organically fit with existing group companies and provide tangible synergies as part of Shearwater.

Following the change of executive leadership which occurred in April 2019, I have led a review and subsequent reorganisation of the Group in order to remove a number of initiatives which haven't generated the requisite returns on capital we demand in an appropriate timeframe. These initiatives, which substantially resided within Xcina have now been removed, and as such, going forward, Xcina will largely comprise Xcina Consulting which itself remained profitable in the period on an underlying basis.

In addition to this, we have also sought to remove duplicative back office functions across the Group by centralising certain shared services including finance, HR, legal, IT and operations. This has enabled us to create a more efficient operating structure and generate a number of cost savings, which have already started to be realised.

Whilst 2018/19 has been a challenging year on one hand, it has also been filled with a series of positive developments across the Group which will underpin our drive to profitability and cash generation during the new financial year.

Delivering on these growth objectives, alongside the benefits of the reorganised and simplified Group, will support Shearwater in achieving its goals for this year and beyond.

Market opportunity

The market opportunity for Shearwater is considerable. Industry reports estimate total addressable markets across our businesses worth in excess of \$36 billion globally, with tailwinds driving blended 12% plus compound annual growth rates, which the Group is focused on exploiting. We believe we are uniquely positioned as one of the few true independents left in our chosen markets, with an offering underpinned by patented technology, and market leading services and solutions.

We will continue to invest in technology and solution innovation to protect and enhance our key differentiators and seek to drive further value from our largely untapped, substantial client base.

Through continued digitalisation and the rapidly growing interconnectivity of enterprises, functions, people and devices, organisations 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 attacks 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 security and move beyond standard protection measures aimed at meeting minimum levels of compliance. They now have to consider how information security can be embedded within business processes and operations to manage, monitor and protect data and information assets, while still competing effectively in an increasingly globalised and interconnected world.

We believe that developing this operational and digital resilience is key for all organisations irrespective of size. The resilience of these systems is paramount as digital technologies have become increasingly interwoven and inseparable from business processes that are operating with decreasing human oversight and interaction.

In this connected digital environment, the organisations' failure of any single underlying point, whether through malicious activity or human error, can cascade and have catastrophic effects across an organisations entire network.

Operational and digital resilience is therefore a foundation for any organisation that wants to compete effectively in an increasingly interconnected world. It is an organisation's ability to manage the interaction between technology, process and people so that they remain operationally resilient, combined with peace of mind that their information assets and critical infrastructure are protected, and they have the means to recover and rebound if things go wrong.

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

Group overview

Shearwater is an award-winning operational resilience group that provides cyber security and managed security services to help assure and secure businesses in a connected global economy. At present, we have:

- 400+ customers including FTSE350 multinational organisations, Fortune 500 companies, SMEs, charities and Government organisations.
- Approximately 120 employees across ten offices located in the US, UK and Europe ably serving our extensive customer base.
- Won over 22 industry awards and 2 Queen's Awards for innovation and international trade.
- 10 technology patents granted with four patents pending, which help enhance the Group's competitive position in core markets through continued product and solution innovation.
- Group companies holding relevant industry certifications including, ISO9001, 22301, 14001 and 27001, and OHSAS 18001.

Our comprehensive cyber security solutions and services maintain trust between users, provide assurance around the protection of information assets and critical infrastructure, and support organisations' operational effectiveness.

This suite of capabilities has been developed to support an organisation's operational and digital resilience. Specifically, these include:

Identity and access management, and data security – the authentication of the individual enabling them to access the organisational network, specific data and information assets, and the movement and use of that data and information within and outside of the organisation;

Cyber security solutions and managed security services – the delivery of cyber security, networking technologies and managed security services used to secure and protect organisations’ critical infrastructure; and

Security governance, risk and compliance – technology, operational and regulatory risk testing, assurance and advisory services in support of an organisation’s operational and digital resilience.

We believe it is important to offer this holistic approach to security as an organisation’s resilience is ultimately about managing the interaction between technology, process and people.

Corporate responsibility

There are a number of key stakeholders within the Group, and the Board recognises the importance of managing the interactions with these stakeholders as a key driver of business performance.

The Group also operates several corporate responsibility policies on a group-wide basis, including Code of Business Conduct, Anti-Bribery and Corruption and Whistleblowing. These policies, among others, set out the standards and business ethics we require all our employees to comply with.

The following is a summary of corporate responsibility activities, which have been initiated in the new financial year.

Employee wellbeing and mindfulness - our employees are our greatest asset; therefore, we continue to work towards enhancing the working environment across all our sites and help support them during times of trouble.

During the new financial year, we are introducing an Employee Assistance Programme (“EAP”) aimed at minimising workplace risks and improving our employees’ health and wellbeing. An EAP is an employee support system designed to help our organisation deal with issues that could be affecting our employees home or work life, health and general wellbeing.

This EAP provides a complete support network that offers expert advice and guidance 24/7. Confidential and compassionate support is available to employees and their immediate family. We feel that in today’s fast paced digital society and the pressure it brings, we need to be able to help our greatest asset as best we can.

Environment commitment - we are committed to a sustainable future and to improving the social, economic and environmental wellbeing of the community.

Whilst some of our group companies have achieved ISO 14001, in the new financial year we will be pursuing more eco-friendly methods in the delivery of our business. We will look at new initiatives that we can deploy that positively contributes to the reduction in our carbon footprint and our impact on the planet.

We are determined to be part of the solution that contributes to a prosperous low-carbon future, one that uses IT innovations not just to protect its employees, clients, data and operational assets but solutions that also benefits society’s environmental footprint.

Giving back - part of our vision is to give back to the community and to address this I intend to establish our own Employer Supported Volunteering (“ESV”) programme to structure our approach. In time, this will become part of our fabric as a company.

Historically, employees have participated in volunteering and charitable events without the support of the Group. By establishing a supported approach, we believe we will see an increase in employee participation and volunteering.

We will continue to support and raise the profile of each individual or group activity as well as encouraging employees to look for ways they can assist their local community. We feel that this community and volunteering engagement is good for society, and our employees have a sense of giving as well as the company.

Key performance indicators

The Board 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, impairment of intangible assets, share based payment charges, finance charges, fair value adjustments to deferred consideration, depreciation and amortisation, and a reconciliation from underlying EBITDA to loss before tax is detailed in note 2. Whilst the directors recognise that this is not a standard UK GAAP performance measure they consider that this alternative performance measure provides important additional information to the reader regarding the adjusted performance of the business including trends, performance and position of the Group. The Board feel that this alternative measure enhances the comparability of information between reporting periods by adjusting for exceptional or uncontrollable factors which affect IFRS measures, to aid the understanding of the Group's performance.

In addition, control of the 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.

Financial performance

The Group generated revenue of £23.5 million (2017/18: £6.2 million), which reflected almost 12 months of trading from GeoLang and 5.5 months of trading from Brookcourt since acquisition respectively. The Group generated an underlying EBITDA loss of £1.4 million (2017/18: £0.8 million EBITDA loss) which reflected strong performance from Brookcourt and SecurEnvoy offset by disappointing performance from a number of initiatives within the wider Xcina business, which have since been removed following the reorganisation in April 2019. At the period end, Group cash was £0.6 million (2017/18: £2.5 million) reflecting continued investments made in portfolio companies which we will see the benefits of in the new financial year.

The portfolio companies contributed £0.7 million of underlying EBITDA (2017/18: £1.1 million underlying EBITDA) which included significant investment in Xcina growth initiatives, as well as investing in Group infrastructure which all Group companies will be able to capitalise on moving forward. Brookcourt has added strong underlying performance since acquisition and GeoLang has recorded its maiden revenues within this financial period.

After exceptional items of £2.7 million (2017/18: £1.0 million), amortisation of acquired intangible assets, impairment of legacy intangible mining assets, depreciation, fair value adjustment on deferred consideration and share based payments the Group made an operating loss of £6.7 million (2017/18: £2.9 million). Of the £2.7 million exceptional items, £1.5 million related to the acquisition of Brookcourt Solutions, £0.2 million to the acquisition of GeoLang and £1.0 million one off legal fees. Due to the volatility of the share based payments 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.

Please see note 2 which provides a reconciliation between loss before tax and underlying EBITDA loss.

Segmental review (including activities after the financial year end)

Software

Our software division encompasses our owned proprietary technology solutions which centre around **identity and access management, and data security**. This includes the authentication of the individual enabling them to access the organisational network, specific data and information assets, and the movement and use of that data and information within and outside of the organisation.

The Group companies which currently form this division include:

- **SecurEnvoy**, a provider of trusted identity and access management solutions to millions of users in real-time. SecurEnvoy's technology maintains trust between those users and ensures the protection of organisations' critical data and infrastructure; and
- **GeoLang**, a provider of data discovery and Data Loss Prevention solutions ("DLP"), services and technologies used to discover, classify and protect sensitive data and information in the cloud and on premise.

Financial performance

During the period, Software generated £3.9 million of revenue (2018: £3.4 million), representing 12 months of trading from SecurEnvoy and 11.8 months of trading from GeoLang. Software contributed £0.5 million of EBITDA towards a total Segment EBITDA of £0.7 million, reflecting strong performance at a SecurEnvoy level offset by an underlying EBITDA loss at GeoLang. As GeoLang further grows its revenue in the current year it is expected to move to profitability.

Operational review

In April 2018, the Group acquired GeoLang. As an award-winning provider of data discovery and data loss prevention software, the acquisition established the Group's position within the rapidly growing DLP market and augmented Shearwater's GDPR and cyber security capability offering. The business is now revenue generating and has created the Group a foothold within a US\$1.1 billion market, growing at 19% per annum.

GeoLang's maiden contract win followed shortly after acquisition, with the award of its first enterprise licence under the G Cloud framework, an agreement between the UK Government and its cloud-based services suppliers. This deployment enabled the customer to detect all Payment Card Industry ("PCI") and Personally Identifiable Information ("PII") held across endpoints and servers via GeoLang's patented, keyword matching algorithm, which assisted in the production of PCI and PII audit compliance reports and facilitated General Data Protection Regulation ("GDPR") "Subject Access" and "Right to be Forgotten" requests.

Further contract wins followed in the period, notably with Alfresco, a leading international provider of Enterprise Content Management and Business Process Management software solutions. GeoLang provides Alfresco with a GDPR and PCI Compliance solution that enables them to discover and protect PCI and PII across its digital estate, including cloud sync folders, endpoints, servers, email and Alfresco repositories.

Going forward, it is expected that GeoLang will continue to add new client names to their roster, with sales efforts boosted by accessing the Group's extensive customer base on a cross-sell basis. This is expected to result in GeoLang making a profitable contribution to the overall Software division in the new financial year.

During the period, SecurEnvoy entered into an agreement with XenTegra, LLC to represent the business as a new valued-added reseller channel partner in the US, bringing its channel partners in the region to over 15. SecurEnvoy was also appointed by Citrix (NASDAQ: CTXS) as one of its first Premier Citrix Ready Partners for the fast-growing Identity and Access Management sector. The Citrix Ready designation is awarded to third party partners that have successfully met test criteria set by Citrix before enabling access to Citrix's extensive customer base and network of 10,000 resellers.

Post the period end, SecurEnvoy also made significant progress with its previously announced product roadmap. This included the launch of *SecurHIVE*, a new suite of security assurance and prevention solutions for organisations to protect sensitive data, and ensure administration, compliance and governance. This broadens SecurEnvoy's offering into endpoint security, a top priority for Chief Information Security Officers today.

Most recently, SecurEnvoy developed and launched its new data security product, Multi-Factor Authentication ("MFA")-as-a-Service. This new subscription-based product is a core component of SecurEnvoy's recently launched *SecurIdentity*[™] cloud platform, which provides cloud hosted Identity and Access Management ("IAM") solutions used by organisations to protect their critical data and infrastructure.

The business is expected to continue its journey of transition from the provision of MFA through to much broader Identity and Access Management solutions, encompassing not only MFA but also Privileged Access Management, DLP and Cloud Access Security Broker. This will enable SecurEnvoy's current and future customers to benefit from a total data security solution (available on premise and in the cloud), which will protect their data and information assets, without the need to transact with multiple vendors, thus enhancing their overall security environment posture.

Services

Our Services division encompasses our services and solutions businesses which centre around **cyber security solutions and managed security services** and **security governance, risk and compliance**. These businesses deliver cyber security, networking technologies and managed security services used to secure and protect organisations' critical infrastructure, and technology, operational and regulatory risk testing, assurance and advisory services in support of an organisation's operational and digital resilience.

The Group companies which currently form this division include:

- **Brookcourt Solutions**, a provider of cyber security, network monitoring technologies and managed security services to secure and protect an organisation's critical infrastructure;
- **Xcina**, a provider of technology, operational and regulatory risk assurance and advisory services in support of resilience and risk management;
- **Pentest**, a provider of next generation penetration testing, red team and offensive security consultancy services, designed to uncover IT security vulnerabilities, support remediation efforts and increase the digital resilience of businesses.

Financial performance

During the period, Services generated £19.6 million of revenue (2018: £2.9 million), representing 12 months of trading from Xcina and approximately 5.5 months of trading from Brookcourt Solutions. Services contributed £0.3 million of EBITDA towards a total Segment EBITDA of £0.7 million, reflecting the excellent post acquisition performance of Brookcourt Solutions and positive underlying contribution from Xcina Consulting, which in part has offset underperformance across other Xcina business areas, which have since been removed.

On a standalone basis, Xcina Consulting delivered £4.2 million of revenue for the twelve months ended 31 March 2019, generating £0.2 million of underlying EBITDA, compared to £2.4 million of revenue and an underlying loss of £0.1 million for the pre-acquisition period.

On a pro forma basis, Brookcourt Solutions generated £29.2 million of revenue for the twelve-month period ended 31 March 2019, and £3.4 million of underlying EBITDA, of which only 5.5 months of trading was reflected in the Group's results for period ended 31 March 2019.

Operational review

In October 2018, Shearwater completed its largest acquisition to date through the acquisition of Brookcourt Solutions. As a specialist provider of cyber security and network solutions within complex, advanced threat landscapes, the acquisition was transformational for the Group.

In particular, it substantially broadened Shearwater's cyber security solutions and services capability, facilitated access to a complementary, large enterprise client base, and has created a strong platform to drive organic and acquisitions growth, within a fragmented cyber security services and solutions market.

The Board is delighted with the performance of Brookcourt Solutions since joining Shearwater, and the opportunities to introduce other Shearwater Group companies to Brookcourt Solutions' extensive, large corporate client base.

Since joining the Group, Brookcourt Solutions has benefited from being part of a dynamic, forward thinking plc. Over the course of the last 15 months Brookcourt Solutions has won 24 new corporate relationships, which include some of the world's largest telecommunications, ICT and retail companies, alongside substantial renewals and new work with existing clients within the telecommunications and financial services sectors.

Xcina Consulting won over 18 new customers in the period, generating incremental revenues of £0.9 million in addition to existing client revenues. In December 2018, the Group paid the final earn out consideration owed to Newable Consulting of £0.02 million, which was settled through the issuance of 612,017 ordinary shares of the Company.

Xcina Consulting also became a 'Platinum Member' to the British Standards Institution ("BSI") Associate Consultant Programme. Xcina Consulting's membership strengthens our existing relationship with the BSI and demonstrates our expertise in helping clients attain BSI certifications, including ISO27001, 22301, 20000, 9001 and 27018.

Post the period end, in April 2019, Pentest joined the Group. Established in 2001, Pentest is a leading provider of cyber security testing services and solutions. The business' first-generation cyber security testing services assess how attackers can exploit and penetrate weaknesses in operating systems, applications or services. In addition, Pentest provides advance threat analytics and monitoring, and tailored "red teaming" operations through its highly experienced cyber security and ethical hacking specialists, which can simulate an attack on a customers' network environment to test its ability to withstand an attack.

The Pentest team have already been working across the Group providing security testing services to existing customers of Brookcourt Solutions and Xcina, in addition to their own long-standing customer base.

We expect that the reorganised Xcina business (largely comprised of Xcina Consulting), will make a material contribution to the Services division at an underlying EBITDA level, alongside nearly 12 months of contribution from Pentest. Once aggregated with trading from Brookcourt Solutions, the Services division will become the largest division of the Group at a revenue and underlying EBITDA level.

Organic growth in the new financial year will continue to be driven by new customer wins and a push to cross sell cyber security solutions and services to existing Group customers, supported by revised intra-group incentivisation structures. On the M&A front, it is anticipated that further acquisition opportunities, if realised, will bolt into our existing Services division capability, providing complementary customer bases and / or a broadening of our service and solutions offering.

Financial position

Cash and cash equivalents decreased by £1.9 million to £0.6 million at 31 March 2019 primarily reflecting investments made in infrastructure that will allow the business to scale in the future as well as one off exceptional costs that will not be repeated going forward.

In the new financial year, it is expected that the Group will generate positive cash flow as a result of a full year contribution of operating cash flow from Brookcourt Solutions (along with other Group companies) and the non-recurring nature of one off exceptional items incurred in the prior period.

Intangible assets (including goodwill) increased by £31.7 million to £52.4 million at 31 March 2019 reflecting £33.4 million from the acquisitions made in the year and £0.6 million from computer software additions, of which £0.2 million is internal development. This is offset by amortisation of £1.3 million and a £1.0 million impairment charge for legacy mining assets.

Property, plant and equipment increase reflects £0.2 million of acquired tangible fixed assets plus £0.1 million of other additions. This is offset by depreciation of £0.1 million.

Trade and other receivables increased by £14.3 million to £16.2 million at 31 March 2019 reflecting acquisitions which contributed £13.9 million as at year-end. Higher trading activity from SecurEnvoy in the last three months has further increased the balance.

Trade and other payables increased by £15.6 million to £17.4 million at 31 March 2019. Acquisitions accounted for £10.4 million of the increase as at year end. This included £1.3 million utilisation of debt finance facility which was settled in full in April 2019. Also included within the balance is £1.1 million of deferred income. Other material balances include £3.0 million (excluding interest) of deferred completion cash owing to the former shareholders of Brookcourt Solutions which is payable as a result of the working capital and cash completion mechanism contained in the share purchase agreement.

Share capital increased during the year by £9.4 million to £19.0 million which includes £4.9 million from the placing and open offer plus £4.5 million acquisition consideration on a nominal basis.

The Group is exposed to foreign exchange risks, liquidity and capital risks and credit risks. Details are included within note 20.



Philip Higgins

Chief Executive Officer

30 July 2019

Strategic Report

FOR THE YEAR ENDED 31 MARCH 2019

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 a number of Chief Technical Officers across its group companies, whom 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. In addition, most recently Dr. Debbie Garside was appointed to the role of Chief Innovation Scientist for the Group.

4. Key Contracts

In line with other industry participants, the Group relies on certain key customers for a material proportion of its revenue. Whilst the Group benefits from high customer retention levels, there can be no guarantees that all or any customers will continue their relationship with the Group beyond the existing contractual period currently in place. Certain customers have the right to terminate their contractual arrangements with the Group or discontinue using the Group's services without notice or on short notice. If the Group was to lose one or more of its major customer contracts, the resultant loss of sales could adversely affect the Enlarged Group's business, financial condition, results or future operations.

5. 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.

6. 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.

7. 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



Philip Higgins

Chief Executive Officer

30 July 2019

Report of the Directors

FOR THE YEAR ENDED 31 MARCH 2019

The Directors present their annual report together with the audited financial statements for the year ended 31 March 2019.

Dividends

The Directors do not recommend the payment of a dividend for the year (2018/17: £nil).

Results

Results of the year and financial position are detailed on pages 25 to 52.

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 12.

Directors

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

Name of Director

D Williams	Chairman
P Higgins	Director; Appointed on 11 December 2018
P McFadden	Director; Appointed on 17 October 2018
M Stevens	Director; Resigned on 12 April 2019
R Southwell	Non-Executive Director
S Ball	Non-Executive Director
G Willits	Non-Executive Director

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 2019	Number of shares held at 31 March 2018
P Higgins	212,916,667	-
D Williams	130,667,416	119,833,994
M Stevens	11,944,400	11,250,000
R Southwell	11,250,000	11,250,000
S Ball	11,944,400	11,250,000
G Willits	6,771,739	6,250,000
P McFadden	171,500	-

The Directors' interests in the share options of the Company as at 31 March 2019 were as follows:

	Number of options at 31 March 2019	Exercise price	Date of grant	First date of exercise	Final date of exercise
P McFadden	875,000	4.0p	07/05/18	07/05/19	30/09/23

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 2019, 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 competitive 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. Where specific internal development cost meets the required criteria under IAS 38 these amounts have been capitalised at the cost incurred.

Political donations

No political donations were made during the financial year (2018: nil).

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 also set out in detail in note 20.

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 have provided audit services to the Group for over 5 years. Following the end of this financial year, it was felt prudent in light of the Group's growing size and complexity to re-tender the external audit work to ensure the Group is getting the best service and value for money. The outcome of the tender will be notified to shareholders prior to the AGM.

Annual General Meeting

The Company proposes to convene the Annual General Meeting for 11a.m on 25 September 2019 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, 30 July 2019

Corporate Governance Statement

FOR THE YEAR ENDED 31 MARCH 2019

The board of directors of the Company (the "Board") adopted the Quoted Companies Alliance ("QCA") Corporate Governance Code (the "QCA Code") on 27 September 2018 in line with the London Stock Exchange's recent changes to the AIM Rules. Under AIM Rule 26, all AIM-quoted companies are required to adopt and comply with a recognised corporate governance code. The Board believe that the QCA Code is most appropriate for the size, scale and complexity of the Company. How the Company complies with the QCA Code and where the Board believe that a departure from the QCA Code is warranted, is provided on the Company's website under the following link: <https://shearwatergroup.com/investor-overview/>

Details of the Group's current corporate governance practices are set out on page 16. A statement of the Directors' responsibilities in respect of the financial statements is set out on page 18.

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 67

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. (LSE: ETO) and Oxford Biodynamics Plc (AIM: OBD). He is also a founder and non-executive director of Breedon Group plc (AIM: BREE). David serves as the chairman of the Remuneration Committee and Nomination Committee and is a member of the Audit Committee.

Philip Leslie Higgins (Chief Executive Officer) Age 53

Phil has over thirty years' industry experience during which time he has been instrumental in the delivery of next generation technology solutions to many leading global FTSE 100 and FTSE 250 companies. Following a six-year secondment to the US as International Business Director for Info Products Europe (now SCC), Phil returned to the UK market in 2001. After a brief spell at NSC Global and three years at Repton (now CDW), he co-founded Brookcourt Solutions in 2005. In December 2018, Phil joined the Board of Shearwater as an Executive Director, and in April 2019 was appointed as Chief Executive Officer of Shearwater Group.

Paul John McFadden (Chief Financial Officer) Age 37

Paul has over ten years' experience in senior finance positions within market leading digital information services, training and events businesses, creating and leading scalable finance functions within both a private and listed environment. Most recently, Paul was responsible for creating and leading a scalable shared service centre at Wilmington plc as the business grew substantially organically and via acquisitions in a five-year period.

Robin Simon Southwell OBE (Non-Executive Director) Age 59

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 Chairman of Linley Furniture, a Fellow of the Royal Aeronautical Society, an Ambassador of the RAF Museums, 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 65

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 52

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. During his time at Entertainment One Ltd. the market capitalisation grew to in excess of £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.

In April 2019, Marcus Willett CB OBE joined the Advisory Panel. Marcus was formerly the Deputy Head of GCHQ having served 33 years with the organisation. He was also GCHQ's first Cyber Director and has established and led major UK Cyber Programmes. Marcus has held posts across the wider UK intelligence and security community and is currently the Senior Advisor for Cyber at the International Institute for Strategic Studies, a world leading authority on global security, political risk and military conflict.

Corporate Governance

The Directors recognise the importance of sound corporate governance and the Company complies with the principles and minimum disclosures of the QCA Code.

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

- The Board intends to meet at least six times per year for formal Board meetings. It will approve financial statements, dividends and significant changes in accounting practices and key commercial matters, such as decisions to be taken on whether to take forward or to cancel a material collaboration project or commercial agreement. There is a formal schedule of matters reserved for decision by the Board in place.
- Currently, the Board includes three Non-Executive Directors who are considered by the Directors to be independent for the purposes of the QCA Code, Robin Southwell, Stephen Ball and Giles Willits. Robin joined the Board on 10 October 2016 and prior to this had no association with the Company. Stephen joined the Board on 24 October 2016 and prior to this had no association with the Company. Giles joined the Board on 9 December 2016 and prior to this had no association with the Company. Accordingly, the Directors consider that Robin, Stephen and Giles satisfy the independence criteria based on the judgement of the Board, with Stephen appointed the senior independent Non-Executive Director of the Company.

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 Chief Financial Officer, 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 with Stephen Ball as the other member of the Nomination Committee.

Statement of Directors' Responsibilities

FOR THE YEAR ENDED 31 MARCH 2019

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 financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. The Parent Company financial statements have been prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. 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 the year ended 31 March 2019. 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 Group 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.

The Group's Financial Statements can be accessed using the following link; www.shearwatergroup.com/results-and-presentations/

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 2019 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Group and Company Financial Position, the Consolidated Statement of Changes in Group and Company Equity, the Consolidated Group and Company Cash Flow Statement 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 2019 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.

Key Audit Matter	How we addressed the Key Audit Matter in our audit
<p>Accounting for the acquisition of GeoLang Holdings Limited and Brook Court Solutions Limited As explained in note 1e and 9 of the financial statements, on 4 April 2018 the Group acquired the entire issued share capital of GeoLang Holdings Limited and on 17 October 2018, the Group acquired the entire issued share capital of Brookcourt Solutions Limited.</p> <p>We focused on these transactions because they are material to the consolidated financial statements and because the Directors made judgements, estimates and assumptions in the identification and valuation of the intangible assets acquired and related disclosures.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> Assessing the appropriateness of the accounting treatments adopted and challenging the directors' assessment of the fair values of the assets acquired and the liabilities assumed with reference to the two Purchase Price Allocation reports ("PPA") provided by management. We used BDO's valuation specialists to evaluate the results of management's procedures and PPA's to determine the fair value of the intangible assets acquired. This involved: <ul style="list-style-type: none"> evaluation of completeness and existence of the intangible assets recognised; assessment of the valuation methodologies applied and the key assumptions made by management, such as discount and growth rates compared to our independently calculated range; benchmarking the assumptions used with similar transactions in the sector; and performing sensitivity analysis to understand the extent to which changes in key assumptions i.e. growth and discount rates may give rise to a materially different valuation for the intangible assets. We tested the corroborating evidence, namely the sale and purchase agreements, cash proceeds paid and share issue documentation. We assessed the sufficiency and reasonableness of the disclosures relating to the acquisition taking into account the requirement of the accounting standards. <p>We noted no exceptions through performing these procedures.</p>
<p>Goodwill and Intangible assets impairment assessment Refer to note 10, 1e and 1j.</p> <p>Determining if an impairment charge is required for Goodwill and Intangible assets involves significant judgements about the future results and cash flows of the business, including forecast growth in future revenues and operating profit margins, as well as determining an appropriate discount factor and long term growth rate. We therefore focused on these areas and the judgements applied to future forecasts.</p>	<p>Our audit procedures involved:</p> <ul style="list-style-type: none"> We checked management's impairment assessment for each cash generating unit (CGU), including the discounted cash flow analysis. As part of this, we challenged the key assumptions, including the growth rate and discount rates applied. This included consultation with internal valuations experts on the appropriate use of key assumptions. Based on external evidence examined i.e. industry growth rates, inflation and UK GDP growth rates, we performed sensitivity testing on revenue growth and discount rates used in the impairment assessment. Compared the discounted cash flow analysis to the historical performance and the actual post year-end results of each CGU. <p>We found that the assumptions used were reasonable. No impairment was identified from the work performed.</p>

<p>Revenue recognition and adoption of IFRS 15</p> <p>The Group's revenue recognition policy and adoption of IFRS 15 can be found in note 1f of the financial statements.</p> <p>We consider a significant risk of material misstatement may arise from the incentive to overstate revenue for the current period due to market expectations and the loss generated. Further, since EBITDA is management's main key performance indicator ("KPI"), this increases the incentive to overstate revenue. Therefore, the key audit matter is the existence of revenue throughout the financial year.</p> <p>In addition, this is the first year that IFRS 15 – Revenue from Contracts with Customers is applicable for the Group. There are key judgments involved in determining performance obligations within a contract, allocating transaction price to each performance obligation and determining whether to recognise revenue at a point in time or over time. The Group reviewed the potential impact of IFRS 15 in the previous financial period and found that its revenue recognition policies were in line with IFRS 15 which has been adopted in the current year. Hence the adoption of IFRS 15 had no material impact.</p> <p>The key audit matter also relates to the IFRS 15 disclosures to be made in the financial statements.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Testing a sample of revenue transactions recorded throughout the year from the revenue listing by agreeing to contract terms. We ensured that the transaction price was appropriately allocated to each performance obligation and checked whether revenue was correctly recognised at a point in time or over time. • Reviewing a sample of sales transactions before and after year end to ensure that they were accounted for in the correct period and accrued for appropriately by agreeing to supporting evidence. • A sample of accrued revenue balances as at year end were agreed to post year end invoices issued up to 30 April 2019. <p>To ensure IFRS 15 has been adopted appropriately, our testing included:</p> <ul style="list-style-type: none"> • In addition to testing detailed above, a review of the revenue recognition policy for the Group in light of the requirements of IFRS 15. • A review of the requirements of the IFRS 15 and to ensure that the disclosure requirements have been met. <p>As a result of the procedures above we did not find any material errors in relation to the recognition of revenue.</p>
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Our application of materiality

We apply the concept of materiality in planning and performing our audit and evaluating the effect of misstatement. 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, misstatement below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of the 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 Group audit in excess of £18,590 (2018: £9,700). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

Group Overall Materiality	£371,000 (2018: £194,000)
Group Performance Materiality	£278,250 (2018: £145,500)
Basis for Determining (Group and Parent)	<p>Group - 7% of Group loss before tax (2018: 7% of Group loss before tax). The above materiality is based on initial calculations performed at the planning stage of our audit. Based on the final results we could have used a higher materiality but decided to keep the materiality calculated at planning stage.</p> <p>Parent – 1.75% of total expenses (2018: 1.5% of total expenses)</p>
Rationale for benchmark applied (Group and Parent)	<p>Group - Given the Group has undergone a complete restructuring from mining to digital resilience solutions, it was expected that the Group will remain loss making for the current year and be profitable next year as they establish themselves and build up a portfolio of profitable companies. The entity commenced trading part way through the prior year. This is the first full 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.</p> <p>Parent – The Company is not generating any revenues and has incurred significant start up and acquisition related expenses in the current and prior year. As a result, total expenses is a more appropriate benchmark for the parent.</p>
Parent Company Overall Materiality	£90,000 (2018: £40,000)
Parent Company Performance Materiality	£67,500 (2018: £30,000)

Performance materiality was set at 75% (2018 – 75%) of the above materiality figures. 75% is based on our assessment of overall control environment.

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 59% 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 nine centrally controlled components, of which three significant components, have been audited for Group reporting purposes. All the significant components are UK based and were audited by us.

For four 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 us for the remaining two foreign components not considered significant to the Group.

Two entities have been deemed to be dormant companies, having met the relevant criteria. Consequently, no audit procedures were planned for these entities.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the financial statements, 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 and business review of activities 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 and business review of activities 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 and business review of activities 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 Statement of Directors Responsibilities set out on page 18, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent 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

30 July 2019

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

Consolidated statement of Group comprehensive income

for the year ended 31 March 2019

	Note	2018/19 £ (000)	2017/18 £ (000)
Revenue	3	23,452	6,240
Cost of sales		(16,617)	(2,604)
Gross profit		6,835	3,636
Administrative expenses		(13,551)	(6,520)
Operating loss		(6,716)	(2,884)
Finance cost		(164)	-
Finance income		-	2
Loss before tax		(6,880)	(2,882)
Income tax credit /(charge)	7	1,020	(3)
Loss for the year and attributable to equity holders of the Company		(5,860)	(2,885)

Operating loss analysed as:			
Underlying EBITDA	2	(1,394)	(837)
Amortisation of acquired intangibles	4	(1,325)	(647)
Depreciation of fixed assets	4	(69)	(14)
Share-based payments	4	(331)	(366)
Impairment of intangible assets	4	(1,005)	-
Exceptional items	4	(2,729)	(1,020)
Fair value adjustment to deferred consideration	4	137	-
Finance cost		(164)	-
Finance income		-	2
Loss before tax		(6,880)	(2,882)

Other comprehensive income

Items that may be reclassified to profit and loss:			
Change in financial assets at fair value through OCI		(18)	(67)
Exchange differences on translation of foreign operations		20	-
Total comprehensive loss for the year		(5,858)	(2,952)

Loss per share

Basic and diluted (pence per share)	8	(0.42)	(0.31)
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The results above are derived from continuing operations.

The notes on pages 29 to 52 are an integral part of these consolidated financial statements.

Consolidated statement of Group and Company financial position

as at 31 March 2019

	Note	Group		Company	
		2019 £ (000)	2018 (restated) £ (000)	2019 £ (000)	2018 £ (000)
Assets					
Non-current assets					
Intangible assets (restated)	10	52,389	20,669	-	986
Investments in subsidiaries	11	-	-	58,667	20,221
Financial assets at fair value through OCI	12	33	51	33	51
Property, plant and equipment	13	248	76	17	18
Amounts owed by subsidiary undertaking		-	-	-	1,662
Total non-current assets		52,670	20,796	58,717	22,938
Current Assets					
Trade and other receivables	14	16,220	1,949	4,554	47
Deferred tax asset	16	665	-	-	-
Cash and cash equivalents		597	2,493	1	540
Total current assets		17,482	4,442	4,555	587
Total assets		70,152	25,238	63,272	23,525
Liabilities					
Current liabilities					
Trade and other payables	15	17,389	1,755	13,713	597
Total current liabilities		17,389	1,755	13,713	597
Non-current liabilities					
Amounts owed to subsidiary undertaking		-	-	-	646
Deferred tax (restated)	16	3,203	1,340	2	-
Deferred consideration	17	206	-	206	-
Total non-current liabilities		3,409	1,340	208	646
Total liabilities		20,798	3,095	13,921	1,243
Net assets		49,354	22,143	49,351	22,282
Capital and reserves					
Share capital	18	19,040	9,644	19,040	9,644
Share premium		34,578	22,446	34,578	22,446
Available for sale reserve		18	36	18	36
Other reserves		19,123	7,127	19,123	7,127
Translation reserve		20	-	-	-
Accumulated losses		(23,425)	(17,110)	(23,408)	(16,971)
Equity attributable to owners of the Company		49,354	22,143	49,351	22,282
Total equity and liabilities		70,152	25,238	63,272	23,525

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 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 £6.4 million (2018: £2.7 million).

The notes on pages 29 to 52 are an integral part of these consolidated financial statements. The financial statements on pages 25 to 52 were approved and authorised for issue by the Board and signed on their behalf on 30 July 2019.

The prior year includes a restatement which reduces deferred tax liability and goodwill by £0.5m each. For more details please refer to note 16.



P Higgins, Chief Executive Officer
30 July 2019
Registered number: 05059457

Consolidated statement of changes in Group and Company equity

for the year ended 31 March 2019

Group	Share capital (Note 18) £ (000)	Share premium (restated) £ (000)	FVTOCI £ (000)	Other reserve (restated) £ (000)	Translation reserve £ (000)	Accumulated losses £ (000)	Total Equity £ (000)
At 1 April 2017	5,353	15,962	103	39	-	(13,976)	7,481
Loss for the year	-	-	-	-	-	(2,885)	(2,885)
Other comprehensive loss for the year	-	-	(67)	-	-	-	(67)
Total comprehensive loss for the year	-	-	(67)	-	-	(2,885)	(2,952)
Contributions by and distributions to owners							
Issue of share capital	4,291	6,765	-	-	-	-	11,056
Merger relief reserve (restated)	-	-	-	6,726	-	-	6,726
Share issue costs	-	(281)	-	-	-	(249)	(530)
Share based payments	-	-	-	362	-	-	362
At 31 March 2018 (restated)	9,644	22,446	36	7,127	-	(17,110)	22,143
Loss for the year	-	-	-	-	-	(5,860)	(5,860)
Other comprehensive loss for the year	-	-	(18)	-	20	-	2
Total comprehensive loss for the year	-	-	(18)	-	20	(5,860)	(5,858)
Contributions by and distributions to owners							
Issue of share capital	9,396	12,658	-	-	-	-	22,054
Merger relief reserve	-	-	-	11,665	-	-	11,665
Share issue costs	-	(526)	-	-	-	(455)	(981)
Share based payments	-	-	-	331	-	-	331
At 31 March 2019	19,040	34,578	18	19,123	20	(23,425)	49,354

Company	Share capital (Note 18) £ (000)	Share premium (restated) £ (000)	FVTOCI £ (000)	Other reserve (restated) £ (000)	Translation reserve £ (000)	Accumulated losses £ (000)	Total Equity £ (000)
At 1 April 2017	5,353	15,957	103	39	-	(13,976)	7,476
Loss for the year	-	-	-	-	-	(2,746)	(2,746)
Other comprehensive loss for the year	-	-	(67)	-	-	-	(67)
Total comprehensive loss for the year	-	-	(67)	-	-	(2,746)	(2,813)
Contributions by and distributions to owners							
Issue of share capital	4,291	6,770	-	-	-	-	11,061
Merger relief reserve (restated)	-	-	-	6,726	-	-	6,726
Share issue costs	-	(281)	-	-	-	(249)	(530)
Share based payments	-	-	-	362	-	-	362
At 31 March 2018 (restated)	9,644	22,446	36	7,127	-	(16,971)	22,282
Loss for the year	-	-	-	-	-	(5,982)	(5,982)
Other comprehensive loss for the year	-	-	(18)	-	-	-	(18)
Total comprehensive loss for the year	-	-	(18)	-	-	(5,982)	(6,000)
Contributions by and distributions to owners							
Issue of share capital	9,396	12,658	-	-	-	-	22,054
Merger relief reserve	-	-	-	11,665	-	-	11,665
Share issue costs	-	(526)	-	-	-	(455)	(981)
Share based payments	-	-	-	331	-	-	331
At 31 March 2019	19,040	34,578	18	19,123	-	(23,408)	49,351

A restatement has been made for merger relief as the company meets the criteria to realise which was not disclosed in the prior year. This has resulted in a reduction of £6.7 million to Share premium reserve and an increase of £6.7 million to other reserves.

The notes on pages 29 and 52 are an integral part of these consolidated financial statements.

Consolidated Group and Company Cash Flow Statement

for the year ended 31 March 2019

	Note	Group		Company	
		2018/19 £ (000)	2017/18 £ (000)	2018/19 £ (000)	2017/18 £ (000)
Cash flows from operating activities					
Loss for the year		(5,860)	(2,885)	(5,982)	(2,746)
Adjustments for:					
Amortisation of acquired intangible assets	4	1,325	647	-	-
Depreciation of property, plant and machinery	4	69	14	7	4
Share-based payment charge	4	331	366	331	366
Impairment of intangible assets	4	1,005	-	1,005	-
Fair value adjustment of deferred consideration	4	(137)	-	(137)	-
Finance income		-	(2)	-	(2)
Finance cost		164	-	135	-
Income tax		(1,020)	3	2	-
Cash flow from operating activities before changes in working capital		(4,123)	(1,857)	(4,639)	(2,378)
(Increase)/decrease in trade and other receivables		(4,396)	(1,412)	(585)	39
Increase/(decrease) in trade and other payables		5,119	457	6,075	(1,149)
Cash used in operations		(3,400)	(2,812)	851	(3,488)
Net foreign exchange movements		1	(19)	-	-
Finance cost paid		(10)	-	-	-
Tax paid		(52)	(280)	-	-
Net cash used in operating activities		(3,461)	(3,111)	851	(3,488)
Investing activities					
Acquisition of subsidiaries, net of cash acquired		(14,264)	(9,839)	(17,911)	(11,466)
Purchase of property, plant and machinery	13	(81)	(72)	(6)	(20)
Purchase of software	10	(619)	(19)	-	-
Interest received		-	2	-	1
Gold exploration payments		(19)	(50)	(19)	(50)
Net cash used in investing activities		(14,983)	(9,978)	(17,936)	(11,535)
Financing activities					
Proceeds from issue of share capital		17,527	9,020	17,527	9,020
Expenses paid in connection with share issues		(981)	(530)	(981)	(530)
Net cash generated by financing activities		16,546	8,490	16,546	8,490
Net decrease in cash and cash equivalents		(1,898)	(4,599)	(539)	(6,533)
Foreign exchange movement on cash and cash equivalents		2	19	-	-
Cash and cash equivalents at the beginning of the period		2,493	7,073	540	7,073
Cash and cash equivalents at the end of the period		597	2,493	1	540

The notes on pages 29 to 52 are an integral part of these consolidated financial statements.

Notes to the Consolidated 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 ('AIM') 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 and cash generative 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. In determining the fair value of intangible assets acquired key assumptions used include expected future cashflows, growth rates, and the weighted average cost of capital. Further information can be found in note 9.

Impairment of goodwill, intangible assets and investment in subsidiaries

Management make judgements, estimates and assumptions in supporting the fair value of goodwill, intangible assets and investments in subsidiaries. The Group carry out annual impairment reviews to support the fair value of these assets. In doing so management will estimate future growth rates, weighted average cost of capital and terminal values.

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 11). 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.

1. Statement of accounting policies continued

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

During the year, as required by IFRS, a new accounting standard – IFRS 15 “Revenue from Contracts with Customers” has been adopted using fully retrospective approach.

Revenue with customers is evaluated based on the five-step model under IFRS 15 ‘Revenue from Contracts with Customers’: (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognise revenues when (or as) each performance obligation is satisfied.

Details of the material performance obligations for both our software and services businesses are detailed below:

Software licences whereby the customer buys a software that it sets up and maintains on its premises is recognised fully at the point the licence key / access has been granted to the client. The Group sells the majority of its services through channels and distributors who are responsible for providing 1st and 2nd line support to the client.

Provision for services is broken into two main areas;

- 1) Sale of third-party hardware, software and warranties:
 - a) Where the contract entails only one performance obligation to provide software or hardware, revenue is recognised in full at a point in time upon delivery of the product to the end client. This delivery will either be in the form of the physical delivery of a product or the e-mailing of access codes to the client for them to access third party software or warranties; and
 - b) Where a contract to supply external hardware, software and/or warranties also include an element of ongoing internal support, multiple performance obligations are identified and an allocation of the total contract value is allocated to each performance obligation based on the standalone costs of each performance obligation. The respective costs of each performance obligations are traceable to supplier invoice and applying the fixed margins, standalone selling prices are determined. Internal support is recognised equally over the period of time detailed in the contract.
- 2) Sale of consultancy services:

Consultancy services are provided on a range of topics including data protection, project management, governance and compliance. Client contracts stipulate a number of consultancy days that make up the contracted consideration and the group has an enforceable right to payment for work completed to date. Consultancy days generally comprise of field work and (where required) report writing and delivery which are considered to be of equal value to the client. Revenue is recognised over time based on the number of consultancy days provided within the period compared to the total in the contract.

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.

The Group reviewed the potential impact of IFRS 15 in the previous financial period and found that it's revenue recognition policies were in line with IFRS 15 which has been adopted in the current year. Additionally, as Group has acquired its revenue generating components within last and current financial year, there is no impact on the opening position and therefore no adjustment has been made.

1. Statement of accounting policies continued

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.

The directors consider that the acquisitions of Brookcourt and GeoLang meet the aggregation criteria under IFRS 8 as they share similar economic characteristics in terms of the nature of the products and services provided.

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 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. Material expenditure on internally developed intangible assets is taken to the consolidated statement of financial position if it satisfies the 6 step criteria required under IAS 38.

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
Tradenames	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.

1. Statement of accounting policies continued

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

Shearwater's financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

Trade and other receivables are measured at amortised cost less a provision for doubtful debts, determined as set out below in "impairment of financial assets". Any write-down of these assets is expensed to statement of comprehensive income.

Equity investments not qualifying as subsidiaries, associates or jointly controlled entities are measured at fair value through other comprehensive income (FVOCI), with fair value changes recognised in other comprehensive income (OCI) and dividends recognised in profit or loss.

Impairment of financial assets

The impairment model under IFRS 9 reflects expected credit losses, as opposed to only incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is not necessary for a credit event to have occurred before credit losses are recognised. Instead, the Group always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses are updated at each reporting date.

The new impairment model only applies to the Group's financial assets that are debt instruments measured at amortised costs or FVOCI as well as the Group's contract assets and issued financial guarantee contracts. The Group has applied the simplified approach to recognise lifetime expected credit losses for its trade receivables, finance lease receivables and contracts assets as required or permitted by IFRS 9.

Expected credit losses are calculated with reference to average loss rates incurred in the three most recent reporting periods. The Group's average combined loss rate is 0.1%. This percentage rate is then applied to current receivable balances using a probability risk spread as follows:

- 80% of debt not yet due (i.e. the Group's average combined loss rate of 0.1% is discounted by 20%, meaning a 0.08% provision would be made to debt not yet due);
- 85% of debt that is <30 days overdue;
- 90% of debt that is 30-60 days overdue;
- 95% of debt that is 60-90 days overdue; and
- 100% of debt that is >90 days overdue.

Management have performed the calculation to ascertain the expected credit loss which works out to £4,880 which management believe is immaterial and has not been recognised in the Financial Statements. The Group has a record of minimal bad debts with less than £0.01 million being written off in the past 3 years.

A calculation for expected credit loss has been recognised in relation to the Company's inter-group receivables. This is made up of a specific provision for expected credit default plus a general provision which is based upon a 0.5% provision per-annum for each year the receivable is expected to remain outstanding.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in statement of comprehensive income

1. Statement of accounting policies continued

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).

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in the statement of comprehensive income.

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

o) 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.

p) New standards and interpretations not applied

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

International Financial Reporting Standards (IFRS/IAS)	Effective date	To be adopted by the Group
IFRS 16 Leases	1 January 2019	1 April 2019

IFRS 16 comes into effect for accounting periods beginning on or after 1 January 2019. And replaces IAS 17 Leases. The Group will adopt IFRS 16 from 1 April 2019. For lessees, the new standard requires leases to be recognised on the balance sheet as a right-to-use asset (representing the right to use the leased item) and a liability, representing the obligation to make future lease payments. Under IFRS 16, the operating lease expense will be replaced with a depreciation charge for the right-of-use asset and interest expense on the lease liability.

The Group plans on adopting the modified retrospective approach. The estimated impact to profit before tax for the 2020 financial year is an increase of approximately £0.01 million. Non-current assets are expected to increase by £0.3 million and gross liabilities are expected to increase by £0.3 million. The Group has elected not to recognise right of use assets and lease liabilities for short-term leases or low-value assets and will continue to expense the lease payments associated with these leases on a straight-line basis over the term of the lease.

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
- Impairment of intangible assets
- Exceptional items
- Finance cost and Finance income
- Fair value adjustment to deferred consideration

2. Measure of profit continued

Underlying EBITDA reconciles to loss before tax as follows:

	2018/19 £ (000)	2017/18 £ (000)
Loss before tax	(6,880)	(2,882)
Amortisation of acquired intangibles	1,325	647
Depreciation of fixed assets	69	14
Share-based payments	331	366
Impairment of intangible assets	1,005	-
Exceptional items	2,729	1,020
Fair value adjustment to deferred consideration	(137)	-
Finance cost	164	-
Finance income	-	(2)
Underlying EBITDA	(1,394)	(837)

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 2019 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 2018/19 £ (000)	Services 2018/19 £ (000)	Total 2018/19 £ (000)	Software 2017/18 £ (000)	Services 2017/18 £ (000)	Total 2017/18 £ (000)
Revenue	3,880	19,572	23,452	3,372	2,868	6,240
Segment underlying EBITDA	468	266	734	1,668	(575)	1,093
Group costs			(2,128)			(1,930)
Underlying EBITDA			(1,394)			(837)
Amortisation of acquired intangibles			(1,325)			(647)
Depreciation			(69)			(14)
Share-based payments			(331)			(366)
Impairment of intangible assets			(1,005)			-
Exceptional items			(2,729)			(1,020)
Fair value adjustment to deferred consideration			137			-
Finance income			-			2
Finance cost			(164)			-
Loss before tax			(6,880)			(2,882)

The majority (89%) of the Group's revenue is derived within the United Kingdom. 7% of revenues come from Europe, 3% North America and 1% rest of the world.

Two customers within the Group each make up more than 10% of the Group's revenue. These two customers contribute £8.2 million and £3.2 million respectively. In the prior year no one customer made up more than 10% of total Group revenues.

Contract assets of £0.3 million (2018: £0.6 million) and contract liabilities of £1.1 million (2018: nil) were held at the year end.

The table below details the movements during the year:

3. Segmental information continued

	Contract assets		Contract Liabilities	
	2019	2018	2019	2018
	£ (000)	£ (000)	£ (000)	£ (000)
At 1 April	610	-	-	-
Acquired on acquisition	-	-	600	-
Transfers in the period from contract assets to trade receivables	(610)	-	-	-
Amounts included in contract liabilities that was recognised as revenue during the period	-	-	(600)	-
Excess of revenue recognised over amounts billed in the period	300	610	-	-
Amounts billed in advance but not recognised as revenue during the period	-	-	1,146	-
At 31 March	300	610	1,146	-

4. Operating loss

Operating loss is stated after charging:

	2018/19	2017/18
	£ (000)	£ (000)
Depreciation of fixed assets	69	14
Amortisation of acquired intangibles	1,325	647
Operating lease expense	519	211
External auditors' remuneration:		
- Audit fee for annual audit of the Group and Company financial statements	41	43
- Audit fee for annual audit of the Subsidiary financial statements	95	12
- Other taxation and compliance services	-	5
Share based payments	331	366
Impairment of intangible assets	1,005	-
Exceptional items	2,729	1,020
Fair value adjustment of deferred consideration	(137)	-

Exceptional items relate to acquisition costs for Brookcourt Solutions Limited (£1.5m) and GeoLang Holdings Limited (£0.2m), and one off legal costs (£1.0m) .

5. Staff costs

Total staff cost within the Group comprise of all Directors and employee costs for the financial year. The Group totals below include 12 months of staff costs for GeoLang Holdings Limited (acquired April 2018) and 5.5 months of staff costs for Brookcourt Solutions Limited (acquired October 2018).

	Group		Company	
	2018/19	2017/18	2018/19	2017/18
	£ (000)	£ (000)	£ (000)	£ (000)
Wages and salaries	6,155	2,638	654	700
Social security costs	733	295	80	87
Pension costs	283	69	15	21
Share-based payments	331	366	331	366
	7,502	3,368	1,080	1,174

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

5. Staff costs continued

	Group		Company	
	2018/19	2017/18	2018/19	2017/18
Administration	20	11	7	7
Production	40	8	-	-
Sales and marketing	42	22	-	-
	102	41	7	7

6. Key management personnel and Directors compensation

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

	2018/19	2017/18
	£ (000)	£ (000)
Wages and salaries	486	472
Social security costs	60	44
Pension costs	6	2
Share-based payments	180	193
	732	711

The remuneration of Directors during the year was as follows:

Year ended 31 March 2019	Total salary and fees £ (000)	Bonus £ (000)	Subtotal £ (000)	Pension £ (000)	Total £ (000)
Executive Directors					
M Stevens (resigned 12 April 2019)	231	-	231	1	232
P McFadden	54	17	71	5	76
P Higgins	33	9	42	-	42
Non-Executive Directors					
D Williams	51	-	51	-	51
S Ball	25	-	25	-	25
R Southwell	25	-	25	-	25
G Willits	26	15	41	-	41
	445	41	486	6	492

A one-off bonus was paid to G Willits to cover the cost to exercise share options previously granted. The options were exercised on 18 June 2018 resulting in a gain on exercise of £26,087.

Year ended 31 March 2018	Total salary and fees £ (000)	Bonus £ (000)	Subtotal £ (000)	Pension £ (000)	Total £ (000)
Executive Directors					
M Stevens	229	108	337	2	339
C Eadie (resigned 29 September 2017)	26	-	26	-	26
Non-Executive Directors					
D Williams	50	-	50	-	50
S Ball	25	-	25	-	25
R Southwell	25	-	25	-	25
G Willits	8	-	8	-	8
S Finlay (resigned 13 April 2017)	1	-	1	-	1
	364	108	472	2	474

The highest paid Director received remuneration (excluding share-based payments) totalling £232,000 (2017/18: £339,446).

Directors' interests in shares and share options are disclosed in the Directors' report. In 2019 and 2018, key management personnel are considered to comprise of the Directors.

7. Taxation

	2018/19 £ (000)	2017/18 £ (000)
Current tax:		
UK corporation tax at current rates on UK losses for the year	(1,159)	(465)
	(1,159)	(465)
Foreign tax	18	3
Total current tax (credit)	(1,141)	(462)
Deferred tax asset not recognised	494	465
Deferred tax liability movement in the period	(373)	-
Income tax (credit) / charge	(1,020)	3
Reconciliation of taxation:		
Loss before tax	(6,880)	(2,882)
Loss multiplied by the average rate of corporation tax in the year of 19% (2018: 19%)	(1,307)	(548)
Tax effects of:		
Depreciation and amortisation in excess of capital allowance	(194)	(2)
Expenses not deductible for tax purposes	12	131
Foreign tax rate differences	1	(1)
Enhanced R&D relief	-	(42)
Fair value adjustment to deferred consideration	(26)	-
Deferred tax asset not recognised	494	465
Income tax (credit) / charge	(1,020)	3

On 23 November 2016 it was announced that the UK corporation tax rate will be reduced from 19% to 17% from 1 April 2020.

The Group has gross tax losses and temporary timing differences of £1.6 million (2017/18: £0.5 million) of which a deferred tax asset £0.7 million (2017/18: Nil) has been recognised based on expected utilisation in the next twelve months.

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 not 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 2019 and the twelve months ended 31 March 2018 as the Group is loss making.

At the reporting date, there were 31,498,074 (2018: 18,815,074) potentially dilutive ordinary shares. Dilutive potential ordinary shares relate to share options.

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

	2018/19 £ (000)	2017/18 £ (000)
Net loss from total operations		
Loss for the purposes of basic and diluted loss per share being net loss attributable to Shareholders	(5,860)	(2,885)
Number of shares	No	No
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	1,407,483,914	917,725,525
Loss per share	Pence	Pence
Basic and diluted	(0.42)	(0.31)

9. Acquisitions

Brookcourt Solutions Limited

On 17 October 2018, the Group acquired the entire issued share capital of Brookcourt Solutions Limited (“Brookcourt”), a multi-award winning, UK-based cyber security solutions company, focusing on the provision of secure networking and cyber security solutions to corporate and public sector organisations. The rationale for the acquisition is in line with the Group’s strategy to acquire complimentary digital resilience solutions businesses to enhance the Group’s service offering.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are follows:

	Book value £ (000)	Adjustment £ (000)	Fair value £ (000)
Property, plant and equipment	160	-	160
Tradenname	-	6,826	6,826
Non-contractual customer relationships	-	4,282	4,282
Inventories	190	(190)	-
Trade and other receivables	10,184	1,120	11,304
Cash and cash equivalents	4,417	(1,095)	3,322
Trade and other payables	(7,045)	(577)	(7,622)
Deferred tax liabilities	(27)	(2,000)	(2,027)
Total net assets	7,879	8,366	16,245
Fair value of consideration paid:			£ (000)
Cash			18,485
Shares in Shearwater Group plc			15,360
Deferred cash consideration			3,000
Total consideration			36,845
Goodwill (note 10)			20,600

Adjustments in the table above include; £6.8 million and £4.3 million for the creation of intangible assets for the tradenname and customer relationships. Inventories have been written down by £0.2 million. Trade and other receivables of £1.1 million represent a £3.0 million loan advanced to Shearwater Group plc less £1.9 million of loans advanced to the Directors of Brookcourt plus £0.02 million addition to prepayments for services that have not yet been recognised. Cash and cash equivalent reduction of £1.1 million represents the net cash paid to the parent on acquisition. Trade and other payables of £0.6 million reflects deferred revenue at acquisition.

The cash portion of consideration of £21.5 million reflects £6.4 million of cash and cash equivalents which were acquired on a £ for £ basis as part of the transaction which includes the £3.4 million as detailed in the table above plus £3.0m loan which is repayable to the ex-owners which is detailed in note 15.

The goodwill recognised will not be deductible for tax purposes.

Acquisition costs of £2.0 million arose as a result of the transaction. £0.5 million of these acquisition costs related to the issuance of new equity and has been charged to retained earnings in line with merger relief rules. The remaining £1.5 million has been recognised as part of administration expenses in the statement of comprehensive income for the twelve-month period to 31 March 2019 within exceptional items.

Since the acquisition date, Brookcourt has contributed £15.2 million to group revenues and £2.8 million to group underlying EBITDA and profit before tax. If the acquisition had occurred on 1 April 2018, Brookcourt’s contribution to group revenue would have been £29.2 million and its contribution to group underlying EBITDA for the period would have been £3.4 million and £3.3 million profit before tax.

On acquisition, Brookcourt held trade receivables with a book and fair value of £8.2 million. The Group is confident that the full amount will be ultimately received.

GeoLang Holdings Limited

On 4 April 2018, the Group acquired the entire issued share capital of GeoLang Holdings Limited (“GeoLang”), an award-winning UK-based provider of Data Loss Prevention (“DLP”) enterprise software. The rationale for the acquisition is in line with the Group’s strategy to acquire complimentary digital resilience solutions businesses to enhance the Group’s service offering.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are follows:

9. Acquisitions continued

	Book value	Adjustment	Fair value
	£ (000)	£ (000)	£ (000)
Computer software	-	1,220	1,220
Trade and other receivables	115	-	115
Cash and cash equivalents	15	310	325
Trade and other payables	(483)	148	(335)
Deferred tax liabilities	-	(207)	(207)
Total net assets	(353)	1,471	1,118
Fair value of consideration paid:			£ (000)
Repayment of indebtedness			457
Shares in Shearwater Group plc			800
Holdback consideration shares			343
Total consideration			1,600
Goodwill (note 10)			482

Adjustments in the table above include; £1.2 million for the creation of intangible assets for computer software. Cash and cash equivalents of £0.3 million represents funds transferred into the company on acquisition to settle remaining indebtedness. Remaining indebtedness was settled in full in the financial year. Trade and other payables include £0.1 million which was related to indebtedness settled at the date of acquisition.

The goodwill recognised will not be deductible for tax purposes.

Acquisition costs of £0.2 million arose as a result of the transaction. This has been recognised as part of administration expenses in the statement of comprehensive income for the twelve-month period to 31 March 2019 within exceptional items.

Since the acquisition date, GeoLang has contributed £0.1 million to group revenues and made an underlying EBITDA loss and loss before tax of £0.5 million. Revenue, underlying EBITDA loss and loss before tax are the same on a pro-forma basis owing to GeoLang being acquired four days into the financial year.

An additional 12,960,179 holdback consideration shares will be issued on 4 April 2020 on the basis that no warranties within the sale and purchase agreement have been breached.

On the 13 June 2019, the Group issued 14,388,567 ordinary shares of the Group to the GeoLang sellers. These additional consideration shares were issued pursuant to the acquisition of GeoLang Holdings Limited announced on 4 April 2018, under which certain provisions were triggered by the share price performance criteria set out in the sale and purchase agreement which were considered unlikely at the point of acquisition and as such were not recognised on acquisition.

Newable Consulting

Following the acquisition of Newable Consulting on 26 July 2017 on the 7 December 2018 the Group issued 612,017 new ordinary shares of 1p to the previous owners to settle the deferred consideration element of the acquisition at an issue price of £0.0343.

10. Intangible assets

Group	Goodwill £ (000)	Customer relationships £ (000)	Softwares £ (000)	Tradenames £ (000)	Gold exploration £ (000)	Total £ (000)
Cost						
At 1 April 2017	-	-	-	-	935	935
Recognised on acquisition	12,449	4,260	3,602	-	-	20,311
Additions	-	-	19	-	51	70
At 31 March 2018	12,449	4,260	3,621	-	986	21,316
Recognised on acquisition	21,117	4,284	1,220	6,826	-	33,447
Additions	-	-	584	-	19	603
At 31 March 2019	33,566	8,544	5,425	6,826	1,005	55,366
Accumulated amortisation						
At 1 April 2017	-	-	-	-	-	-
Amortisation for the year	-	324	323	-	-	647
At 31 March 2018	-	324	323	-	-	647
Amortisation for the year	-	493	513	319	-	1,325
Impairments	-	-	-	-	1,005	1,005
At 31 March 2019	-	817	836	319	1,005	2,977
Net book amount						
At 31 March 2019	33,566	7,727	4,589	6,507	-	52,389
At 31 March 2018	12,449	3,936	3,298	-	986	20,669
At 31 March 2017	-	-	-	-	935	935

Company	Gold exploration £ (000)
Cost	
At 1 April 2017	935
Additions	51
At 31 March 2018	986
Additions	19
At 31 March 2019	1,005
Accumulated amortisation	
At 1 April 2017	-
Amortisation for the year	-
At 31 March 2018	-
Amortisation for the year	-
Impairments	1,005
At 31 March 2019	1,005
Net book amount	
At 31 March 2019	-
At 31 March 2018	986
At 31 March 2017	935

The Group has impaired £1.0 million of their legacy Gold exploration rights during financial year to 31 March 2019 as a result of delays in obtaining licences which has delayed the process of identifying a potential buyer.

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. Following the acquisitions of Brookcourt and GeoLang, the Group has four separate cash generating units ('CGU'). For all four cash generating units a weighted average cost of capital of 15% and a terminal value, based on a long term growth rate of 2 to 2.5% calculated on year 5 cashflow has been used when testing goodwill. Sensitivity

10. Intangible assets continued

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.

In the case of both Brookcourt and GeoLang, goodwill arising from the acquisition consists largely of the future revenue opportunities of the service offerings not yet realised, expertise within the acquired workforces as well as intra-group synergies and economies of scale as a result of utilisation of the Group's shared services function. None of the goodwill is expected to be deductible for income tax purposes.

11. Investments in subsidiaries

Company	Total £ (000)
Investments in subsidiaries at 1 April 2017	-
Additions	20,221
Investments in subsidiaries at 31 March 2018	20,221
Additions	38,446
Investments in subsidiaries at 31 March 2019	58,667

The following table gives brief details of the entities controlled and included in the consolidated financial statements of the Group at 31 March 2019. Subsidiaries marked (*) are directly owned by Shearwater Group plc, all other subsidiaries are indirectly owned.

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
GeoLang Holdings Limited*	England and Wales	22 Great James Street, London, WC1N 3ES	100
GeoLang Limited	England and Wales	22 Great James Street, London, WC1N 3ES	100
Xcina Enterprise Limited	England and Wales	22 Great James Street, London, WC1N 3ES	100
Brookcourt Solutions Limited*	England and Wales	22 Great James Street, London, WC1N 3ES	100

The Group have conducted impairment reviews for each of the above entities and have satisfied themselves that no impairment is necessary.

12. Financial assets at fair value through OCI

Group and Company	Total £ (000)
Cost	
At 1 April 2017	118
Fair value loss	(67)
At 31 March 2018	51
Fair value loss	(18)
At 31 March 2019	33

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 2019 was AUS \$0.084 (2018: AUS \$0.13) resulting in an impairment of £18,416 (2018: impairment of £66,776).

13. Property, plant and machinery

Group	Total £ (000)
Cost	
At 1 April 2017	2
Recognised on acquisition	16
Additions	72
At 31 March 2018	90
Recognised on acquisition	160
Additions	81
At 31 March 2019	331
Accumulated depreciation	
At 1 April 2017	-
Charge for the period	14
At 31 March 2018	14
Charge for the period	69
At 31 March 2019	83
Net book amount	
At 31 March 2019	248
At 31 March 2018	76
At 31 March 2017	2

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

Company	Total £ (000)
Cost	
At 1 April 2017	2
Additions	20
At 31 March 2018	22
Additions	6
At 31 March 2019	28
Accumulated depreciation	
At 1 April 2017	-
Charge for the period	4
At 31 March 2018	4
Charge for the period	7
At 31 March 2019	11
Net book amount	
At 31 March 2019	17
At 31 March 2018	18
At 31 March 2017	2

14. Trade and other receivables

	Group		Company	
	2019 £ (000)	2018 £ (000)	2019 £ (000)	2018 £ (000)
Trade receivables	13,204	1,012	91	-
Amounts owed by Group companies	-	-	4,245	-
Provision for expected credit losses	-	-	(322)	-
Accrued income	300	610	94	-
Prepayments and other receivables	2,017	205	134	47
VAT recoverable	379	122	312	-
Corporation tax	320	-	-	-
	16,220	1,949	4,554	47

Other receivables include a £4,000 Directors loan which was repaid on 15 April 2019. The loan was interest free.

Amounts owed by Group companies are interest free and repayable on demand.

As required by IAS 39 the aging analysis of overdue trade receivables at 31 March 2018 is as follows:

	2018 £ (000)
Up to 3 months overdue	205
3 to 6 months overdue	6
	211

The Company's trade receivable balance at 31 March 2019 is all current.

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.

The movement for the provision in expected credit losses is stated below:

	2019 £ (000)
At 1 April	-
Movement in expected credit loss provision	322
At 31 March	322

15. Trade and other payables

	Group		Company	
	2019 £ (000)	2018 £ (000)	2019 £ (000)	2018 £ (000)
Trade payables	7,451	632	1,140	164
Amounts owed to Group companies	-	-	8,108	-
Loans	4,407	67	3,136	-
Accruals and other payables	2,933	766	1,291	282
Other taxation and social security	1,452	279	38	151
Deferred income	1,146	-	-	-
Corporation tax	-	11	-	-
	17,389	1,755	13,713	597

Amounts owed to Group companies are interest free.

Loan balances include £3.0 million of delayed completion cash which is repayable to the previous shareholders of Brookcourt Solutions Limited in October 2019 with the option to extend to April 2020. Interest is accrued on this loan at a rate of 10% per annum. At year end £0.1m accrued interest is included to leave a liability of £3.1 million. The Group utilises a £2.0 million debt finance facility that allows it to recognise receipts from its trade receivables book to fund future growth which has a short term working capital requirement. At year end the £1.3 million was utilised. This was settled in full on 16 April 2019.

16. Deferred tax

	Group		Company	
	2019 £ (000)	2018 £ (000)	2019 £ (000)	2018 £ (000)
Non-current liabilities				
Liability at 1 April	1,340	-	-	-
Deferred tax (credit) / charge in the statement of comprehensive income	(373)	-	2	-
Acquisition of subsidiaries	2,236	1,340	-	-
Total deferred tax	3,203	1,340	2	-

Deferred tax arising on acquisition includes £0.2 million for GeoLang Holdings Limited and £2.0 million for Brookcourt Solutions Limited which has arisen as part of the PPA exercise to identify intangible assets (the acquisitions generated the £1.3 million balance in the comparative year.

Management have noted an error relating to prior year deferred tax liability to the sum of £0.5m. As a result, prior year financial statements have been restated with the deferred tax liability reduced by £0.5 million and goodwill arising on the acquisition of SecurEnvoy Limited reduced by £0.5 million.

	Group		Company	
	2019 £ (000)	2018 £ (000)	2019 £ (000)	2018 £ (000)
Current assets				
Deferred tax asset on losses carried forward	665	-	-	-
Total deferred tax asset	665	-	-	-

As detailed in last year's financial statements the Group is expected to generate its first taxable profits in the financial year to 31 March 2020. A deferred tax asset has subsequently been recognised at 31 March 2019 for the Directors' estimate of tax losses and other temporary timing differences expected to be utilised during the next financial year.

17. Long term deferred consideration

	Group		Company	
	2019 £ (000)	2018 £ (000)	2019 £ (000)	2018 £ (000)
Liability at 1 April	-	-	-	-
Holdback consideration shares	206	-	206	-
	206	-	206	-

The above balance represents holdback consideration shares for the acquisition of GeoLang Holdings Limited. This consideration will be settled by issue of 12,960,179 ordinary shares in April 2020 pending expiry of the warranty claims period under the GeoLang share purchase agreement.

18. Share capital

In thousands of shares	Ordinary shares	
	2019	2018
In issue at 1 April	964,359	535,250
Options exercised during the year	1,093	-
Share issue as part of acquisition consideration	451,039	203,621
Share issue for deferred consideration	612	-
Share placing and open offer	486,862	225,488
	1,903,965	964,359
	2019	2018
	£ (000)	£ (000)
Allotted, called up and fully paid		
Ordinary shares of £0.01 each	19,040	9,644

The following issues of shares were undertaken in the twelve-month period ended 31 March 2019:

18. Share capital continued

On 4 April 2018, 30,205,571 new ordinary shares of 1p were issued to the shareholders of GeoLang Holdings Limited at a price of £0.04 per share to satisfy the share consideration as part of the acquisition, which wasn't subject to holdback for the duration of the warranty claims period. The fair value per share on acquisition was £0.0265.

On 16 October 2018, 463,000,000 new ordinary shares of 1p were issued to new and existing investors at a placing price of £0.036 per share raising gross cash proceeds of £16.7 million. In addition, a further 23,861,564 new ordinary shares of 1p were issued to existing shareholders by way of an open offer at a price of £0.036 per share raising gross cash proceeds of £0.9 million. The £17.6 million aggregated gross cash proceeds were used to part satisfy the £15.15 million of net cash consideration paid to the shareholders of Brookcourt, which was acquired by the Group on 17 October 2018 plus certain acquisition costs. The fair value per share on acquisition was £0.0365.

On the same day, a further 420,833,333 new ordinary shares of 1p were issued to the shareholders of Brookcourt at a price of £0.036 per share to satisfy the share consideration as part of the acquisition.

On 7 December 2018, 612,017 new ordinary shares of 1p were issued to the previous owners of Newable Consulting at a price of £0.0343 to settle the remaining deferred consideration following the achievement of certain performance criteria as per the asset purchase agreement.

On 18 June 2018, Giles Willits exercised 521,739 options following which the Company issued an allotted 521,739 new ordinary shares of 1p to him.

During the year a further 571,428 options were exercised by an advisor to the Group.

Other reserves included:

Share premium

This comprises of the amount subscribed for share capital in excess of the nominal value less any transaction costs incurred in raising equity.

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 relating to Plymouth Minerals (see note 12).

Other reserves

These comprise of amounts expenses in relation to the share incentive scheme (see note 19) and merger relief from shares issued as consideration to acquisitions.

19. Share based payments

	Group	
	2018/19	2017/18
	£ (000)	£ (000)
Share options	139	166
Subsidiary incentive scheme	200	200
	339	366

19. Share based payments continued

Share options

The following options over ordinary shares remained outstanding at 31 March 2019:

	options at 1 April 2018	Options issued during the year	Options lapsed during the year	Options exercised during the year	Options at 31 March 2019	Exercise price	Date of grant	first date of exercise	Final date of exercise
Options' -									
Directors									
G Willits	521,739	0	0	521,739	0	1.0p	09/12/2016	09/12/2017	30/06/2018
P McFadden	0	875,000	0	0	875,000	4.0p	07/05/2018	07/05/2019	30/09/2023
Employees:									
Employees	6,950,000	0	1,446,671	0	5,503,329	4.0p	09/05/2017	09/05/2018	08/05/2022
Employees	1,500,000	0	1,500,000	0	0	4.0p	28/09/2017	28/09/2018	27/09/2022
Employees	4,557,692	0	105,769	0	4,451,923	4.0p	13/11/2017	13/11/2018	12/11/2022
Employees	500,000	0	393,680	0	106,320	4.0p	08/01/2018	08/01/2019	07/01/2023
Employees	1,928,500	0	375,000	0	1,553,500	4.0p	01/03/2018	01/03/2019	28/02/2023
Employees	0	2,750,000	0	0	2,750,000	4.0p	04/04/2018	04/04/2019	03/04/2023
Employees	0	8,277,778	0	0	8,277,778	3.6p	17/10/2018	31/03/2019	30/09/2021
Employees	0	4,444,444	0	0	4,444,444	3.6p	17/10/2018	31/03/2019	30/04/2024
Employees	0	1,250,000	0	0	1,250,000	1.6p	01/03/2019	01/03/2020	01/07/2024
Non-employees									
Other	2,000,000	0	0	0	2,000,000	1.0p	03/10/2016	03/10/2016	03/10/2021
Other	857,143	0	0	571,428	285,715	1.0p	27/02/2017	27/02/2018	31/03/2020
Total	18,815,074	17,597,222	3,821,120	1,093,167	31,498,009				

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

	options at 1 April 2017	Options issued during the year	Options lapsed during the year	Options exercised during the year	Options at 31 March 2018	Exercise price	Date of grant	first date of exercise	Final date of exercise
Options' -									
Directors									
G Willits	521,739	0	0	0	521,739	1.0p	09/12/2016	09/12/2017	30/06/2018
Employees:									
Employees	0	6,950,000	0	0	6,950,000	4.0p	09/05/2017	09/05/2018	08/05/2022
Employees	0	1,500,000	0	0	1,500,000	4.0p	28/09/2017	28/09/2018	27/09/2022
Employees	0	4,557,692	0	0	4,557,692	4.0p	13/11/2017	13/11/2018	12/11/2022
Employees	0	500,000	0	0	500,000	4.0p	08/01/2018	08/01/2019	07/01/2023
Employees	0	1,928,500	0	0	1,928,500	4.0p	01/03/2018	01/03/2019	28/02/2023
Non-employees									
Other	2,000,000	0	0	0	2,000,000	1.0p	03/10/2016	03/10/2016	03/10/2021
Other	857,143	0	0	0	857,143	1.0p	27/02/2017	27/02/2018	31/03/2020
Total	3,378,882	15,436,192	0	0	18,815,074				

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

	2018/19		2017/18	
	Number	WAEP Pence	Number	WAEP Pence
Outstanding at the beginning of year	18,815,074	3.4	3,378,882	0.6
Issued	17,597,222	3.5	15,436,192	4.0
Lapsed during the year	3,821,120	4.0	-	-
Outstanding at 31 March	31,498,009	3.5	18,815,074	3.4
Exercised during the year ended 31 March	1,093,167	1.0	-	-
Exercisable at 31 March	4,579,269	2.7	3,378,882	0.6

19. Share based payments continued

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:

	2018/19	2017/18
Share price at grant date	1.6p to 4.3p	1.9p to 7.4p
Exercise price	1.0p to 4.0p	1.0p to 4.0p
Expected option life (year)	1 years to 6.0 years	0 years to 6.0 years
Expected volatility (%)	10.6% to 40%	10.6% to 80.0%
Expected dividends	0%	0%
Risk-free interest rate (%)	0.79% to 1.53%	0.79% to 3.00%
Option fair value	0.0p to 2.9p	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 2019 was £139k (2017/18: £166k).

This represented £139k in respect of share options and £nil in respect of share-based compensation (2017/18: £88k in respect of share options and £78k 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, new scheme options shares issued prior to April 2018 (bar those issued to the SecurEnvoy participants) have been issued utilising the 5-year volatility rate for the AIM all share index. All new scheme option shares issued from April 2018 onwards have been issued utilising a 40% volatility rate, which is in line with other market participants operating in the software and IT sectors.

Options held by Directors are disclosed in the Directors Report on pages 13 to 14.

The market price of shares as at 31 March 2019 was 1.59p (2017/18: 2.78p). The range during the financial year was 1.375p to 6.2p. At the date of signing the financial statements the share price was 1.98p.

The weighted average remaining contractual life of options outstanding at the end of the year was 4 years 8 months (2017: 4 years and 5 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 2018	Number of incentive shares 31 March 2019	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	65,000	0	£74,972
G Willits	3.5%	£0.032	£0.000001	35,000	0	0	£6,100

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 £199,560 (2018: £199,560) 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.

20. Financial instruments

The Group uses financial instruments, other than derivatives, comprising cash at bank and various items such as trade and other receivables and 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.

The Group's financial assets and liabilities at 31 March 2018 are presented in accordance with IAS 39. Under IFRS 9 the loans and receivables category of financial asset is renamed financial assets at amortised cost, and the available for sale category of financial asset is renamed fair value through other comprehensive income "FVOCI".

The Group's financial assets and liabilities at 31 March 2019, as defined under IFRS 9, are as follows. The fair values of financial assets and liabilities recorded at amortised costs are considered to approximate their book value.

	Amortised cost (loans and receivables)		Fair value through other comprehensive income (available for sale)	
	2019 £ (000)	2018 £ (000)	2019 £ (000)	2018 £ (000)
Financial assets				
Cash and cash equivalents	597	2,493	-	-
Trade and other receivables	13,512	1,632	-	-
Equity investments	-	-	33	51
Total financial assets	14,109	4,125	33	51

	Amortised cost	
	2019 £ (000)	2018 £ (000)
Financial liabilities		
Trade and other payables	10,384	1,186
Loans	4,407	-
Deferred consideration	343	67
Total financial liabilities	15,134	1,253

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.

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.

20. Financial instruments continued

The Group is exposed to financial risks in respect of:

- Capital risk;
- Foreign currency;
- Interest rates;
- Credit risk; and
- Liquidity risk.

A description of each risk, together with the policy for managing risk, is given below.

Capital risk

The Group manages its capital to ensure that the company and its subsidiaries will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of equity and debt balances.

The capital structure of the Group consists of cash and cash equivalents, borrowings, equity, comprising issued capital, reserves and accumulated losses as disclosed in the consolidated statement of changes in equity on page 25.

The Board of directors reviews the capital structure on a regular basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital, against the purpose for which it is intended.

The Group utilise a debt finance facility to fund further growth which has short term working capital requirements. Debt is also secured to support the on-going operations and future growth of the Group.

Market risk

Market risk arises from the Group's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates (currency risk), interest rates (interest rate risk), or other market factors (other price risk).

Foreign 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 predominantly denominated US dollars (\$) and Euros (€). The Group seeks to reduce foreign exchange exposures arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments across the Group in each individual currency. Following the acquisition of Brookcourt the Group exposure to foreign currency risk has changed due to it having a number of clients and suppliers outside of the United Kingdom who trade in non-sterling denominations. The Group does not currently use derivatives to hedge translation exposures arising on the consolidation of its overseas operations.

As of 31 March the Group's net exposure to foreign exchange risk was as follows:

	USD		EUR	
	2019	2018	2019	2018
Net foreign currency financial assets / (liabilities)	£ (000)	£ (000)	£ (000)	£ (000)
Trade receivables	345	34	2,493	135
Trade payables	(6,117)	(15)	(2)	(34)
Cash and cash equivalents	116	181	140	840
Total net exposure	(5,656)	200	2,631	941

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 an increase of the pre-tax loss in the year and a decrease in net assets of £0.5 million. A 10% weakening in the exchange rate would, on the same basis, have decreased the pre-tax loss in the year and increased net assets by £0.4 million.

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 £0.3 million. 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 £0.2 million.

20. Financial instruments continued

Interest rate risk

The Group has minimal cash flow interest rate risk as it has no external borrowings at variable interest rates.

Other market price risk

The Group holds an equity investment in Plymouth Minerals Limited (ASX: INF) listed on the Australian Securities Exchange which it received in relation to the legacy mining operations. The directors believe that the exposure to market price risk from this asset is acceptable in the Group's circumstances.

The effect of a 10% increase in the value of the equity investments held at the reporting date would, all other variables held constant, have resulted in an increase in the fair value through other comprehensive income reserve and net assets of £0.003 million (2018: £0.004 million). A 10% decrease in their value would, on the same basis, have decreased the fair value through other comprehensive income reserve and net assets by the same amount.

Liquidity risk

The Group manages liquidity risk by maintaining adequate cash reserves and credit facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities wherever possible. There has been no change to the Group's exposure to liquidity risks or the manner in which these risks are managed and measured during the year. Further details are provided in the Strategic Report.

The liquidity risk of each Group entity is managed centrally by the Group's finance function. Each entity has a predefined facility 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 has a £153,900 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 £27,903 was utilised. Brookcourt Solutions, one of the Group's wholly owned subsidiaries also has an invoice discounting facility with a limit of £2 million. At the year end, £1.3 million was utilised.

The maturity profile of the financial liabilities is summarised below. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Up to 3 months £ (000)	Between 3 and 12 months £ (000)	Between 1 and 2 years £ (000)	Between 2 and 5 years £ (000)	Over 5 years £ (000)
As at 31 March 2019					
Trade and other payables	9,791	593	-	-	-
Loans and borrowings	1,271	3,136	-	-	-
Total	11,062	3,729	-	-	-

	Up to 3 months £ (000)	Between 3 and 12 months £ (000)	Between 1 and 2 years £ (000)	Between 2 and 5 years £ (000)	Over 5 years £ (000)
As at 31 March 2018					
Trade and other payables	1,006	6	-	-	-
Total	1,006	6	-	-	-

Credit risk

The group's principal financial assets are trade 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 also reviews the credit rating of its banks and financial institutions.

Ongoing review of the financial condition of trade and other receivables is performed. Further details are in note 14. The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk. Whilst the acquisition of Brookcourt has changed Group's exposure to credit risk due to the size of its trade receivables the Brookcourt has a track record of minimal bad debt owing to the type of clients it contracts with as well as effective due-diligence when issuing debt to its clients.

20. Financial instruments continued

For company, the credit risk mainly relates to the risk that amounts owed by the Group companies are not recoverable. Directors' believe that sufficient expected credit loss provision has been made against the exposure.

21. Financial Commitments

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

	Group		Company	
	2018/19 £ (000)	2017/18 £ (000)	2018/19 £ (000)	2017/18 £ (000)
Land and buildings				
- One year	379	199	112	199
- Between two and five years	326	-	-	-
	705	199	112	199

	Group		Company	
	2018/19 £ (000)	2017/18 £ (000)	2018/19 £ (000)	2017/18 £ (000)
Acquisition costs				
- One year	-	105	-	105
	-	105	-	105

22. Related party transactions

On 16 October 2018, David Williams, Michael Stevens and Stephen Ball subscribed for new ordinary shares of 1p at a placing price of £0.036 as part of the placing through which gross proceeds were raised to part satisfy the cash consideration paid to the shareholders of Brookcourt. David Williams subscribed for ordinary shares at a value of £0.3 million and the other fore mentioned Directors 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. Giles Willits, who was an independent director for those purposes at the time of the transaction, considered, having consulted with Cenkos Securities, 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 2019 are disclosed in events after the reporting date note below. (note 22).

The Company made recharges totalling £1,378,432 (2017/18: £1,212,957) to it's fellow group undertakings in respect of management services and recharges: SecurEnvoy £576,175 (2017/18: £548,990), Xcina Consulting £314,368 (2017/18: £287,543), Xcina Limited £472,247 (2018: £401,107), GeoLang Limited £15,642 (2018: Nil).

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

Shearwater Subco Limited £ (5,120)
 SecurEnvoy Limited £ (2,175,369)
 Xcina Consulting Limited £ 877,679
 Xcina Limited £ 2,976,321
 GeoLang Limited £390,642
 Brookcourt Solutions Limited £ (5,927,704)

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 9 April 2019, the Group acquired the entire share capital of Pentest Newco Limited ("Pentest"), a newly incorporated company which contained certain intangible assets of Secarma Limited ("Secarma"), one of the UK's leading cyber security testing companies. The consideration for the acquisition was £7.4 million, which was settled through the issuance of 292,292,565 ordinary shares of the Group at an issue price of 2.3 pence per ordinary share to the Secarma shareholders (representing £6.7 million of consideration) and an unsecured loan note of £0.7 million. The loan note is to be repaid to the Seller in tranches on the first and third anniversary of completion of the acquisition. The unsecured loan note will attract interest of 6 per cent. per annum. The acquisition brings an

23. Events after the reporting period

additional service that complements existing businesses within the Group and is in line with the acquisition criteria of the group. This acquisition meets the requirements of IFRS 3 Business Combinations.

On the 12 April 2019, the Group announced that its then Group Chief Executive Officer, Michael Stevens, had agreed to step down from the Board and leave the business with immediate effect. Phil Higgins, the Group's then Executive Director, and founder of Brookcourt Solutions, was appointed Group Chief Executive with immediate effect.

On the 12 June 2019, the Group announced that it had appointed Berenberg as joint broker to the Company, to work alongside Cenkos Securities, the Group's current nominated advisor and broker.

On the 13 June 2019, the Group issued 14,388,567 ordinary shares of the Group to the GeoLang sellers. These additional consideration shares were issued pursuant to the acquisition of GeoLang Holdings Limited announced on 4 April 2018, under which certain provisions were triggered by the share price performance criteria set out in the sale and purchase agreement which were considered unlikely at the point of acquisition.