

**TANFIELD GROUP PLC
REPORT AND FINANCIAL
STATEMENTS 2016**

Registered in England & Wales

Company number 04061965

REPORT AND FINANCIAL STATEMENTS 2016

SUMMARY OF CONTENTS

| | |
|--|----|
| Directors and Advisers | 2 |
| Strategic Report | 3 |
| Directors' Report | 6 |
| Corporate Governance | 7 |
| Directors' Remuneration Report | 8 |
| Statement of Directors' Responsibilities | 10 |
| Report of the Independent Auditor | 11 |
| Statement of Comprehensive Income | 12 |
| Balance Sheet | 13 |
| Statement of Changes in Equity Attributable to Equity Shareholders | 14 |
| Cash Flow Statement | 15 |
| Accounting Policies | 16 |
| Critical Accounting Estimates and Key Judgements | 18 |
| Notes to the Accounts | 19 |

TANFIELD GROUP PLC FINANCIAL STATEMENTS

DIRECTORS AND ADVISERS

DIRECTORS

NON-EXECUTIVE

J Pither

M Groak

D Robinson

Chairman (resigned 31 May 2017)

Non executive Director

Non executive Director (appointed acting Chairman 31 May 2017)

SECRETARY

D Robinson

REGISTERED OFFICE AND ADVISORS

REGISTERED OFFICE

Sandgate House

102 Quayside

Newcastle upon Tyne

NE1 3DX

NOMINATED ADVISOR

WH Ireland

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London

EC4R 0DR

AUDITOR

RSM UK Audit LLP

1 St James' Gate

Newcastle upon Tyne

NE1 4AD

NOMINATED BROKER

WH Ireland

24 Martin Lane

London

EC4R 0DR

SOLICITOR

Ward Hadaway

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Newcastle upon Tyne

NE1 3DX

NOMINATED BROKER

Peterhouse Corporate Finance Plc

3rd Floor

New Liverpool House

15 Eldon Street

London

EC2M 7LD

REGISTRAR

Capita IRG Plc

Bourne House

34 Beckenham

Beckenham

Kent

BR3 4TH

STRATEGIC REPORT

CHAIRMAN'S STATEMENT

During the year we have continued to monitor closely the progress of both of the Company's investments. The Board once again feels that some progress has been made towards a realisation of value in the investment in Snorkel following further growth in 2016. The calculation of the Snorkel valuation was made in 2013 and is based on the formula detailed in the circular that was distributed prior to the disposal of the controlling interest in Snorkel, which expires on 30 September 2018. There is no guarantee that the financial targets required to trigger the realisation of this value will be met before the expiry date. The Board is of the opinion that should the financial targets not be met before the deadline, the current valuation could be a fair reflection of the investment value beyond the end of the 5 year period.

With respect to Smith, however, the Board continue to hold the view that the value of the investment should be nil.

NON-EXECUTIVES' REVIEW

Background

The Company is defined as an investment company with two passive investments. This definition resulted from the disposal of the controlling interest in Smith Electric Vehicles in 2009 and Snorkel in October 2013. Tanfield Group Plc currently owns 5.76% of Smith Electric Vehicles Corp. ("Smith") and 49% of Snorkel International Holdings LLC ("Snorkel").

OVERVIEW

Snorkel

Tanfield continues to own 49% of Snorkel, which it has held since the disposal of the business in October 2013. Sales levels (unaudited) have continued to grow during 2016, increasing by 19% to \$130.5m (2015: \$109.9m / 2014: \$85.3m). Despite market conditions continuing to be challenging, Snorkel has been able to achieve improved market share in targeted regions allowing it to also create a broader and more diverse customer base. This is expected to help underpin further growth expected for 2017, including from large rental companies that have not purchased Snorkel product for a number of years. This is testament to the progress Snorkel has made in recent years and the improvements to the product range, build quality and customer service.

The Snorkel 2016 accounts report an operating loss (unaudited), excluding depreciation, of \$2.8m (2015: \$10.6m / 2014: \$14.9m) with \$1.9m of this loss being incurred in the first quarter of the year and the business operationally breaking even during some of the later periods. The significantly reduced operating loss is partially linked to the increased sales levels but is mainly the result of the focused cost-down activity that has taken place during 2015 and 2016 coming to fruition, thereby reducing the bill of material costs and lowering the break-even sales point.

Despite the challenging trading conditions, the Board understand Snorkel is again targeting double-digit growth in 2017 from their UK manufacturing facility which mainly provides product to the European marketplace. Tanfield are, however, unsure how much growth will come from the US manufacturing facility in 2017, given its dependency upon Ahern Rentals as its principal customer. Nevertheless, as a result of the success of the cost down activity and the double digit European growth expectation, the Board believes Snorkel could still achieve combined growth, as evidenced in the March 2017 quarterly accounts, and move into profit for the full 2017 year, in line with their forecast.

Should economic conditions materially change in the latter stages of 2017, this may have an impact on the expected outcome, but the Tanfield Board is currently of the opinion that the investment in Snorkel will result in a return to shareholders in the future, although it should be noted that this may not materialise until after 30 September 2018 when the outcome then becomes uncertain and could be more or could be less than the calculated realisation value.

Valuation of Snorkel holding: unchanged at £36.3 million

The Board of Tanfield has taken a view of the carrying value of its 49% holding and its preferred interest position that takes account of risks in the industrial global markets and the normal cycles that operate within these markets. The range of potential valuations can be broad, with the added complexity of a time-driven element whereby the agreement for the current valuation formula could only be triggered during a five year period ending in September 2018. The transaction is described below, largely extracted from page 7 of the Circular distributed to Shareholders in 2013 and available from the Company website at <http://www.tanfieldgroup.com> with current values* inserted where appropriate.

Xtreme, by way of its holding in SKL Holdings, entered in to a staged acquisition of the Snorkel Division, via the creation of Snorkel International Holdings, in which Tanfield retains a holding until the consideration terms are fully met. Xtreme has made significant working capital facilities available to Snorkel International Holdings to deliver its growth forecast (currently believed to be approximately \$70m of working capital) and has delivered certain other strategic benefits and synergies to Snorkel International Holdings. Tanfield retains an initial interest in 49% of Snorkel International Holdings and an adjusted preferred interest position of \$22.4m*, in exchange for Xtreme's controlling interest in Snorkel International Holdings. Subject to the Snorkel Division reaching an EBITDA of at least \$25m for any prior 12 month period prior to 30 September 2018, Tanfield can demand payment of this preferred interest which would be paid when Snorkel International Holdings is able to fund such payment and its net debt/EBITDA ratio is less than 2, ultimately reducing Tanfield's interest to 30% and Xtreme will hold 70% of Snorkel International Holdings.*

STRATEGIC REPORT (Continued)

Subject to the payment of the preferred interest, and before 30 September 2018, Tanfield has a "put" option on this remaining holding, whereby SKL Holdings will be obliged to purchase the remaining interest held by Tanfield at an agreed multiple of 5.5 times EBITDA earnings, as at the date of the put, again subject to Snorkel International Holdings being able to fund such a payment. SKL Holdings has a call option on the same commercial terms.

At the end of 2016 there were just under two years left to run on the fixed terms of the agreement. If the formula is not triggered within the 5 year time frame Tanfield will retain a 49% interest in Snorkel but the \$25m EBITDA trigger compelling payment of the \$22.4m adjusted preferred interest position and the Company's put option compelling the purchase of Tanfield's remaining interest in Snorkel will expire.

The Board continues to have discussions with Snorkel and remain of the view that Don Ahern, the owner of Xtreme, would wish to one day own 100% of Snorkel and will therefore seek to buy Tanfield's holding in Snorkel at some point in the future.

The Board has considered a number of scenarios and, based on the range of possible outcomes, feel the valuation of £36.3m should be maintained. This valuation has been assessed against various criteria, including past performance, production capacity, market conditions, the capability of the business to increase output and exchange rate fluctuations.

The original valuation was based on the assumption that the \$25m EBITDA target would be reached within the 5 year period. Whilst that target now seems increasingly unlikely to be achieved, if the assumption is made that both the progress within Snorkel and the wider global market conditions will continue to improve, then the current £36.3m valuation could still be a fair reflection of the investment value beyond the 5 year period; with the caveat that a number of factors could influence the valuation and performance of Snorkel between now and a potential realisation date beyond September 2018, including Xtreme's negotiating stance. Therefore, the actual value that might be realised could be more or less than the current valuation.

The Board would like to draw your attention to the Auditors' report on page 11 in which they have also highlighted this uncertainty.

The Board will continue to monitor the investment and is reviewing the original agreements with its advisers to ensure it has an accurate understanding of the position post September 2018 should the EBITDA target not be achieved beforehand.

Smith

In October 2014 Smith completed a restructuring exercise that saw it convert debt to equity. As a result of this, they informed the Company that its equity shareholding had reduced from 24% to 5.76% (excluding warrants).

Since then, Smith has sought to raise funds which would allow it to implement its strategic plan. To date, no significant fundraise has been completed and the Board of Tanfield does not foresee this happening in the immediate future.

In May 2015 Smith executed a conditional agreement to form an exclusive joint venture with strategic partner and investor FDG Electric Vehicles Limited ("FDG"). In May 2016, the Board of Tanfield was informed that Smith had filed a complaint against FDG and the New Joint Venture. The Board of Tanfield understands that counter-claims have been made against Smith and that legal procedures are ongoing.

Valuation of Smith holding

In 2015, the Board of Directors carried out a review of the investment in Smith resulting in a decision to impair the investment value to nil. The Board came to this decision due to funding uncertainties as well as the legal proceedings between Smith and FDG.

We understand that legal proceedings are ongoing and that Smith have not been able to raise any meaningful funds since that time and so the Board maintain its opinion that the investment value should be held at nil.

Strategy of Tanfield Board of Directors in relation to its Investments

Although the Board cannot predict the timeframe for a return of value in its investment in Snorkel, the Directors believe that it will result in a return of value to shareholders over time. In contrast, at this stage it does not look likely that its investment in Smith will result in a return of value to shareholders.

The Directors will update shareholders should this view change.

The strategy of the Company in relation to these investments is to return as much as possible of any realised value to shareholders as events occur and circumstances allow, subject to compliance with any legal requirements associated with such distributions.

The Board takes the view that while there has been further progress made by Snorkel, there is still a risk of failure, although based on progress to date and commitments from Don Ahern / Xtreme, this seems unlikely. The Board will continue to fulfill its obligation to its shareholders in seeking to optimise the value of its investments.

The Investments are defined as passive investments and in line with this definition Tanfield does not hold Board seats in either Snorkel or Smith. There is no limit on the amount of time the existing Investments may be held by the Company.

Finance expense and income

The interest cost in the period of £13k (2015: £54k) was incurred from loan interest charged during the period and interest income of £1k (2015: £1k) received on bank balances.

TANFIELD GROUP PLC FINANCIAL STATEMENTS

STRATEGIC REPORT (Continued)

Loss from operations

Loss from operations after impairment was £0.2m, (2015: £4.4m), the most significant difference being the £4.8m impairment of the investment in Smith in 2015.

Loss per share

Loss per share from continuing operations was 0.2 pence (2015: 3.1 pence). No dividend has been declared. (2015: nil)

Cash

At 31 December 2016, the Company had cash of £0.3m (2015: £0.1m).

Risks and uncertainties

The business believes it has sufficient cash funds to continue in business beyond June 2018. There is no guarantee that a realisation of value from one of its investments will happen before then and the Board will closely monitor progress. It recognises that its investments have a level of risk associated with them and is reliant on the continued performance within their respective markets.

KPI's

The Board do not use any KPI's to monitor the performance of the business.

Approved by the Board of Directors and signed on behalf of the Board

Daryn Robinson
Non-Executive Director
29 June 2017

TANFIELD GROUP PLC FINANCIAL STATEMENTS

DIRECTORS' REPORT

The directors submit their report and the financial statements of Tanfield Group PLC for the year ended 31 December 2016.

Tanfield Group Plc is a public listed company incorporated and domiciled in England and quoted on AIM.

PRINCIPAL ACTIVITIES

The company's principal activity is that of an investment company.

RESULTS AND DIVIDENDS

The financial result, for the year to 31 December 2016 reflects the principal activity of the company being that of an investment company.

Turnover for the year was nil (2015: nil). The operating loss before impairments in the year of £0.2m (2015: £0.4m profit) arose from operating costs. The prior year profit resulted from the reversal of a provision that was no longer required.

The balance sheet remains consistent with total assets at the end of the year of £36.6m (2015: £36.5m). Net Current Assets were £0.2m (2015: £0.1m) with cash balances of £0.3m (2015: £0.1m). The directors believe the Company has sufficient working capital to allow it to continue beyond June 2018.

No dividend has been paid or proposed for the year (2015: £nil). The loss of £0.2m (2015: £4.4m) has been transferred to reserves.

FINANCIAL INSTRUMENTS

The Company's financial instruments comprise cash, current debtors and current and non current creditors arising from its operations. The principal financial instruments used by the Company are cash balances raised from share issues by the Company. The Company has not established a formal policy on the use of financial instruments but assesses the risks faced by the Company as economic conditions and the Company's operations develop.

DIRECTORS

The present membership of the board is set out on page 2.

All directors have the right to acquire shares in the company via the exercise of options granted under the terms of their service contracts, copies of which may be inspected by shareholders upon written application to the company secretary. Details of the directors' options to acquire shares are set out in the Directors' Remuneration Report on pages 8 to 9.

POLICY ON PAYMENT OF CREDITORS

It is Company policy to agree and clearly communicate the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based on the timely receipt of an accurate invoice. The company supports the CBI Prompt Payers Code. A copy of the code can be obtained from the CBI at Centre Point, 103 New Oxford Street, London WC1A 1DU.

Trade creditor days based on creditors at 31 December 2016 were 48 days (2015: 58 days).

SUBSTANTIAL SHAREHOLDINGS

On 31 December 2016 the following held substantial shares in the company. No other person has reported an interest of more than 3% in the ordinary shares.

| | No. | % |
|---------------------------------|------------|--------|
| HSBC GLOBAL CUSTODY NOMINEE | 46,337,197 | 29.64% |
| CHASE NOMINEES LIMITED | 21,166,792 | 13.54% |
| AURORA NOMINEES LIMITED | 14,566,045 | 9.32% |
| VIDACOS NOMINEES LIMITED | 12,234,421 | 7.83% |
| THE BANK OF NEW YORK (NOMINEES) | 10,621,200 | 6.79% |
| RATHBONE NOMINEES LIMITED | 7,087,279 | 4.53% |
| FOREST NOMINEES LIMITED | 6,174,063 | 3.95% |
| LYNCHWOOD NOMINEES LIMITED | 5,561,841 | 3.56% |

DIRECTORS' INTEREST IN CONTRACTS

No director had a material interest at any time during the year in any contract of significance, other than a service contract, with the company or any of its subsidiary undertakings.

AUDITOR

A resolution to reappoint RSM UK Audit LLP as auditor will be put to the members at the annual general meeting. RSM UK Audit LLP has indicated its willingness to continue in office.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

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

DIRECTORS INDEMNITY

Every Director shall be indemnified by the company out of its own funds.

Approved by the Board of Directors and signed on behalf of the Board

Daryn Robinson
Non-Executive Director
29 June 2017

CORPORATE GOVERNANCE

Principles of Corporate Governance

The Company is committed to high standards of corporate governance. The board is accountable to the Company's shareholders for good corporate governance. The Company has complied substantially throughout the period with the corporate governance guidelines for smaller quoted companies issued by the Quoted Company Alliance and details are provided below.

The role of the Board is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board sets the company's strategic aims, ensures that the necessary financial and human resources are in place for the company to meet its objectives and reviews management performance. The Board sets the company's values and standards and ensures that its obligations to its shareholders and others are understood and met.

Board Structure

During the year the Board comprised of the Non-Executive Chairman and two independent Non-Executive Directors.

Board Role

The Board is responsible to shareholders for the proper management of the Company. The Non-Executive Directors have a particular responsibility to ensure that the strategy is fully considered. To enable the Board to discharge its duties, all Directors have full and timely access to all relevant information and there is a procedure for all Directors, in furtherance of their duties, to take independent professional advice, if necessary, at the expense of the Company. The Board has a formal schedule of matters reserved to it. The Board met on six separate occasions in the year.

Appointment and Induction of Directors

The composition of the Board is kept under review with the aim of ensuring that the directors collectively possess the necessary skills and experience to direct the Company's business activities.

Board Committees

The Board delegates certain matters to its two principal committees, which deal with remuneration and audit.

Remuneration Committee

During the year the Remuneration Committee comprised of Jon Pither and Daryn Robinson. The Remuneration Committee determined and agreed with the Board the framework of remuneration for the Non-Executive Directors. There was one remuneration committee meeting in the period which was fully attended. The report on Directors' remuneration is set out on pages 8 to 9.

Audit Committee

During the year the Audit Committee comprised of Martin Groak and Jon Pither.

The Audit Committee is responsible for:

- Reviewing the scope of external audit, to receive reports from RSM UK Audit LLP.
- Reviewing the half-yearly and annual accounts prior to their recommendation to the Board.
- Reviewing the Company's internal financial controls and risk management systems and processes.
- Making recommendations on the appointment, re-appointment and removal of external auditors and approving the terms of engagement.
- Reviewing the nature of the work and level of fees for non-audit services provided by the external auditors.
- Assessing the independence, objectivity and effectiveness of the external auditor.

The committee met on two occasions during the year and they were fully attended.

Internal Control

The Board has overall responsibility for the Company's system of internal control and risk management and for reviewing the effectiveness of this system. Such a system can only be designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can therefore only provide reasonable, and not absolute assurance against material misstatement or loss.

The Board is of the view that due to the current size and composition of the Company, that it is not necessary to establish an internal audit function.

Relations with Shareholders

The Company values its dialogue with both institutional and private investors. Effective two-way communication with fund managers, institutional investors and analysts is actively pursued and this encompasses issues such as performance, policy and strategy.

Private investors are encouraged to participate in the Annual General Meeting at which the Chairman presents a review of the results and comments on current business activity. The Chairmen of the Audit and Remuneration Committees will be available at the Annual General Meeting to answer any shareholder questions.

Notice of the Annual General Meeting will be issued in due course.

Going Concern

The directors confirm that they are satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Daryn Robinson
Non-Executive Director
29 June 2017

DIRECTORS' REMUNERATION REPORT

Remuneration committee

The company has established a Remuneration Committee which is constituted in accordance with the recommendations of the Combined Code. The members of the committee during the year were J Pither and D Robinson and the committee was chaired by J Pither.

Remuneration policy

There were four main elements of the remuneration packages for directors:

- Basic annual salary (including directors' fees) and benefits;
- Annual bonus payments;
- Share option incentives; and
- Pension arrangements.

Basic salary

The basic salary of the directors is reviewed annually having regard to the commitment of time required and the level of fees in similar companies. Non-executive directors are employed on renewable fixed term contracts not exceeding three years. Remuneration levels have been held at the reduced values agreed in December 2015.

Annual bonus

The committee established the objectives which must be met for each financial year if a cash bonus was to be paid. The purpose of the bonus was to reward directors for achieving above average performance which also benefits shareholders.

Share options

The directors have options granted to them under the terms of the Share Option Scheme. There are no performance conditions attached to the share options. Share options were awarded as set out in the table on page 9.

Pension arrangements

Some directors were members of a money purchase pension scheme to which the company contributed.

Directors interests

The interests of directors holding office at the year end in the company's ordinary 5p shares at 31 December 2016 and 1 January 2016 are shown below:

| | Number of shares | |
|--------------|------------------|------------------|
| | 2016 | 2015 |
| M Groak | - | - |
| J Pither | 1,542,553 | 1,403,248 |
| D Robinson | 942,785 | 546,740 |
| Total | 2,485,338 | 1,949,988 |

The directors, as a group, beneficially own 1.59% of the company's shares.

All directors have the right to acquire shares in the company via the exercise of options granted under the terms of their service contracts, copies of which may be inspected by shareholders upon written application to the company secretary.

DIRECTORS' REMUNERATION REPORT (continued)

Remuneration review

Directors emoluments for the financial year were as follows:

| | Salary 2016 £000's | Pension 2016 £000's | Total 2016 £000's | Salary 2015 £000's | Pension 2015 £000's | Total 2015 £000's |
|--------------------------|--------------------------|---------------------------|-------------------------|--------------------------|---------------------------|-------------------------|
| RRE Stanley ^a | - | - | - | 43 | 16 | 59 |
| M Groak | 20 | - | 20 | 35 | - | 35 |
| J Pither | 24 | - | 24 | 39 | - | 39 |
| D Robinson | 41 | - | 41 | 4 | - | 4 |
| Total | 85 | - | 85 | 121 | 16 | 137 |

^a RRE Stanley resigned on 17 November 2015

Directors share options held at 31 December 2016 were as follows:

| | 31 December 2015 | Granted/ (Lapsed) | Exercised | 31 December 2016 | Option price per share ^a | Date from which normally exercisable | Expiry Date |
|----------------------|---------------------|----------------------|-----------|---------------------|---|--|-------------|
| M Groak ^b | 200,000 | - | - | 200,000 | 5p | 02/01/2010 | 02/01/2017 |
| M Groak | 30,000 | (30,000) | - | - | 5p | 01/03/2009 | 01/03/2016 |
| M Groak | 100,000 | - | - | 100,000 | 27p | 02/02/2015 | 02/02/2020 |
| J Pither | 100,000 | - | - | 100,000 | 27p | 02/02/2015 | 02/02/2020 |
| D Robinson | 100,000 | - | - | 100,000 | 27p | 02/02/2015 | 02/02/2020 |
| Total | 530,000 | (30,000) | - | 500,000 | | | |

^a On 31 December 2016 the market price of the ordinary shares was 15.25p. The range during 2015 was 9.31p to 16.25p

^b On 2 January 2017 the option lapsed

Approval

This report was approved by the board of directors and authorised for issue on 29 June 2017 and signed on its behalf by:

Daryn Robinson
Non-Executive Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, Directors' Report, Corporate Governance Report and Directors' Remuneration 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 financial statements of the company in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

The financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the company. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and accounting estimates that are reasonable and prudent;
- c. state whether they have been prepared in accordance with IFRS as adopted by the EU;
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Tanfield Group Plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

REPORT OF THE INDEPENDENT AUDITOR

Independent auditor's report to the members of Tanfield Group PLC

Opinion on the financial statements

We have audited the financial statements on pages 12 to 24. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the provisions of the Companies Act 2006.

Emphasis of matter - Carrying value of non-current investment

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in the Accounting Policies and note 6 to the financial statements concerning the carrying value of the company's £36m investment in Snorkel International Holdings LLC. The Accounting Policies set out the basis whereby the Directors have considered the fair value of the investment and the assumptions made therein. The timing of when the company will be able to realise its interest in Snorkel and the sum to be realised are both dependent on the underlying trading performance of Snorkel over the period to September 2018 over which the Directors have no control and the sum realised may be more or less than the current carrying value. The Directors continue to discuss the realisation process with the majority shareholders of Snorkel and take appropriate professional advice on this matter. These conditions indicate the existence of a material uncertainty that could impact the carrying value of Non Current Asset Investments. The ultimate outcome of this material uncertainty cannot presently be determined and as a result the financial statements do not include any adjustments that would result if any of the assumptions made by the Board were incorrect.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at <http://www.frc.org.uk/auditscopeukprivate>

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and, based on the work undertaken in the course of our audit, the Strategic report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' report.

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

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

Respective responsibilities of directors and auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

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

ANDREW ALLCHIN (Senior Statutory Auditor)
For and on behalf of RSM UK AUDIT LLP, Statutory Auditor
Chartered Accountants
1 St James' Gate
Newcastle upon Tyne
NE1 4AD

29 June 2017

TANFIELD GROUP PLC FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

| | Notes | 2016 £000's | 2015 £000's |
|---|-------|----------------|----------------|
| Revenue | | - | - |
| Staff costs | 1 | (85) | 618 |
| Other operating income | | 30 | 27 |
| Other operating expenses | 3 | (182) | (268) |
| (Loss)/Profit from operations before impairments | | (237) | 377 |
| Impairment of Investments | | - | (4,770) |
| Loss from operations after impairments | | (237) | (4,393) |
| Finance expense | 2 | (13) | (54) |
| Finance income | 2 | 1 | 1 |
| Net finance expense | | (12) | (53) |
| Loss from operations before tax | | (249) | (4,446) |
| Taxation | 4 | - | - |
| Loss & total comprehensive income for the year attributable to equity shareholders | | (249) | (4,446) |
| Earnings per share | | | |
| Loss per share from operations | | | |
| Basic (p) | 5 | (0.2) | (3.1) |
| Diluted (p) | 5 | (0.2) | (3.1) |

TANFIELD GROUP PLC FINANCIAL STATEMENTS

BALANCE SHEET (Company registration number 04061965)

AS AT 31 DECEMBER 2016

| | Notes | 2016 £000's | 2015 £000's |
|---|-------|----------------|----------------|
| Non current assets | | | |
| Non current Investments | 6 | 36,283 | 36,283 |
| | | 36,283 | 36,283 |
| Current assets | | | |
| Trade and other receivables | 8 | 61 | 98 |
| Cash and cash equivalents | 7 | 269 | 94 |
| | | 330 | 192 |
| Total assets | | 36,613 | 36,475 |
| Current liabilities | | | |
| Trade and other payables | 9 | 91 | 110 |
| | | 91 | 110 |
| Non-current liabilities | | | |
| Other payables | 9 | - | 254 |
| | | - | 254 |
| Total liabilities | | 91 | 364 |
| Equity | | | |
| Share capital | 10 | 7,816 | 7,546 |
| Share premium | 10 | 17,190 | 16,800 |
| Share option reserve | | 459 | 461 |
| Special reserve | | 66,837 | 66,837 |
| Merger reserve | | 1,534 | 1,534 |
| Retained earnings | | (57,314) | (57,067) |
| Total equity attributable to equity shareholders | | 36,522 | 36,111 |
| Total equity and liabilities | | 36,613 | 36,475 |

The financial statements on pages 12 to 24 were approved by the board of directors and authorised for issue on 29 June 2017 and are signed on its behalf by:

Daryn Robinson
Non-Executive Director

STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS

FOR THE YEAR ENDED 31 DECEMBER 2016

| | Share capital | Share premium | Share option reserve | Merger reserve | Special reserve ^a | Retained earnings | Total |
|--|---------------|---------------|----------------------|----------------|------------------------------|-------------------|----------------|
| | £000's | £000's | £000's | £000's | £000's | £000's | £000's |
| At 1 January 2015 | 7,187 | 16,455 | 845 | 1,534 | 66,837 | (53,005) | 39,853 |
| Comprehensive income | | | | | | | |
| Loss for the year | - | - | - | - | - | (4,446) | (4,446) |
| Total comprehensive income for the year | - | - | - | - | - | (4,446) | (4,446) |
| Transactions with owners in their capacity as owners:- | | | | | | | |
| Issuance of new shares (note 10) | 359 | 345 | - | - | - | - | 704 |
| Share based payments (note 11) | - | - | (384) | - | - | 384 | - |
| At 31 December 2015 | 7,546 | 16,800 | 461 | 1,534 | 66,837 | (57,067) | 36,111 |
| Comprehensive income | | | | | | | |
| Loss for the year | - | - | - | - | - | (249) | (249) |
| Total comprehensive income for the year | - | - | - | - | - | (249) | (249) |
| Transactions with owners in their capacity as owners:- | | | | | | | |
| Issuance of new shares (note 10) | 270 | 390 | - | - | - | - | 660 |
| Share based payments (note 11) | - | - | (2) | - | - | 2 | - |
| At 31 December 2016 | 7,816 | 17,190 | 459 | 1,534 | 66,837 | (57,314) | 36,522 |

^a The company's special reserve relates to a previous reclassification of the share premium account.

TANFIELD GROUP PLC FINANCIAL STATEMENTS

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

| | 2016 £000's | 2015 £000's |
|---|----------------|----------------|
| Loss before interest and taxation | (237) | (4,393) |
| Loss on impairment of investments | - | 4,770 |
| Operating cash flows before movements in working capital | (237) | 377 |
| Decrease/(increase) in receivables | 25 | (25) |
| Decrease in payables | (273) | (1,331) |
| Net cash from/(used in) operations | (485) | (979) |
| Cash flow from financing activities | | |
| Proceeds from issuance of ordinary shares net of costs | 660 | 704 |
| Net cash from financing activities | 660 | 704 |
| Net decrease in cash and cash equivalents | 175 | (275) |
| Cash and cash equivalents at the start of year | 94 | 369 |
| Cash and cash equivalents at the end of the year | 269 | 94 |

ACCOUNTING POLICIES

(i) Basis of preparation of the financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS"), IFRIC interpretations and the requirements of the Companies Act applicable to Companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, modified for the revaluation of certain financial assets and liabilities at fair value.

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed below in "Critical accounting estimates and key judgements".

(ii) Going Concern

The financial statements have been prepared on the going concern basis, which assumes that the Company will continue to be able to meet its liabilities as they fall due for the foreseeable future. At 31 December 2016 the Company had cash balances of £0.3m and is debt free.

The Directors are confident that the cash balances will be sufficient to see the Company continue for a minimum of 12 months, or until it realises the value of one of its investments, and that the assumptions underlying their opinion are reasonable and that the Company will be able to operate within its cash balances. Having taken the uncertainties into account the Board believes that it is appropriate to prepare the financial statements on the going concern basis. The financial statements do not include any adjustment to the value of the balance sheet assets or provisions for further liabilities, which would result should the going concern assumption not be valid.

(iii) Foreign currencies

Transactions in currencies other than sterling, the presentational currency of the company, are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the income statement for the period, except for exchange differences on non-monetary assets and liabilities, which are recognised directly in equity.

(iv) Share based payments

The Company issues equity-settled share based payments to certain employees and has applied the requirements of IFRS2 "Share-based payments".

Equity settled share-based payments are measured at fair value at the date of the grant. Fair value is measured using a Black-Scholes model.

The fair value is expensed on a straight line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

(v) Borrowing costs

All borrowing costs are expensed in the income statement in the period in which they are incurred.

(vi) Financial instruments

Recognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company has become a party to the contractual provisions of the instrument.

Financial assets

Investments

Investments are included at either cost less amounts written off or fair value where applicable.

Trade and other receivables

Financial assets within trade and other receivables are initially recognised at fair value, which is usually the original invoiced amount and are subsequently carried at fair value less provisions made for impairment.

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Provisions for impairment are made specifically where there is evidence of a risk of non-payment, taking into account ageing, previous losses experienced and general economic conditions.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand less short term bank overdrafts.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received.

Trade and other payables

Financial liabilities within trade and other payables are initially recorded at fair value, which is usually the original invoiced amount, and subsequently carried at historical cost.

ACCOUNTING POLICIES (continued)

(vii) Segmental reporting

IFRS 8 provides segmental information for the Company on the basis of information reported to the chief operating decision-maker for decision-making purposes. The Company considers that it only has one segment and that the role of chief operating decision-maker is performed by the Tanfield Group Plc's board of directors.

(viii) Termination benefits

Termination benefits (leaver costs) are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to the affected employees leaving the Company.

(ix) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

(x) Functional and presentational currencies

The consolidated financial statements are presented in sterling which is also the functional currency of the company.

CRITICAL ACCOUNTING ESTIMATES AND KEY JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires management to exercise judgement in the process of applying the Company's accounting policies. We continually evaluate our estimates, assumptions and judgements based on the most up to date information available.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Investments

The status of the Company's holding in Smith Electric Corp was reviewed. The Board understand that the company has ceased to trade and do not feel that Smith have made sufficient progress towards achieving its plan of obtaining a public listing to maintain the previous valuation and have therefore decided to impair the investment in Smith to nil. However, the board acknowledge that there is a chance the investment will result in a return to Shareholders and will continue to monitor the investment. Should progress be made in the future the valuation of the investment will be revisited.

The status of the Company's holding in Snorkel International Holdings was reviewed. Since the injection of working capital Snorkel International Holdings continues to progress well with production increasing. The company has reviewed the financial projections prepared by Snorkel and taking in to account improving global market conditions, the injection of working capital and applying its own sensitivity to the time taken to achieve EBITDA growth to \$25m, considers its investment in Snorkel International Holdings to be at fair market value. The Board takes the view that while there has been progress made by Snorkel, there is still a risk of failure. The valuation has not been adjusted for foreign currency fluctuations due to the uncertain nature of foreign currency markets.

Accounting standards, interpretations and amendments to published accounts

The Company considered the implications, if any, of the following amendments to IFRSs during the year ended 31 December 2016.

New and amended standards and interpretations effective from 1 January 2016 adopted by the Company

During the year ended 31 December 2016, the Company has not adopted any new IFRS, IAS or amendments issued by the IASB, and interpretations by the IFRS Interpretations Committee, which have had a material impact on the Company's financial statements.

New and amended standards and interpretations effective from 1 January 2017 not yet adopted by the Company

The Company currently adopts all relevant accounting standards that have been endorsed by the EU. There are various standards that are expected to be endorsed in 2017 which the Company believes will have no significant impact on the Company's financial position or results for the current or prior years but may impact the accounting for future transactions or arrangements.

TANFIELD GROUP PLC FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS

1. Staff costs

| | 2016 £000's | 2015 £000's |
|--|----------------|----------------|
| Aggregate remuneration comprised | | |
| Wages and salaries | 85 | (638) |
| Social security costs | - | 4 |
| Other pension costs | - | 16 |
| Total staff costs | 85 | (618) |
| | | |
| | 2016 | 2015 |
| Average monthly number of employees | No. | No. |
| Directors' | 3 | 3 |
| Total | 3 | 3 |

Details of Directors' fees and salaries, bonuses, pensions, benefits in kind and other benefit schemes together with details in respect of Directors' share option plans are given in the Directors' Remuneration Report on pages 8 to 9. During the previous year a provision of £760k of remuneration costs was reversed.

2. Finance expense and finance income

| | 2016 £000's | 2015 £000's |
|--|----------------|----------------|
| Finance expense | | |
| Interest on director loans | 13 | 54 |
| Total finance expense | 13 | 54 |
| | | |
| | 2016 | 2015 |
| Finance income | £000's | £000's |
| Interest on cash, cash equivalents & financial instruments | 1 | 1 |
| Total finance income | 1 | 1 |

3. Other operating expenses

| | 2016 £000's | 2015 £000's |
|------------------------------------|----------------|----------------|
| Other operating expenses | | |
| Property related expenses | 43 | 39 |
| Auditor's remuneration (see below) | 24 | 24 |
| Other operating expenses | 115 | 205 |
| Total operating expenses | 182 | 268 |

Auditor's remuneration

Amounts payable to RSM UK Audit LLP and their associates in respect of both audit and non audit services are as follows:

| | 2016 £000's | 2015 £000's |
|-------------------------------------|----------------|----------------|
| Audit Services | | |
| • statutory audit of accounts | 22 | 22 |
| Other services relating to taxation | | |
| • compliance services | 2 | 2 |
| | 24 | 24 |
| Comprising | | |
| • Audit services | 22 | 22 |
| • Non audit services | 2 | 2 |

TANFIELD GROUP PLC FINANCIAL STATEMENTS

4. Taxation

Analysis of and factors affecting taxation charge

The taxation charge on the loss for the year differs from the amount computed by applying the corporation tax rate to the loss before taxation as a result of the following factors:

| | 2016 £000's | 2015 £000's |
|---|----------------|----------------|
| Loss before taxation | (249) | (4,446) |
| Notional taxation charge at UK rate of 20% (2015: 20.25%) | (50) | (900) |
| Effects of: | | |
| Non (taxable) income/deductible expenses | - | 966 |
| Deferred tax asset not recognised in the period | 50 | - |
| Utilisation of tax losses brought forward | - | (66) |
| Total taxation charge in the income statement | - | - |

No deferred tax asset has been recognised due to the uncertainty of future profitability of the Company.

5. Loss per share

Basic loss per share is calculated by dividing the loss attributable to equity shareholders by the weighted average number of shares in issue during the period. In calculating the dilution per share, share options outstanding and other potential ordinary shares have been taken into account where the impact of these is dilutive. As the potential dilutive ordinary shares from share options reduce the loss per share these shares are omitted from the dilutive loss per share calculation. The average share price during the year was 12.88p (2015: 19.58p).

| Number of shares | 2016 No. 000's | 2015 No. 000's |
|---|----------------------|----------------------|
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 153,677 | 144,823 |
| Effect of dilutive potential ordinary shares from share options | 122 | 171 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 153,799 | 144,994 |

| Loss | 2016 £000's | 2015 £000's |
|---|----------------|----------------|
| From operations | £000's | £000's |
| Loss for the purposes of basic earnings per share being net profit attributable to owners of the parent | (249) | (4,446) |
| Potential dilutive ordinary shares from share options | - | - |
| Loss for the purposes of diluted earnings per share | (249) | (4,446) |
| Loss per share from operations | | |
| Basic (p) | (0.2) | (3.1) |
| Diluted (p) | (0.2) | (3.1) |

6. Non current investments

A summary of the Non current investments is shown below:

| | 2016 £000's | 2015 £000's |
|--|----------------|----------------|
| Investment in Smith Electric Vehicles US Corp | - | - |
| Investment in Snorkel International Holdings LLC | 36,283 | 36,283 |
| Total non current investments | 36,283 | 36,283 |

Smith Electric Vehicles US Corp

At 31 December 2016, the Company held a 5.76% (2015: 5.76%) share of the issued share capital of Smith Electric Vehicles US Corp, a company registered in the US. In 2015 the Board decided to impair the investment in Smith to nil and they maintain continue to maintain this position. However, the board acknowledge that there is a chance the investment will result in a return to Shareholders and will continue to monitor the investment.

TANFIELD GROUP PLC FINANCIAL STATEMENTS

6. Non current investments (continued)

Snorkel International Holdings LLC

At 31 December 2016, the Company held a 49% (2015: 49%) share of the issued share capital of Snorkel International Holdings LLC, a company registered in the US. This shareholding is being held as a non current investment at fair value (2016: £36,283k, 2015: £36,283k). See Strategic Report for impairment considerations.

7. Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term deposits held by the Company. The carrying amount of these assets approximates their fair value. The Company primarily holds Sterling. Currency denominated balances are translated to sterling at the balance sheet date.

| | 2016 £000's | 2015 £000's |
|---------------------------|----------------|----------------|
| Cash and cash equivalents | 269 | 94 |

8. Trade and other receivables

| | 2016 £000's | 2015 £000's |
|---|----------------|----------------|
| Receivable within one year | | |
| Amounts due from Snorkel International Holdings LLC | - | 15 |
| Other debtors and prepayments | 61 | 83 |
| | 61 | 98 |

The directors consider that the carrying amounts of trade and other receivables approximates to their fair value. A provision has been made against the amounts due from Snorkel International Holdings LLC due to the age and nonpayment of the debt.

9. Trade and other payables

The directors consider that the carrying amounts of trade and other payables approximates to their fair value.

| | 2016 £000's | 2015 £000's |
|--|----------------|----------------|
| Payable within one year | | |
| Trade payables | 23 | 43 |
| Social security and other taxes | 37 | 37 |
| Accrued expenses | 31 | 30 |
| | 91 | 110 |
| Average credit period taken on trade purchases (days) ^a | 48 | 58 |

^a Creditor days have been calculated as trade payables over other operating expenses multiplied by 365 days.

| | 2016 £000's | 2015 £000's |
|-------------------------------|----------------|----------------|
| Payable after one year | | |
| Loans | - | 254 |
| | - | 254 |

TANFIELD GROUP PLC FINANCIAL STATEMENTS

10. Share capital and share premium

The Company has one class of ordinary shares which carry no right to fixed income. All shares are fully paid up.

| | Nominal share value | Number of shares | Share capital £000's | Share premium £000's |
|--|---------------------|--------------------|----------------------|----------------------|
| At 31 December 2014 | 5p | 143,740,739 | 7,187 | 16,455 |
| Share options exercised | 5p | 600,000 | 30 | - |
| New share issue 6 November 2015 ^a | 5p | 6,583,334 | 329 | 345 |
| At 31 December 2015 | 5p | 150,924,073 | 7,546 | 16,800 |
| Share options exercised | 5p | 30,000 | 1 | - |
| New share issue 22 March 2016 ^b | 5p | 2,758,620 | 138 | 254 |
| New share issue 10 October 2016 ^c | 5p | 2,610,824 | 131 | 136 |
| At 31 December 2016 | 5p | 156,323,517 | 7,816 | 17,190 |

^a On 3 November 2015 the Company announced that Directors and the Company Secretary were converting £675k of convertible loan and accrued interest in to equity which resulted in 6,583,334 new Ordinary Shares of 5 pence ("Shares") being issued. Under the terms of the convertible loan agreements, the shares were issued at a price of 10.25 pence per Share and were admitted onto the AIM market on 6 November 2015.

^b On 16 March 2016 the Company announced that it had conditionally raised gross proceeds of £400k. These funds were raised by way of a placing of 2,758,620 new Ordinary Shares of 5 pence ("Shares") with institutional investors at a price of 14.5 pence per Share which were issued onto the AIM market on 22 March 2016. Costs of £8k attributable to the share issue have been charged against the Share Premium account.

^c On 5 October 2016 the Company announced that Directors and former Directors of the Company were converting £267k of convertible loan and accrued interest in to equity which resulted in 2,610,814 new Ordinary Shares of 5 pence ("Shares") being issued. Under the terms of the convertible loan agreements, the shares were issued at a price of 10.25 pence per Share and were admitted onto the AIM market on 10 October 2016.

11. Share based payments

IFRS2 requires share based payments to be recognised at fair value. The company measures the fair value of its share based payments to employees, "share options", using the Black-Scholes valuation method at the date of grant and recognised in profit or loss over the vesting period.

All share based payments are equity settled and details of the share option activity during 2016 and 2015 are shown below.

| | 2016 Number of share options | 2016 Weighted average exercise price (pence) | 2015 Number of share options | 2015 Weighted average exercise price (pence) |
|---|---------------------------------|---|---------------------------------|---|
| Outstanding at the beginning of the year | 4,330,000 | 24 | 4,630,000 | 23 |
| Granted | - | - | 300,000 | 27 |
| Exercised | (30,000) | (5) | (600,000) | (5) |
| Outstanding at the end of the year | 4,300,000 | 26 | 4,330,000 | 24 |
| Exercisable | 4,300,000 | 26 | 4,330,000 | 24 |

The outstanding options at 31 December 2016 had a weighted average remaining contractual life of 3.8 years (2015: 4.5 years)

The following table relates to share options outstanding and exercisable at 31 December 2016

| Exercise price (pence) | Option exercise prices | | |
|---------------------------|------------------------|-----------|-----------|
| | 5p | 27p | Total |
| No of share options | 200,000 | 4,100,000 | 4,300,000 |
| No of exercisable options | 200,000 | 4,100,000 | 4,300,000 |

Income statement charge

In accordance with IFRS2 the company determined the fair value of its options at 'grant date'. The company accrues this fair value charge over the share option vesting period. Share options that are forfeited during the year are credited directly to the share option reserve account.

A charge to the income statement of nil (2015: nil) and a credit directly to equity of £2k (2015: £384k) have been made during the year in accordance with IFRS2 'Share-based payments'.

The company uses the Black-Scholes model to value its share options.

TANFIELD GROUP PLC FINANCIAL STATEMENTS

12. Financial risk management

The Company's operations are exposed to various financial risks which are managed by various policies and procedures. The main risk and their related management are discussed below:

Credit risk management

The Company's exposure to credit risk arises from its trade and other receivables and cash deposits with financial institutions.

The Company's maximum exposure to credit risk is summarised below:

| | 2016 £000's | 2015 £000's |
|-----------------------------|----------------|----------------|
| Trade and other receivables | 61 | 98 |
| Cash and cash equivalents | 269 | 94 |
| | 330 | 192 |

Liquidity risk management

The Company is exposed to liquidity risk arising from having insufficient funds to meet the Company's future financing needs. The Company's liquidity management process includes projecting cash flows and considering the level of liquid assets available to meet future cash requirements along with monitoring balance sheet liquidity. The Board reviews forecasts, including cash flow forecasts on a quarterly basis.

Maturity analysis

The table below analyses the Company's financial liabilities on a contractual gross undiscounted cash flow basis into maturity groupings based on amounts outstanding at the balance sheet date up to the contractual maturity date.

| | Within 1 year £000's | 1 to 5 years £000's | Over 5 years £000's | Total £000's |
|--------------------------|-------------------------|------------------------|------------------------|-----------------|
| 2016 | | | | |
| Trade and other payables | 91 | - | - | 91 |
| | 91 | - | - | 91 |
| 2015 | | | | |
| Trade and other payables | 110 | 254 | - | 364 |
| | 110 | 254 | - | 364 |

Foreign exchange risk management

The Company is exposed to movements in foreign exchange rates due to the net assets of its foreign investments being denominated in foreign currencies. If appropriate the Company can use currency derivative financial instruments such as foreign exchange contracts to reduce exposure. These were not used in the period.

Capital management

The Company's main objective when managing capital is to protect returns to shareholders. The Company also aims to maximise its capital structure of debt and equity so as to minimise its cost of capital. The Company manages its capital with regard to risks inherent in the business and the sector in which it operates by monitoring its gearing ratio on a regular basis. The Company considers its capital to include share capital, share premium, special reserve, share option reserve and retained earnings. No gearing is currently calculated as the Company currently has no borrowings.

13. Related party transactions

Remuneration of key personnel

The remuneration of the key management personnel, which includes Directors, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors is provided in the Directors' Remuneration Report on pages 8 to 9.

Directors emoluments are shown in the table below:

| | 2016 £000's | 2015 £000's |
|---|----------------|----------------|
| Salaries and short term benefits including NI | 85 | 125 |
| Post employment benefits | - | 16 |
| | 85 | 141 |

13. Related party transactions (continued)

Transactions with directors

Loans

On 5 October 2016, it was announced that the Directors were converting £267k of loans and accrued interest at 10.25p resulting in 2,610,814 new ordinary shares of 5p each being issued. As of 31 December 2016 the outstanding loan balances due were nil (2015: £254k) which has been classified under trade and other payables within the balance sheet.

14. Retirement benefits

The Company operates a defined contribution retirement benefit plan for all qualifying employees. The total cost charged to income of nil (2015: £16k) represents contributions payable to that scheme by the Company at rates specified in the rules of the scheme. As at 31 December 2016, contributions of nil (2015: nil) due in respect of the current reporting period had not been paid over to the scheme.

15. Financial instruments recognised in the balance sheet

| Assets | 2016 | | | 2015 | | |
|---------------------------------|---|--|-------------------------|---|--|-------------------------|
| | Loans and receivables £000's | Assets Available for Sale ^a £000's | Total £000's | Loans and receivables £000's | Assets Available for Sale ^a £000's | Total £000's |
| Current financial assets | | | | | | |
| Trade and other receivables | 61 | - | 61 | 98 | - | 98 |
| Investments | - | 36,283 | 36,283 | - | 36,283 | 36,283 |
| Cash and cash equivalents | 269 | - | 269 | 94 | - | 94 |
| Total | 330 | 36,283 | 36,613 | 192 | 36,283 | 36,475 |
| Liabilities | Other financial liabilities £000's | Held for trading^a £000's | Total £000's | Other financial liabilities £000's | Held for trading^a £000's | Total £000's |
| Current liabilities | | | | | | |
| Trade and other payables | 54 | - | 54 | 73 | - | 73 |
| Total | 54 | - | 54 | 73 | - | 73 |

^a Assets and liabilities at fair value through profit and loss.

16. Investments

The tables below give brief details of the Company's investments at 31 December 2016. The Company had no operating subsidiaries as of 31 December 2016.

| Investments | Principal activity | Group Interest in allotted capital & voting rights | Country of incorporation |
|--|------------------------------|--|--------------------------|
| Smith Electric Vehicles US Corp | Electric vehicle manufacture | 5.76% | US |
| Snorkel International Holdings LLC | Holding Company | 49.00% | US |
| Tanfield Engineering Systems US (Inc) ^a | Powered Access | 49.00% | US |
| Snorkel Europe Ltd ^a | Powered Access | 49.00% | UK |
| Snorkel International Inc ^a | Powered Access | 49.00% | US |
| Snorkel Australia Limited ^a | Powered Access | 49.00% | AUS |
| Snorkel New Zealand Limited ^a | Powered Access | 49.00% | NZ |

^a The Company's interest is held indirectly through its investment in Snorkel International Holdings LLC.