Surface Transforms Plc

Registered number 03769702

Annual Report and Financial Statements

for the year ended 31 December 2021

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Highlights

Financial highlights

- Revenues improved 21% to £2.4m *(2020: £2.0m)*
- Gross margin was 65% *(2020: 67%)*
- Net research costs of £3.4m *(2020: £2.5m)* after capitalising £0.3m *(Year to 31 December 2020 £0.1m)* of gross expenditure
- Other administrative expenses increased by £0.5m to £2.4m *(2020: £1.9m)*
- Loss before taxation was £4.6m *(2020: £2.9m)*
- Research costs partially offset by accrued R&D tax credit of £0.7m *(2020: £0.6m)*
- Loss per share of 2.08p *(2020:1.54p)*
- Cash used in operating activities increased by £2.7m to £3.7m *(2020: £1.0m)*
- Cash at 31 December 2021 was £13.0m *(2020: £1.1m)*. Of this £3.0m was in the form of an irrevocable letter of credit for furnaces, giving an available cash balance of £10.0m
- Capital expenditure in the year was £3.9m *(2020: £0.6m)*
- Cash tax credits of £0.6m received in the period against an accrual of £0.6m
- During the year the Company successfully raised £19.1m net of fees in a significantly over-subscribed placing, subscription, and open offer. In addition to this the Company has received a £1m loan from the local combined authority with attractive terms in November and CBILS support in the form of asset finance totalling £0.3m

Customer and Operational highlights

- Increased order book by £70m (lifetime value) to £115m at end of the year
- Added a new major customer – US based OEM 10 – to growing portfolio of customers
- Post balance sheet date, significantly increased the order book to over £180m (lifetime value) following extended £70m order with existing customer OEM 8
- Demonstrated the ability to win "carry over" business with existing customers OEM 6 and OEM 5
- Progressively implemented new production capacity to reach current revenue capacity of £20m p.a.
- Adopted new manufacturing strategy that will provide more capacity than originally planned at less cost, in a shorter time, and having a lower carbon footprint
- Procured new capital equipment for installation in early 2023 to increase revenue capacity to £50m p.a.

Board Changes

- Strengthened the Board with the appointments of Matthew Taylor and Julia Woodhouse as new independent non-executive directors with substantial experience in the global automotive industry
- After 17 years on the Board, Kevin D'Silva retired with effect from 12 April 2021

SURFACE TRANSFORMS

Chairman's Statement

The twelve months to December 2021 saw continuing game-changing market success. The Company won £70m (lifetime value) of new orders in the year, added one of the largest car companies in the world (OEM 10) to its customer portfolio and demonstrated its ability to win additional contracts with existing customers; AOEM 6 (£35m lifetime value order) and OEM 5 (£5m lifetime value order). Post balance sheet date the Company added a further £70m to the order book on existing programmes with OEM 8.

The task in the 2022 financial year is to turn these game-changing orders into profitable sales. Consequently, the other major focus in 2021 was the installation and commissioning of the multiple furnaces and machine tools delivered in 2020 – originally described as OEM production cell one – to provide sales capacity of £20m p.a. This task was not without its difficulties, leading to production issues at the year end that have been resolved in the new year.

To fund further additional capacity, the Company raised £19.1m (net of expense) in the year to build what was originally described as OEM production cell 2, raising total site capacity to £35m p.a.. However, as the speed of our commercial success accelerated, the Company fundamentally revised its manufacturing strategy and as described in detail below was able to order equipment that would provide capacity for £50m p.a sales when commissioned in 2023, at no extra cost and with a lower carbon footprint. The site currently has sufficient space to accommodate further equipment, that will be ordered in due course, to bring overall sales potential to £75m p.a..

Throughout the year our environmental, social and governance obligations were at the forefront of our thinking. We are proud that our products assist in reducing both engine emissions (from lower weight) and brake pad dust emissions, that we received the highest grade possible in a recent Environmental Agency review and – consistent with our desire to be "best-in-class" employer – reached the target of three years without a reportable accident.

Progress on Customers:

OEM 8: The Company won its original order on a variant of a key model in the customer's range in September 2020. The start of production (SOP) of the car has been delayed, originally planned for mid-2021 it is now forecast for spring 2022. Nonetheless the market response to this car has exceeded all order expectations. This inevitably stressed the capacity of all the supply chain and extensive discussions took place in the year between the customer and all relevant suppliers to find a collective response. The result has been a revised production plan and new contracts which means that we have now agreed to commit capacity of £20m p.a. – compared with the original requirement of £9m p.a. in 2024. The ramp up to these higher numbers will occur through 2023. Inevitably, as we must provide the infrastructure for this higher demand, this has had the paradox of increasing costs in 2022 in exchange for higher profits thereafter.

Given the customer focus on and resource allocation to this model little work has been done on the follow-on models described during the fundraising. This does not however mean that these opportunities no longer exist.

OEM 6: This UK customer was one of the first mainstream contracts won by the Company in 2017 for a hyper performance car. The development of this car has been problematic with extensive delays. However, it is encouraging to report that the car entered production in late 2021 and deliveries continue to be made in 2022. In December 2021 the Company announced that it had been awarded a £45m lifetime value contract, as tier 1 sole source supplier, standard fit on both axles of two forthcoming models. We were particularly pleased that this again demonstrated that we have been able to win additional business from existing customers on essentially the same product – known as "carry-over" in the automotive industry. This ability is crucial to the ongoing commercial development of Surface Transforms.

OEM 10: This US based customer is one of the largest automotive manufacturers in the world. In August 2021 the Company announced that it had been selected to be the tier one sole supplier of the carbon ceramic brake disc as standard fit on both axles of a new edition to an existing internal combustion engine car. The previous model already uses carbon ceramic discs and thus the Company's brake disc is replacing the existing supplier. The lifetime revenue on this specific contract is estimated to be approximately £20 million commencing in mid 2024.

OEM 5: This existing German automotive manufacturer announced its first contract award to the Company in July 2019. The SOP of the car has been delayed by the Covid disruption but is now expected in early 2023. In September 2021 the Company won a further carry-over contract for £5m on a facelift to an existing internal combustion engine model with start of production in Q1 2024; the Company's brake discs will be fitted as an option to the front axle.

Chairman's Statement

OEM 3: This customer (who is part of a group of OEMs based in Germany) has been tasked with the development of a second source carbon ceramic disc supplier. The customer has a unique and destructive environmental test that has challenged the Company for the last 5 years. It is encouraging to report that, in the year the Company believes it has now designed a suitable product which meets all OEM 3's customer requirements. The test results have been supplied to the customer for review and confirmation of product suitability. With this work complete no further testing is planned. We now bring OEM 3 in line with the Company policy of capacity planning and sales guidance based solely on firm programme sourcing activities and/or nominations. Currently we have no programmes incorporated in our capacity planning models for OEM 3 and will work with the customer to understand their future sourcing activities.

OEM 9: This is a new "disruptor" entrant to the automotive market. The potential of a contract award with this customer was a feature of the February 2021 fundraising. The customer's programme however has been significantly delayed and beset with technical difficulties, unrelated to our involvement. Albeit delayed, their programme appears to be back on track and the Company hopes to see an award in 2022.

Koenigsegg: The Company continues to supply to Koenigsegg on its Jesko model and expects SOP on the Gemera in 2023. Relationships are excellent and discussions continue with regard to future models

Retrofit and Near OEM: Retrofit describes end use drivers who swap out either iron discs or competitor products for Surface Transforms carbon ceramic discs. Near OEM encompasses the large number of very niche car manufacturers producing between a handful and 100 cars per year. The retrofit and near OEM customers have been the bedrock of the Company over the last ten years but will never be able to match the scale of the mainstream manufactures described above. The Company had good order intake in the year but the production difficulties at year-end constrained sales. These arrears were being progressively reduced in Q1 2022.

Progress on Operations:

Revised Manufacturing Strategy: The Company's original plan to equip the Knowsley factory was to build a series of 5 modular, relatively independent but identical production cells being built at roughly one cell every 18 months. However, the combination of the pace of our market success, practical constraints on accelerating this plan and the desire to make a step change in our carbon footprint led to a significant change in strategy announced in September 2021. The Company will no longer build separate production cells but now approaches the site capacity as a plant wide "single production" line concept. Thus, rather than build the originally envisaged production cell two the Company split the equipment purchasing process between furnaces and machine tools and ordered a smaller number of more efficient larger furnaces. The effect has been to raise the planned mid 2023 site capacity from the fundraising projection of £35m p.a. to £50m p.a. at no extra cost whilst achieving a major reduction in forecast carbon emissions.

Plant commissioning: The change in manufacturing strategy has had little impact on the commissioning of what was originally described as production cell one, aimed at providing a site revenue capacity of £20m by Q4 2021. All the machines were delivered in 2020 and were progressively commissioned in 2021, leading to the planned start of volume production in Q4. The task has been complex and arduous and not without difficulties. To some degree, every furnace and machine tool had "snagging" problems but, under volume production stress, there was a particularly problematic furnace that caused major production disruption in November and December. However, the issues on this furnace were resolved post balance sheet date and have not returned. We have cleared all significant customer arrears by this report date.

We will continue to increase output through the year as our major customer OEM 8 ramps up production. Continuing production difficulties are inevitable with this scale of growth but we are confident that our team has both the skills and scale to deal with them as they arise.

The Company has the order book to reach profitability in 2022. Continuing to successfully commission the new plant remains our key short-term task to achieve the profitability objective.

Cost reduction: The Company continues to see ongoing reduction in manufacturing costs as a prerequisite for participation in the automotive industry. The final commissioning of production cell one concluded the first phase of the plan that has halved production cost in five years. The Company has now embarked on a second plan to repeat this success.

Gas and energy costs: The Company has fixed price energy and gas contracts and thus the major worldwide increase in these costs had no impact in 2021 and will have minimal impact in 2022 as our contract completes in May 2023. Without action, a tripling in energy costs would reduce gross margin percentage by around five percentage points. Fortunately, by 2023, this is likely to be offset by a number of energy efficiency projects that are already underway on the existing furnaces. Additionally, our new furnaces are significantly more efficient, than our existing furnaces which, combined, will offset the current range of anticipated commodity increases. Therefore, we are not forecasting gross margin percentage deterioration in 2023 or beyond from this source.

Covid: Covid has been a constant background presence throughout this period. However, our staff have been outstanding in the flexibility they have shown with how they work in this environment, both working from home together with the discipline they have shown in maintaining Covid disciplines in the factory. Thus, the Covid problem has been contained, albeit it did not help with our production issues at the year end.

Brexit: The major impact of Brexit has been in transport difficulties between the UK and Continental Europe. What used to take days can now take weeks. However, as with Covid, our staff have responded with different working methods even if adding cost and inventory to our dealings with Continental Europe. Not unreasonably our customers see these costs and extra inventory as our problem, but it does not seem to be affecting our ability to win new business in Germany.

Recruitment: In preparation for the significant 2022 sales increase the Company virtually doubled its workforce in the year and is continuing to heavily recruit in 2022. Whilst there are always issues in recruiting very specific skills, the programme has been a success and we are pleased both with the quality of applicants and the skills and enthusiasm of our new colleagues.

Russia: The Company can advise that it has no sales activity in Russia, no, obvious, Russian shareholders and no subsidiaries or associates in the country. However our fixed price gas contract is with a Russian company. Against the current political and economic background, the Company has been exploring its options and has concluded that it cannot escape the contract. Nonetheless the Company has however served notice to its supplier, ensuring that no automatic renewals can occur. In the meantime, the contract will remain in place until it ends in May 2023.

Environment Social and Governance:

Environment: The Company continues to prioritise the actions required to further extend our ESG investment credentials. Our products reduce carbon emissions on internal combustion engine vehicles through reduced vehicle weight; a benefit that is needed even more on heavier, faster accelerating electric vehicles and thus our technology is particularly assisting the transition to electric vehicles. Our products also reduce emissions by significantly extending product life, contrasted with its iron alternative. Additionally, carbon ceramic brake discs significantly reduce brake pad particles being released into the atmosphere and watercourses. Finally, our end-of-life disc product acts as a carbon sink as the aluminium bell can be recycled and carbon and silicon are almost the only remaining elements at the end of the product's life.

Our task however is to ensure that these environmental benefits are not lost in the manufacturing process, including our supply chain through excessive energy usage. Our environmental focus is therefore in this area. In the year the Company restarted the previously halted Combined Heat and Power Plant (CHP) project, albeit progress was slower than planned as resource was more focussed on plant commissioning. The task is to both recirculate the wasted heat and use the waste gases from our furnaces to generate our own power. During the year we also installed extensive energy monitoring equipment on all furnaces and machines and will be reporting the summary total carbon footprint data in future reports.

Whilst our focus is on energy consumption however, this is not our sole environmental action area. For example, as part of our determination to be a good neighbour we are going beyond Environmental Agency (EA) requirements on emissions reduction, containment, and monitoring. We are pleased that the EA recognised our work in this area by giving the Company an "A" grade score in the recent EA review of the Knowsley site.

Chairman's Statement

Social: We believe that our prime social goal is the provision of well-paid employment in one of the most disadvantaged areas in the country. For example, the Company has adopted the policy of exceeding the living wage for all employees and there are few companies now doubling employment on the Knowsley Industrial Park. Within this overall objective we are additionally delighted to be part of the local apprenticeship scheme and starting our own graduate training scheme in 2022.

The Company sets high standards for the health and safety of its employees and in January 2022 reached three years without a single reportable accident – a most gratifying achievement given the dangerous processes and cutting machines in the factory.

Our suppliers are primarily based in the UK and EEC area which provides some comfort on our expectations of their compliance with the social aspect of our ESG policy. Nonetheless we have started a programme of checking the work they are doing on both environmental and social activities.

Finally, combining both environmental and social goals the Company sought the award of ISO 45001 in the year, the international standard for health and safety, which was awarded in March 2021.

Governance: The Company adheres to the QCA corporate governance code and in the year completed a self-assessment on compliance. The self-assessment saw the Company broadly compliant with the code except for the need to improve independence and diversity of non-executive directors. This issue was addressed by the recruitment of two new independent non-executive directors; the Company now believes itself to be fully compliant.

Summary:

The Company continues its journey to profitability in 2022 and remains confident that this objective will be achieved whilst maintaining our commitment to our environmental and social goals. The year, and indeed the months since balance sheet date have been a period of considerable market success with several significant contract wins. We want the coming year to match that sales success with operational success and remain confident in our ability to achieve both.

David Bundred
Chairman

1 April 2022

Operational review and principal activity

Surface Transforms develops and produces carbon-ceramic material automotive brake discs. The Company is the UK's only manufacturer of carbon-ceramic brake discs, and only one of two mainstream carbon ceramic brake disc companies in the world, serving customers that include major original equipment manufacturers (OEMs) in the global automotive markets.

The Company utilises its proprietary next generation carbon ceramic technology to create lightweight brake discs for high-performance road and track applications for both internal combustion engine and electric vehicles. While competitor carbon-ceramic brake discs use discontinuous chopped carbon fibre, Surface Transforms interweaves continuous carbon fibre to form a 3D matrix, producing a stronger and more durable product with improved heat conductivity compared to competitor products. This reduces the brake system operating temperature, resulting in lighter and longer life components with superior brake performance. These benefits are in addition to the benefits of all carbon-ceramic brake discs vs. iron brake discs: weight savings of up to 70%, extending product and service life, consistent performance, environmentally friendly through reducing both CO2 emissions and brake pad dust, reducing the total cost of ownership, corrosion free and are highly desirable.

Automotive market drivers – fuelling the demand for carbon-ceramic brakes:

Our strategy is to be a profitable, series production supplier of carbon ceramic brake discs to the large volume OEM automotive market. To achieve this, we work directly with OEMs and closely with Tier One suppliers to meet the customers' requirements on product, price, quality, capacity and security of supply.

In addition, we supply carbon ceramic brake discs to small volume vehicle manufacturing and retrofit high performance kits for performance cars.

Strategic Report

The key features of our business model are as follows:

- Support our customer across key geographical markets, achieving contract awards to multiple OEMs with products for multiple models with multiyear supply agreements
- Engineer market leading carbon ceramic brake products, which deliver best in class performance for the luxury and performance brakes markets, which we estimate to be a circa £2 billion market
- Build manufacturing capacity revenue of circa £50m p.a., with the footprint available to reach circa £75m capacity revenue p.a. with future investment
- Operate lean manufacturing processes, enabling the Company to produce products that are competitively priced with good margins
- Be a 'Quality Company' with a culture that lives and breathes its world-class business processes and management systems. We surpass the automotive quality standards (IATF16949), and thus, have the confidence that we are able to pass all customer audits, as evidenced by recent contract wins
- Protect the environment by minimising the environmental impacts arising from our activities, products and services and be committed to continuous improvement of our environmental performance
- Support and manage our supply chain which can deliver to our customers' requirements on product, price, quality, capacity and security of supply

Succeeding in these activities generates highly desirable, environmentally friendly, world leading quality products, which are price competitive and profitable to the business.

Furthermore, our products and processes are protected by a high level of intellectual property through deep, complex process knowhow and a product which cannot be reverse engineered.

Delivering our objectives:

Automotive OEMs

The continued progress on building capacity for our game changing contracts provides a clear path to achieving its strategic objective of profitability and cash generation. Coupled with this the continued success of winning additional 'carry over' contracts and new major OEM customer contracts has significantly strengthened the revenue growth curve for the Company over the coming years.

The Company also continues its successful engineering development objectives in anticipation of further contract awards for both 'carry over' customer contracts and new customer contracts during 2022 and beyond.

The Company's internal activities are therefore focused on supporting series supply for these contracts and on Companywide continuous improvement objectives across all functions.

- Health and Safety – maintain and improve our health and safety record. We have an excellent health and safety record which we will continue to maintain.
- Quality – continue to have excellent in-service quality. Improving quality is a never-ending process, therefore our primarily focus is on continuous improvement and reducing the internal cost of quality.
- Environmental – protect and improve our environment. Our products make a fantastic contribution to reducing CO2 emissions in use, significantly reducing brake dust pollution, and over the lifetime of the car reducing the carbon footprint. Our internal goals are aimed on reducing our manufacturing environmental footprint.
- Customer supply performance – maintaining our performance as a good supplier. As we enter series supply with our OEM customers a key objective is to deliver good supplier performance.
- Capacity improvements – ensure we have the manufacturing capacity and manufacturing resilience in line with our customer requirements. We have a manufacturing strategy which will deliver £50m of capacity revenue during 2022 and 2023.
- Productivity and cost reduction – perpetual improvement of our productivity through cost reduction. We have halved the cost to manufacture over the last five years and have a programme to repeat this success going forward to maintain good margins and support our customers to achieve their pricing goals.
- Supply chain performance – Improve the resilience and productivity of our supply chain. As with any manufacturing process we are only as good as our supply chain. We have improvement plans with our existing suppliers and are adding new suppliers to our approved supplier list.

Section 172 statement

In accordance with the requirements of section 172 of the Companies Act. The board believes that during the year it has acted in a way that they consider, in good faith, would most likely lead to the success of the Company in the long term and to the benefit of all stakeholder groups. During the year, Surface Transforms successfully raised funds to support the Company's current and future growth strategy and to meet contracted and expected orders.

The board believes that governance of Surface Transforms is best achieved by delegation of its authority of the executive management of Surface Transforms to the CEO. The board regularly monitors the delegation of authority, updating regularly whilst retaining responsibility.

The board has identified 6 key stakeholder groups and engages with them to foster strong relations and to act fairly between them:

- Customers: Surface Transforms engages with customers throughout the development process, building strong collaborative environments for long term mutual benefit. This is highlighted by carry over contract awards from existing customers and meets the Company's strategic aims of growing our customer base;
- Employees: Our employees are critical to the success of Surface Transforms, and we engage through an environment of openness and inclusivity and trying to create a sense of ownership. All employees receive some share options after a qualifying period of employment. The Company has recently commenced employee surveys to monitor employee sentiment and along with the appointment of our new HR executive are placing a higher focus on employee recruitment and retention. In addition, with the current stresses on the workforce the Company has made available counselling services for employees. These actions align with the Company's aim to be an employer of choice within the Knowsley area;

Strategic Report

- Government and regulators: The Company is committed to engaging with all relevant government organisations and ensuring adherence to all statutory requirements. The Company has a strong working relationship with the environmental agency and regularly enters dialogue as to the fulfilment of our responsibilities;
- Investors and shareholders: The board gives opportunities for both institutional and retail investors to meet with the Company and to see the progress of the Company. During the year the Company has held a number of webcasts allowing investors to question the board on progress and on our strategy. The Company has engaged one to one with advisors and investors on environmental, social and governance (ESG) issues with a view to improving the Company's performance in this area and the Company has invited shareholders and other interested stakeholders to visit the site at a Capital Markets Day in April 2022;
- Partners and suppliers: The Company engages collaboratively with its partners and behaves in a responsible manner and expects partners to act ethically and in a responsible manner. The Company aims to build long term collaborative relationships and has signed long term contracts with suppliers for material supply, giving certainty to their businesses; and
- Society: The Company engages on social media and welcomes engagement with the wider public. In addition the Company is conscious of its position as a growing employer within the Knowsley area, an area of recognised social disadvantage. To this end the Company has maintained an apprentice scheme and will be starting its own graduate apprentice scheme in September 2022.

The board considers these stakeholders within its strategy discussions, the performance of the Company, the workforce and in its governance.

Financial Review

Revenue increased in the year to £2.4m against a figure of £2.0m in 2020, an increase of 23%. This growth has been driven by delivery of OEM parts for the Valkyrie which entered production in the year and the delivery of increased volumes of development parts to our existing contracts.

Gross profit margin dropped slightly in the year to 65% from 67% in 2020. This deterioration has been caused by sales mix due to development work but also reflects the reduction in unit sales price that comes with series production and larger contracts. Retrofit and Near OEM sales were broadly flat in the year.

During the year the Company made minimal use of the government furlough scheme with claims only being made for vulnerable employees having to self-isolate for medical reasons. The Company did however utilise the Coronavirus Business Interruption Loans Scheme (CBILS) to fund capital equipment purchases. This loan is at a lower rate than that usually available to the Company for borrowings.

Other borrowings actioned during the year were the drawdown from the Combined Local Authorities Future Growth Fund of £1m. This loan is again at a rate that would be unavailable to the Company without the support of the Liverpool City Region Authority.

The Company's shareholders again supported the Company with an equity fundraising in January 2021 which raised £19.1m after fees. The funds were raised to finance the delivery of additional capacity and working capital.

Administrative expenses increased by £0.5m to £2.4m *(2020 £1.9m)*. This increase was almost all in salary costs reflecting extra staffing ahead of the capacity requirement for 2022.

Net research expenses were £3.4m an increase of £0.9m on the prior year of £2.5m. These costs were net of capitalisation of £0.3m in the year *(2020: £0.1m)*. This increase was driven by significant material costs utilised in furnace commissioning and product development, in addition much of the recruitment during the year was for engineering roles focussed on development in the short term. Given the size and likelihood of near-term commercial revenues being generated, these costs meet the definition of an asset and for the future economic benefits of such assets to be amortised over the perceived useful economic lives of the asset, namely on a straight-line basis over the life of the contract to which they relate.

Cash at 31 December 2021 was £13.0m *(2020: £1.1m)*. Of this £3.0m was held as an irrevocable letter of credit in favour of a furnace supplier and covered by delivery milestones. In addition, the Company expects the receipt of an R&D tax credit totalling £0.7m during the coming year *(2020: £0.6m)*.

Loss before taxation was £4.6m *(2020: £2.3m)* which led to a loss per share of 2.08p *(2020: 1.54p)*.

Key performance indicators

The Directors continue to monitor the business internally with several performance indicators: order intake, sales output, gross margins, profitability, supply chain capacity, health and safety, quality and manufacturing cost of automotive discs. A set of business milestones has been agreed and are discussed as part of the monthly board meeting. The board has assessed the results against these KPI's and believe that solid progress has been made against the Company's targets.

During the year the Company has performed well against KPI's relating to Health and Safety with no reportable accidents during the year and in excess of 1,000 days since the last lost time incident. In addition the Company measures its environmental impact through its Environmental management framework and through Performance in Environment Agency audits which have resulted in an A grade score during the year.

The Company produces an annual business plan and full monthly forecasts detailing sales, profitability and cash flow to help monitor business performance going forward.

Management meetings are held on a weekly basis, all senior managers attend and discuss production, engineering, financial and quality issues.

Risks and uncertainties

The Company has embedded risk management activities and maintains through regular reviews throughout the year an effective risk register of the issues that may affect the strategy of the Company or the delivery of its aims.

The principal short-term risk is the execution risks associated with bringing the newly purchased furnaces into production. This is being managed by both a project team that has the experience and skills to deliver this type of project as well as pre-delivery testing at the supplier's premises. Regular weekly and monthly reviews are held, and the project's progress is communicated across the Company on a regular basis.

There is also a risk to customer Start of Production (SOP) dates and the speed at which the customers move from initial to mature build rates. It is also normal in the automotive industry that customers do not contract minimum build rates. These risks are managed by continuing dialogue with the customers to ensure early notification of possible changes.

As in previous years another major risk faced by the Company is considered to be the speed at which our customers and potential customers adopt the new carbon ceramic product technology. The contract awards in the period indicate the strengthening desire from a number of volume automotive OEMs to incorporate the Company's product in their respective platforms. This risk is constantly assessed by regular customer review meetings but is now clearly much reduced.

There is a risk of delay on customer production due to hang overs from Covid-19. However, as at the date of publication of this report all of our customers have returned to production and there is a customer focus on short term revenue generation. This leads the directors to believe that this risk is currently low unless a further shutdown should occur. Moreover, the business performance in 2021 demonstrates that the Company has robust procedures in place to continue operations throughout the most severe periods of another Covid-19 outbreak.

Brexit is currently causing delivery delays as a result of paperwork issues, however these issues are only affecting retrofit sales at present. Should the delays not improve before the start of production with OEM 5 then it has always been the Company's intention to expand our German facilities to include a warehouse to hold buffer stock for this contract. This risk is ameliorated by the fact that looking forward to 2024 only 15% of total sales are forecast to be within the EU and, indeed OEM 5 has recently informed us that a portion of their production will be outside the EU.

The Company has an exposure to exchange risk however this is partially mitigated through natural hedging activities. The contracts for OEM 6, 7, 8 and 10 have been negotiated in sterling to mitigate any exchange risk and this is the Company's policy where possible.

Strategic Report

In terms of uncertainties, product sales are still expected to grow with future OEM projections now supported by contracts. The Board expects continuing growth with Near OEM customers, but sales growth is expected to be modest in the retrofit market. This uncertainty is constantly assessed by regular customer meetings and monitoring the level of enquiries and orders for both the Company's products and industry wide.

In summary, the Company has made satisfactory progress in its automotive projects and is progressing well with its expansion plans. Please refer to note 20 for information on financial risk management and exposure.

Events after the reporting period
The Company announced the extension of its contract with OEM 8 from a previously reported £27m to £100m.

Directors and staff
Directors: In March 2021, the Company strengthened the Board by the appointment of two new independent non-executive directors, Matthew Taylor and Julia Woodhouse.

Matthew Taylor joins the Board after retiring from his role as CEO of Bekaert SA in 2020. Bekaert SA is a €5 billion, 30,000 employees global steel cord business headquartered in Belgium with 45% of its business in automotive. Prior to this role Matthew was CEO of Edwards Vacuum, CEO of JC Bamford, and Global MD of Land Rover following his early career in sales and marketing roles with Ford after a short spell in the Royal Navy.

Julia Woodhouse also joins the Board as non-executive director. Julia spent her executive career with Ford Motor Company where her roles included Director, Global Power Train Purchasing, based in USA and Director, Global Chassis Purchasing, based in Germany. She retired from Ford in 2018 and is currently a non-executive director of Outokumpu a leading global stainless-steel manufacturer based in Helsinki. Julia is also a member of the RICS Standards and Regulations Board.

Following these appointments, after 17 years on the Board Kevin D'Silva retired. The Board wants to thank Kevin for his major role in the very existence of the Company, without his contribution over these years the Company may not even exist and would certainly not be in the shape that it is today.

Management Team: The Company continued its policy of strengthening management as the Company matures and the managerial needs evolve.

	Managerial roles as at 31 December 2021		Managerial roles as at 31 December 2020	
	Male	Female	Male	Female
Directors	5	1	5	–
Senior managers	3	2	3	2
	8	3	8	2

The focus in 2021 continued the task of strengthening the second line management functions and to this end many of the Company's appointments have joined from middle management roles within tier 1 automotive suppliers.

Outlook
After a decade of commercial and development activity the forthcoming 2022 year will finally see this work turn to profitability.

Thereafter and, based solely on orders already awarded, we can be confident of sales growth of more than 20% p.a. from 2023 to 2025 and would hope to increase that growth rate as we win further contracts in that period.

Our guidance gross margin is relatively stable in the planning period as our pricing structure is broadly agreed and as explained above, our exchange rate risks are modest and we will address gas cost increases through more efficient furnace processes.

SURFACE TRANSFORMS

Strategic Report

As with all growing companies our cost base necessarily increases ahead of sales and thus, for example, we are investing £2.5m to our 2022 infrastructure costs in anticipation of the next step change in production in 2023 and beyond. As a result, our forecasts are limited to single digit percentage return on sales (ROS) for operating profit for the next few years but we believe that we could reach 20% ROS by 2024 and 2025.

The operational execution risk of this rate of growth over the period is ever present but the board is fully engaged with management on both the risks and their mitigation – of which keeping both physical capacity and staffing levels ahead of current sales demand, even at the expense of short-term cost increases, is the over-arching priority.

The medium-term outlook is therefore for a Company growing revenue by at least 20% p.a. and achieving 20% ROS.

On behalf of the board

David Bundred
Chairman

1 April 2022

Dr Kevin Johnson
Chief Executive

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2021.

Directors and Directors' interests

The Directors who held office during the year and to the date of signature of the financial statements were as follows:

D Bundred*	*(Chairman)*
Dr K Johnson	*(Chief Executive)*
K D'Silva*	*(Retired 12 April 2021)*
RD Gledhill*	
M Cunningham	*(Chief Financial Officer and Company Secretary)*
M Taylor*	*(Appointed 1 March 2021, Chair of Audit Committee)*
J Woodhouse*	*(Appointed 1 March 2021)*

* denotes non-executive director. All non-executive directors are deemed to be independent except R Gledhill (by size of shareholding), K D'Silva and David Bundred (by way of length of service).

The Directors who held office at the end of the period had the following interests in the ordinary shares of the Company:

	Number of £0.01 ordinary shares		**% of issued**
	Interest at start of period	**Interest at end of period**	**share capital at end of period**
RD Gledhill	14,813,346	15,013,346	7.7%
Dr K Johnson	991,308	991,308	0.5%
M Taylor	–	55,000	0.0%
D Bundred	1,310,025	1,360,025	0.7%
M Cunningham	120,000	170,000	0.1%

According to the register of Directors' interests, no rights to subscribe for shares in or debentures of the Company were granted to any of the Directors or their immediate families, or exercised by them during the financial period, except as disclosed in the report on Directors' remuneration on pages 20 and 21.

The Directors benefited from qualifying third-party indemnity provisions in place during the financial year and at the date of this report.

The Board carried out the process of self-assessment of its effectiveness in January 2021. The review involved the completion of individual reviews of both each board member and the overall Board effectiveness by means of a questionnaire completed by both the Board and the senior management team, which were then collated and discussed openly. To preserve anonymity of the initial evaluation the questionnaires were sent to and summarised by the Company's lawyers. The Board are committed to carry out this process every 2 years and the next process will be in early 2023.

Board Skills and Experience

David Bundred, Non Executive Chairman

Tenure: 10 years

David has 30 years' experience of general management in the automotive and aerospace industries with a particular speciality in the brake systems segment. Before joining Surface Transforms, he was CEO of TMD Friction GmbH a €600m sales, private, German headquartered company that is one of the world's leading brake pad system suppliers for the automotive industry. He had previously been with Lucas Industries for 24 years, which included, amongst other roles, positions as COO of Lucas Aerospace, and General Manager of both the Lucas Brake Controls and Lucas Truck Brake Divisions.

Directors' Report

Within the Brake Controls business he led the industry introduction of anti-lock brakes, an experience now mirrored in the introduction of carbon ceramic disc brakes, both safety critical products. He is now an active investor with "a hands on" focus in a small number of high growth companies. He holds an MBA from Cranfield University and is both a chartered engineer and chartered management accountant.

David has a deep understanding of operational and strategic management within the manufacturing and automotive sectors along with experience of managing significant teams.

Dr Kevin Johnson, Chief Executive Officer

Tenure: 15 years

Kevin has a doctorate in Chemistry from the University of Liverpool and an MBA from Manchester Business School. He spent six years in product development for the chemical industry and has a broad experience with OEM multinationals in the area of new technology development. Previously he worked for Avecia, formerly AstraZeneca. Kevin joined the Company in 2006 as CEO. Since then Kevin has been responsible for leading Surface Transforms through its development phase to the current position of winning OEM brake disc contracts.

Kevin is one of the world's foremost authorities on carbon ceramics and has significant experience of strategic management in the automotive sector.

Michael Cunningham, Financial Director

Tenure: 4 years

Michael is a Fellow of the Association of Chartered Certified Accountants, holds an MBA from the European School of Management and Technology in Berlin and a Bachelor of Engineering degree from Queens University Belfast. Michael joined the Company from Bentley Motors Ltd where he was Profitability Controller, and previously Senior Finance Manager (Mulliner), reporting into the Company CFO. Prior to joining Bentley, Michael was Finance Director of Aquila Truck Centres Ltd and Commercial Director of MAN Truck and Bus UK. Prior to this Michael had significant experience within automotive retail.

Michael brings significant experience within automotive OEM manufacturing and finance as well as strong technical and cash management skills which have been important to Surface Transforms in recent years.

Michael acts as the Company Secretary for Surface Transforms.

Richard Gledhill, Non Executive Director

Tenure: 13 years

Since 1972, Richard's principal activity has been, and continues to be, the building and developing of USG-Gledco Ltd. The company produces mechanical carbon components and materials for the aerospace and oil and gas industries and, following the acquisition of US Graphite in 1998, now supplies carbon components worldwide from three locations in the UK, USA and Mexico.

Richard brings his knowledge of carbon fibre as well as being a strong representative for the shareholder base.

Julia Woodhouse, Non Executive Director

Tenure: Appointed 1 March 2021

Julia spent her executive career with Ford Motor Company where her roles included Director, Global Power Train Purchasing, based in USA and Director, Global Chassis Purchasing, based in Germany. She retired from Ford in 2018 and is currently a non-executive director of Outokumpu a leading global stainless-steel manufacturer based in Helsinki. Julia is also a member of the RICS Standards and Regulations Board.

Julia brings her extensive international business experience and listed board background as well as knowledge of Surface Transforms customer base and significant launch experience.

Directors' Report

Matthew Taylor, Senior Independent Director

Tenure: Appointed 1 March 2021

Matthew joins the Board after retiring from his role as CEO of Bekaert SA in 2020. Bekaert SA is a €5billion, 30,000 employees global steel cord business headquartered in Belgium with 45% of its business in automotive. Prior to this role Matthew was CEO of Edwards Vacuum, CEO of JC Bamford, and Global MD of Land Rover following his early career in sales and marketing roles with Ford after a short spell in the Royal Navy.

Matthew, a worldwide businessman brings strategic and leadership skills to Surface Transforms as well as a thorough understanding of the Company's target market.

During the year the following meetings were held:

	Board meetings	Audit committee	Remuneration committee
No of meetings	12	2	6
Attendance by director:			
D Bundred	12	2	6
K Johnson	12	2	2
K D'Silva	3	1	3
RD Gledhill	12	2	6
M Cunningham	12	2	1
J Woodhouse	10	2	3
M Taylor	10	2	3

Non-executive directors are expected to spend 1-2 days per month on Company business and the Chairman approximately 2 days per week.

Corporate governance

The Directors recognise the importance of sound corporate governance and confirm that although compliance with the UK Corporate Governance Code is not compulsory for AIM listed companies, the Company is following the guidelines of the QCA Corporate Governance Code (as devised by the QCA in consultation with a number of significant institutional small company investors) to the extent appropriate and practical for a Company of its nature and size. The Company's governance statement can be found at https://surfacetransforms.com/corporate-governance.

The Board has appointed an Audit Committee whose primary role is to review the Company's interim and annual financial statements before submission to the Board for approval. The Board has also appointed a Remuneration Committee, which is responsible for reviewing executive remuneration and performance. The Remuneration Committee is made up of four non-executive Directors, David Bundred, Matthew Taylor, Julia Woodhouse and Richard Gledhill. The Audit Committee is made up of the same four non-executive Directors and is chaired by Matthew Taylor. Details of the Remuneration Committee are disclosed in the report on Directors' remuneration on pages 20 and 21.

Directors' Report

Going concern

The financial statements have been prepared on a going concern basis which the Directors believe to be appropriate. The Company incurred a net loss of £4.0m during the year however the Directors are satisfied, based on detailed cash flow projections and after the consideration of reasonable sensitivities, that sufficient cash is available to meet the Company's needs as they fall due for the foreseeable future and for at least 12 months from the date of signing the accounts.

Liquidity risk

With regard to liquidity, the Company's policy has throughout the year been to ensure that the Company is able at all times to meet its financial liabilities as and when they fall due. Cash flow forecasting is undertaken on a monthly basis approved at board level and managed on a daily basis by the finance function.

Exchange rate risk

As the Company evolves, exchange rate fluctuations could have an adverse effect on the Company's profitability or the price competitiveness of its services. There can be no assurance that the Company would be able to compensate or hedge against such adverse effects and therefore negative exchange rate movements could have an adverse effect on the Company's business, prospects, and financial performance.

Currently the Company's exchange risk is limited to retrofit and near OEM sales and in Dollar and Euro accounts with currency purchased for capital expenditure, all being managed on a daily basis. In the future this risk will increase in line with turnover and the Company's position is therefore, where possible, to price contracts in sterling and where this is not possible to utilise natural hedging from component and material suppliers.

Principal Activity

The principal activity of the Company is to design, manufacture and sell carbon ceramic components. The Company also conducts research and development into better performing carbon ceramic discs.

Result for the year and proposed dividend

The loss for the year after taxation amounted to £3,952k *(2020: £2,303k)*. The Directors do not recommend the payment of a dividend *(2020: £nil)*.

Disclosure of information to auditor

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

Directors' Report

Strategic report

The information required by schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 has been included in the Strategic Report in accordance with section 414C(11) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Items normally reserved for the directors' report relating to risks and uncertainties have been included within the strategic report along with items relating to future developments of the Company.

On behalf of the board

D Bundred
Chairman

1 April 2022

Image Business Park
Acornfield Road
Liverpool
L33 7UF

Audit Committee Report

Dear shareholders

Following the retirement of Kevin D'Silva, I assumed responsibility as Chair of the Audit Committee in April 2021. Due to the size of the board and the stage of development of the Company the audit committee is comprised of all non-executive members of the board namely D Bundred, R Gledhill, J Woodhouse and myself. Only members of the audit committee are required to attend committee meetings, however the Chief Executive, Chief Financial Officer, external auditors and other staff members are able to join by invitation.

During the year the committee met twice and reviewed a number of matters:

- Review of the interim and year end statements
- Review of the engagement of the Company's auditors
- Review of internal controls
- Review of key risks

The main risks reviewed during the year include:

An analysis of the viability and going concern of the company. For this risk, management have prepared detailed financial projections covering the period 12 months from the date of these financial statements to April 2023 and for further periods.

A review of the carrying value of intangible assets for development work. The Company continues to take a prudent approach to the capitalisation of development work, restricting this to programs that have been awarded and are under formal development process with the customer.

The committee is responsible for monitoring the integrity of the financial statements including the Company's annual and half-yearly results. This is assisted by the external auditors who provide a report to shareholders, commenting on the truth and fairness of the statements in this annual report. This report can be found on pages 23 to 31.

The audit committee has recommended to the board that a resolution be placed before shareholders at the annual general meeting to reappoint Grant Thornton (UK) LLP as auditors.

Matthew Taylor
Chair of the Audit Committee

1 April 2022

Report on Directors' Remuneration

Policy on executive Directors' remuneration

The Company is not required to publish a directors remuneration report, however for transparency chooses to show directors remuneration without adhering to the Companies act format.

The Remuneration Committee comprises of David Bundred, Julia Woodhouse, Matthew Taylor, Richard Gledhill and prior to his retirement, Kevin D'Silva.

The Remuneration Committee is responsible for reviewing and determining the Company's policy on executive remuneration (including the grant of options under the Share Option Scheme). Executive remuneration packages are designed to ensure the Company's executive Directors and senior executives are fairly rewarded for their individual contributions to the Company.

Fees for non-executive Directors

The fees for non-executive Directors are determined by the Board. The non-executive Directors are not involved in the decisions about their own remuneration.

Directors' remuneration

Set out below is a summary of the fees and emoluments received by all Directors for the year or, where applicable, period of office:

	Salary £	Fees £	31 December 2021 £	Salary £	Fees £	31 December 2020 £
Executive directors						
Dr K Johnson	**249,139**	–	**249,139**	131,960	–	131,960
M Cunningham	**117,958**	–	**117,958**	97,000	–	97,000
	367,097	–	**367,097**	228,960	–	228,960
Non executive directors						
K D'Silva	**17,500**	–	**17,500**	17,100	–	17,100
RD Gledhill	**35,000**	–	**35,000**	17,100	–	17,100
J Woodhouse	**29,167**	–	**29,167**	–	–	–
M Taylor	**29,167**	–	**29,167**	–	–	–
D Bundred	**12,000**	**36,000**	**48,000**	6413	19,238	25,650
	122,834	**36,000**	**158,834**	40,613	19,238	59,850

With the exception of Dr K Johnson and Mr M Cunningham, none of the Directors received pension contributions in respect of their office. In addition to the emoluments received, as stated above, Dr K Johnson received £13,799 *(2020: £8,638)* in respect of pension contribution and Mr M Cunningham received £6,355 *(2020: £5,564)*.

Directors' interests

Details of any contracts in which a Director has a material interest are disclosed in note 19.

During the year Mr M Cunningham was granted 173,700 options under the Company Enterprise Management Incentive scheme at an exercise price of 57p, the vesting criteria of these options are highlighted in note 23 on page 57 and 58.

Report on Directors' Remuneration

Share options

The Company operates a share incentive scheme. All options are granted at the discretion of the Board. The number of options granted, date of grant, exercise price and exercise periods under the scheme are set out below.

Director	Date of Grant	Holding on 1 January 2021	Number of options Issued	Holding on 31 December 2021	Exercise Price	Exercise Period
D Bundred	02/10/2016	250,000	–	**250,000**	£0.16	02/10/18-02/10/25
D Bundred	04/01/2018	450,000	–	**450,000**	£0.15	04/01/18-04/01/28
M Cunningham	04/01/2018	990,000	–	**990,000**	£0.15	04/01/18-04/01/28
Dr K Johnson	04/07/2018	1,590,000	–	**1,590,000**	£0.16	19/09/17-19/09/28
Dr K Johnson	05/12/2018	1,910,000	–	**1,910,000**	£0.13	05/12/18-05/12/28
M Cunningham	11/11/2021	–	173,700	**173,700**	£0.57	11/11/21-11/11/31
		5,190,000	–	**5,363,700**		

The market price of the shares at 31 December 2021 was 53 pence and during the period varied from 50 pence to 76.5 pence.

On behalf of the board

D Bundred
Chairman

1 April 2022

Statement of Directors' Responsibilities

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 financial statements of the company in accordance with UK adopted international accounting standards in conformity with the requirements 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 the profit or loss of the company for that period.

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

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

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

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

D Bundred
Chairman

1 April 2022

Independent Auditor's Report

to the members of Surface Transforms Plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Surface Transforms Plc (the 'Company') for the year ended 31 December 2021, which comprise the Statement of Total Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of the Company's loss for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard 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 are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.

A description of our evaluation of management's assessment of the ability to continue to adopt the going concern basis of accounting, and the key observations arising with respect to that evaluation is included in the key audit matters section of our report.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the Company's business model including effects arising from macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

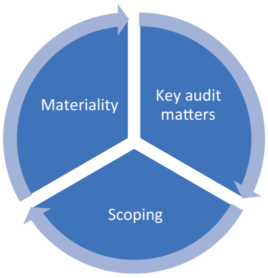
The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

Independent Auditor's Report

to the members of Surface Transforms Plc

Our approach to the audit

Grant Thornton



Overview of our audit approach

Overall materiality: £227,850, which represents approximately 5% of the Company's loss before taxation.

Key audit matters were identified as:

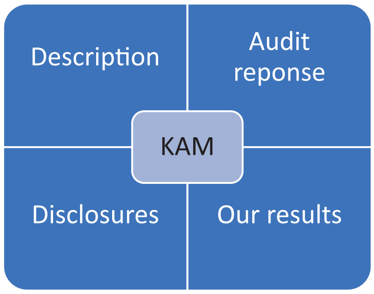
- Revenue recognised on Original Equipment Manufacturer 8 (OEM 8) contract (same as previous year).
- Going concern (same as previous year).

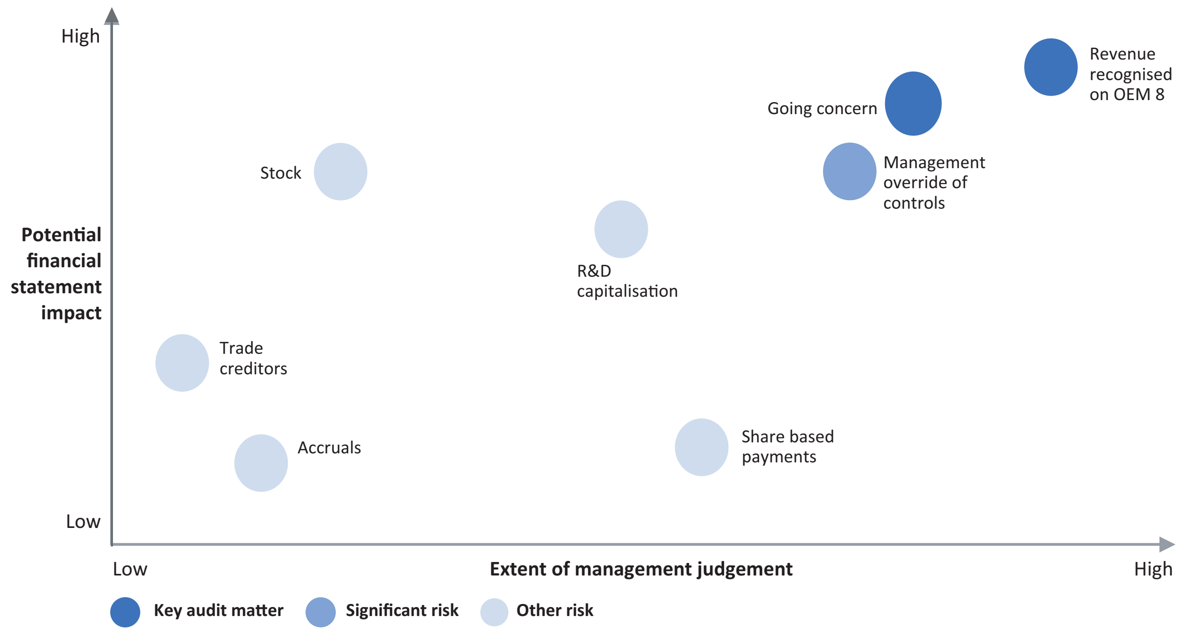
Our auditor's report for the year ended 31 December 2020 included no key audit matters that have not been reported as key audit matters in our current year's report.

We performed a full-scope audit of the financial statements of the Company.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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) that we identified. These matters included those that 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.





Independent Auditor's Report

to the members of Surface Transforms Plc

In the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.

Key Audit Matter

Revenue recognition on OEM 8

We identified revenue recognition on OEM 8 as one of the most significant assessed risks of material misstatement due to fraud and error.

The Company's revenue totaled £2,369,000 for the year ended 31 December 2021 (2020: £1,952,000), of which £294,000 related to revenue recognised on the OEM 8 contract (2020: £225,000). This contract was entered into during September 2020.

There is a risk that revenue has been misstated through fraudulent entries and due to the complexity of the revenue contracts there is a risk that revenue recognition criteria is not being properly applied. The key audit matter relates specifically to the OEM 8 contract which was assessed as more complex and had a higher degree of judgement than other revenue contracts.

There is management judgement involved in determining the amount of revenue that is recognised at year end for engineering services, which is a management estimate that is performed manually at year end based on stage of completion.

We also consider there to be significant judgement in the assessment of performance obligations per the contract in accordance with IFRS 15 'Revenue from Contracts with Customers', which determines revenue recognition this year and going forward, as this is a multi-year contract.

Relevant disclosures in the Annual Report and Financial Statements 2020

- Financial statements: Note 1, Accounting policies
- Chairman's statement: Progress on customers, OEM 8
- Strategic Report, Financial Review

How our scope addressed the matter

In responding to the key audit matter, we performed the following audit procedures:

- We have assessed the Company's accounting policies against IFRS 15;
- We undertook substantive analytical procedures on revenue recognised on the OEM 8 contract in the year. Corroborating variances from our expectations with supporting documentation;
- We have tested a sample of revenue recognised on the contract to supporting documentation to confirm the occurrence and accuracy of the amounts recognised;
- We have documented our understanding of the engineering revenues and agreed to supporting documentation where possible, and challenging management on their stage of completion assumptions in relation to revenue recognition and overall monitoring of this stream;
- We have reviewed the prior year estimations of contract completion in line with the requirements of ISA(UK) 540 revised. We have assessed management's estimate assumptions and have evaluated prior year predictions against actuals to assess the quality of management's forecast of the contract completion stage; and
- We have challenged management's assumptions in relation to the contract stage of completion and the performance obligations identified.

Our results

Our audit procedures did not identify any material misstatements in respect of revenue recognition for the OEM 8 contract.

Independent Auditor's Report

to the members of Surface Transforms Plc

Key Audit Matter	How our scope addressed the matter
Going concern We identified going concern as one of the most significant assessed risks of material misstatement due to fraud and error. Covid-19 is amongst the most significant economic events currently faced by the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty. This event could adversely impact the future trading performance of the Company and as such increases the extent of judgement and estimation uncertainty associated with management's decision to adopt the going concern basis of accounting in the preparation of the financial statements. We have concluded that the Company has not been severely impacted by Covid-19, however the pandemic has slowed the automotive industry as a whole, and therefore has contributed to a delay in reaching stage of production on key revenue contract (OEM8). We do not anticipate any further impact of Covid-19 on the Company. **Relevant disclosures in the Annual Report and Financial Statements 2021** • Financial statements: Note 1, Accounting policies • Directors Report, Going concern	In responding to the key audit matter, we performed the following audit procedures: • We have assessed management's going concern considerations, including base cash flow forecasts covering the period to April 2023; • We have assessed how these cash flow forecasts were compiled and assessed their appropriateness by applying relevant sensitivities to the underlying assumptions, and challenging those assumptions including revenue growth assumptions; • We have obtained management's sensitised forecast's showing reduced growth. We evaluated management's assumptions regarding the impact of this. We considered whether the assumptions are consistent with our understanding of the business derived from other detailed audit work undertaken; • We have assessed the impact of the mitigating factors available to management, for example reducing the capital expenditure spend, in respect of the ability to restrict cash impact, including the level of available facilities; and • Assessed the adequacy of related disclosures within the annual report. **Our results** We have nothing to report in addition to that stated in the "Conclusions relating to going concern" section of our report.

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

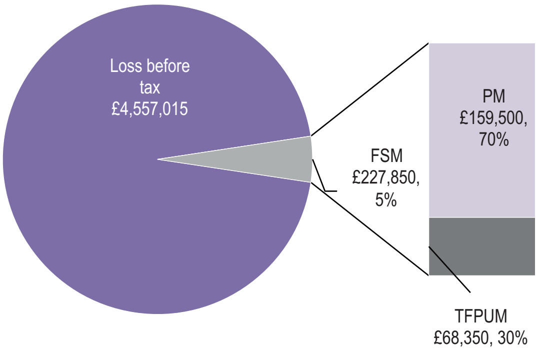
Materiality measure	
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing, and extent of our audit work.
Materiality threshold	**£227,850, which is approximately 5% of the Company's loss before tax.**
Significant judgements made by auditor in determining the materiality	In determining materiality, we made the following significant judgments: ● We selected loss before tax as the benchmark as the Company operates in an industry in which the customer base is stable and the cost of servicing the customers does not vary significantly. Loss before tax is also a key performance measure for the Company and is therefore of most interest to the stakeholders; and ● Potential increased risk due to Covid-19 and therefore increased uncertainty amongst many businesses and the economy. Materiality for the current year is higher than the level than the level set for 31 December 2020. We have used the same benchmark, being loss before tax and measurement percentage of 5%. However, given Surface Transforms plc have made a greater loss during FY21 materiality has increased from £145,750 in prior year to £227,850. Although losses have increased, we have also noted an increase in revenues and therefore materiality is considered a suitable threshold in capturing any significant balances for audit procedures.
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
Performance materiality threshold	**£159,500, which is 70% of financial statement materiality.**
Significant judgements made by auditor in determining the performance materiality	In determining performance materiality, we made the following significant judgments: ● Our risk assessment: based on the results of our risk assessment procedures, we considered the Company's overall control environment to be effective, however we understood there to be some segregation of duties issues due to the size of the finance team; and ● the level of identified misstatements in the prior year audit was low.
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
Specific materiality threshold	We determined a lower level of specific materiality for the following areas: ● Directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the audit committee.
Threshold for communication	£11,400 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Independent Auditor's Report

to the members of Surface Transforms Plc

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality



FSM: Financial statements materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatements

An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the Company's business and in particular matters related to:

Understanding the Company and its environment, including controls

- We evaluated the design and implementation of controls relevant to the audit and assessed the risks of material misstatement.

Work performed on financial information of the Company (including how it addressed the key audit matters)

- A full-scope audit of the Company;
- An evaluation of significant management estimates and judgements, including those estimates and judgements made in respect of the OEM 8 contract;
- An assessment of material accounting policies for compliance with the financial reporting framework;
- Undertaking substantive audit procedures on the OEM 8 contract, including evaluation of management's assessment of revenue recognition and whether it was in accordance with IFRS 15, which addressed the key audit matter 'Revenue recognition on Original Equipment Manufacture (OEM) 8 contract';
- An assessment of the ability of the Company to continue as a going concern through reference to cashflow forecasts, sensitivity analysis and reverse stress testing which addressed the key audit matter 'Going concern'.

Performance of our audit

- All audit work has been undertaken by the audit team remotely due Covid-19 restrictions; and
- Given this is a first-year audit, we invested significant time in understanding and evaluating the Company's internal control environment, processes, and relevant controls.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and 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.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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

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

Matter on which we are required to report under the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

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

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

Independent Auditor's Report

to the members of Surface Transforms Plc

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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the financial reporting framework, being the Companies Act 2006, UK-adopted international accounting standards, tax compliance regulations and health and safety.
- We obtained an understanding of how the Company was complying with those legal and regulatory frameworks by making enquiries of management. We enquired of management whether they were aware of instances of non-compliance with laws and regulations, or whether they had any knowledge of actual, suspected or alleged fraud.
- We enquired of those charged with governance and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud. We corroborated the results of our enquires to relevant supporting documentation.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that principal risks were in relation to:
  - Journals to revenue where the corresponding entry fell outside of our expectation of a standard sales transaction; and
  - Journals posted by senior management personnel.
- In assessing the potential risks of material misstatement, we obtained an understanding of the Company's operations, including the nature of its revenue sources, products and services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- We assessed the appropriateness of the collective competence and capabilities of the engagement team including consideration of the engagement team's:
- understanding of, and practical experience with audit engagement of a similar size and complexity through appropriate training and participation; and
- understanding of the legal and regulatory requirements specific to the Company.
- We did not identify any material matters relating to non-compliance with laws and regulation or relating to fraud.

Independent Auditor's Report

to the members of Surface Transforms Plc

Use of our report

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

Grant Thornton UK LLP

Gareth Hitchmough

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Liverpool

1 April 2022

Statement of Total Comprehensive Income

For the year ended 31 December 2021

	Note	12 months to 31 December 2021 £'000	12 months to 31 December 2020 £'000
Revenue	3	**2,369**	1,952
Cost of Sales		**(821)**	(642)
Gross Profit		**1,548**	1,310
		65%	67%
Other Income		**24**	240
Administrative Expenses:			
Before research and development costs		**(2,432)**	(1,888)
Research and development costs		**(3,405)**	(2,468)
Total administrative expenses		**(5,837)**	(4,356)
Operating loss before non recurring items	4	**(4,265)**	(2,805)
Non-recurring items		**(180)**	–
Operating loss after non recurring items		**(4,444)**	(2,805)
Financial Expenses	7	**(134)**	(111)
Loss before tax		**(4,579)**	(2,915)
Taxation	8	**627**	614
Loss for the year after tax		**(3,952)**	(2,301)
Other comprehensive income			
Total comprehensive loss for the year attributable to members		**(3,952)**	(2,301)
Loss per ordinary share			
Basic and diluted	23	**(2.08p)**	(1.54p)

The notes on pages 36 to 58 form part of these financial statements

Statement of Financial Position

At 31 December 2021

	Note	As at 31 December 2021 £'000	As at 31 December 2021 £'000	As at 31 December 2020 £'000	As at 31 December 2020 £'000
Non-current Assets					
Property, plant and equipment	9	**9,403**		5,626	
Intangibles	10	**577**		278	
			9,980		5,904
Current assets					
Inventories	11	**1,338**		575	
Trade and other receivables	12	**376**		219	
Other Receivables	12	**1,714**		859	
Cash and cash equivalents		**12,966**		1,058	
			16,394		2,711
Total assets			**26,374**		8,615
Current liabilities					
Other interest-bearing loans and borrowings	13	**(325)**		(75)	
Lease Liabilities	13	**(279)**		(224)	
Trade and other payables	14	**(1,990)**		(920)	
		(2,594)		(1,219)	
Non-current liabilities					
Government Grants	24	**(200)**		(200)	
Lease Liabilities	13	**(1,449)**		(1,147)	
Other interest-bearing loans and borrowings	13	**(1,239)**		(371)	
Total liabilities			**(5,482)**		(2,937)
Net assets			**20,892**		5,678
Equity					
Share capital	16		**1,952**		1,549
Share premium			**41,446**		22,779
Capital reserve			**464**		464
Retained loss			**(22,970)**		(19,114)
Total equity attributable to equity shareholders of the company			**20,892**		5,678

These financial statements were approved by the board of directors on 1st April 2022 and were signed on its behalf by:

Nil Bell.

D Bundred
Chairman

Company Registered Number 03769702

The notes on pages 36 to 58 form part of these financial statements

Statement of Changes in Equity

For the year ended 31 December 2021

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained Loss £'000	Total £'000
Balance as at 31 December 2020	1,549	22,779	464	(19,114)	5,678
Comprehensive income for the year					
Loss for the period	–	–	–	(3,952)	(3,952)
Total comprehensive income for the year	–	–	–	(3,952)	(3,952)
Transactions with owners, recorded directly to equity					
Shares issued in the period	400	19,600	–	–	20,000
Share options exercised	3	38	–	–	41
Cost of issue to share premium	–	(971)	–	–	(971)
Equity settled share based payment transactions	–	–	–	96	96
Total contributions by and distributions to the owners	403	18,667	–	96	19,166
Balance at 31 December 2021	**1,952**	**41,446**	**464**	**(22,970)**	**20,892**

For the year to 31 December 2020

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained Loss £'000	Total £'000
Balance as at 31 December 2019	1,361	20,712	464	(16,917)	5,620
Comprehensive income for the year					
Loss for the year	–	–	–	(2,303)	(2,303)
Total comprehensive income for the year	–	–	–	(2,303)	(2,303)
Transactions with owners, recorded directly to equity					
Shares issued in the year	185	2,220	–	–	2,405
Share options exercised	3	24	–	–	28
Cost of issue to share premium	–	(177)	–	–	(177)
Equity settled share based payment transactions	–	–	–	106	104
Total contributions by and distributions to the owners	188	2,067	–	106	2,361
Balance at 31 December 2020	**1,549**	**22,779**	**464**	**(19,114)**	**5,678**

The notes on pages 36 to 58 form part of these financial statements

Statement of Cash Flows

For the year ended 31 December 2021

	12 months to 31 December	
	2021 £'000	**2020 £'000**
Cash flow from operating activities		
Loss after tax for the year	**(3,952)**	(2,303)
Adjusted for:		
Depreciation and amortisation charge	**671**	494
Disposal of Fixed assets	**6**	–
Equity settled share-based payment expenses	**96**	106
Foreign Exchange Losses	**24**	18
Financial expense	**134**	111
Taxation	**(627)**	(614)
	(3,648)	(2,188)
Changes in working capital		
(Increase)/decrease in inventories	**(763)**	431
(Increase)/decrease in trade and other receivables	**(962)**	520
Increase/(decrease) in trade and other payables	**1,070**	(109)
	(4,303)	(1,346)
Taxation received	**577**	334
Net cash used in operating activities	**(3,726)**	(1,012)
Cash flows from investing activities		
Acquisition of tangible and intangible assets	**(3,949)**	(643)
Proceeds from disposal of property, plant and equipment	**2**	–
Net cash used in investing activities	**(3,947)**	(643)
Cash flows from financing activities		
Proceeds from issue of share capital, net of expenses	**20,041**	2,432
Costs for issue of share capital	**(971)**	(176)
Payment of finance lease liabilities	**(156)**	(56)
Proceeds from long term loans	**1,000**	–
Payments of long term loans	**(175)**	(128)
Interest paid	**(134)**	(111)
Net cash generated from financing activities	**19,605**	1,961
Net Increase in cash and cash equivalents	**11,932**	306
Foreign Exchange Losses	**(24)**	(18)
Cash and cash equivalents at the beginning of the period	**1,058**	770
Cash and cash equivalents at the end of the period	**12,966**	1,058

The notes on pages 36 to 58 form part of these financial statements

Notes to the Financial Statements

For the year ended 31 December 2020

1 Accounting policies

Surface Transforms plc (the Company) incorporated and domiciled in the UK, the registered office of business is Image Business Park, Acornfield Road, Liverpool L33 7UF.

Surface Transforms is a UK-based developer and manufacturer of carbon ceramic products for the brakes market. The company is exempt from producing consolidated financial statements in accordance with s402 of the Companies Act 2006 because its four dormant subsidiary companies are not material individually or in aggregate for the purpose of giving a true and fair view. The subsidiaries are ST Aerospace Ltd., ST Automotive Ceramic Ltd., ST Defence Ltd and ST Racing Ltd.

Statement of compliance

The financial statements have been prepared in accordance with UK adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The financial statements were approved by the board on 1 April 2022.

Basis of preparation

The financial statements of Surface Transforms Plc have been prepared in accordance with UK adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £'000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Going concern

The financial statements have been prepared on a going concern basis which the Directors believe to be appropriate. The Company incurred a net loss of £4.0m during the period however the Directors are satisfied, based on detailed cash flow projections and after the consideration of reasonable sensitivities, that sufficient cash is available to meet the Company's needs as they fall due for the foreseeable future and at least 12 months from the date of signing the accounts. The detailed cash flow assumptions are based on the company's annual budget, prepared and approved by the Board, which reflects a number of key assumptions including; revenue growth, underpinned by current pipeline; customer compliance with payment terms; other receipts of a value and timing consistent with previous years. These forecasts also include the impacts of the Covid situation, and the significant post year end fund raise which has increased cash balances.

The current COVID-19 situation is expected to continue to impact operations throughout 2022. In addition, the company has taken cash protection measures in order to preserve working capital until the situation has been resolved. The fundraise has however delivered the headroom required to give comfort over going concern.

Further information regarding the Company's business activities, together with the factors likely to affect future development, performance and position are set out in the Chairman's statement on pages 3 to 6 and the Strategic report on pages 7 to 13. In addition, note 21 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposures to credit risk and liquidity risk.

The Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

1 **Accounting policies** continued

Share based payments

The share option programme allows employees to acquire shares of the Company. The fair value is measured at grant date and spread over the period during which the employees and Directors become unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Volatility is calculated using the standard deviation of the exercise price with respect to the share price since admission. This is due to the price being driven by news flow and it is anticipated that when the share begins to have lower volatility from news then a shorter period will be used. The amount recognised as an expense is adjusted to reflect the actual number of share options that are expected to vest except where forfeiture is only due to share prices not achieving the threshold for vesting. Cancelled or settled options are accounted for as an acceleration of vesting and the amount that would have been recognised over the remaining vesting period is recognised immediately.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Following the adoption of IFRS 16 the company treats long term leases for property and plant as assets and corresponding liabilities. The liabilities are calculated on the basis of a discounted cash flow. For these calculations the company has assumed an incremental borrowing interest rate of 6%, this is based on historical and potential future interest rates on loans.

Depreciation is charged to the statement of total comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

- Plant and machinery — 6.66% – 20% per annum
- Fixtures and fittings — 33% per annum
- Leasehold improvements — Over life of lease
- Buildings(right of use) — Over life of lease

Depreciation methods and useful lives are reviewed at each balance sheet date. No depreciation is charged on assets classified as capital in progress. Depreciation is charged once an asset in brought into use by the business.

Intangibles

Cost comprises the aggregate amount paid and includes costs directly attributable to making the asset capable of operating as intended. Intangibles stated at cost less accumulated depreciation. Amortisation is computed by allocating the amortisation amount of an asset on a systematic basis over its useful life and is applied separately to each identifiable component. Amortisation is applied to software over 5 years on a straight-line basis.

The Company capitalises project development costs in line with IAS 38. The Company's policy is to amortise these development costs over the contracted period. The Company also assesses each contracts value and impairs capitalised development costs when it is apparent that the contract value has diminished.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the balance sheet date. The gains or losses on retranslation are included in the income statement.

1 Accounting policies continued

Revenue recognition
Revenue arises primarily from the provision of carbon ceramic brake discs.

To determine whether to recognise revenue, the company follows a 5-step process:

1. Identify the existence of a contract with a customer
2. Identify the separable performance obligations
3. Determine an appropriate transaction price for the contract
4. Allocate the transaction price to the performance obligations
5. Recognise revenue either at a point in time, or over time, dependent on how the obligation is satisfied.

The majority of revenue is currently recognised at a point in time, when the control of the goods has passed to the buyer (usually on dispatch of the goods). These contracts contain only one performance obligation being the provision of the specified goods.

The company is beginning to enter contracts (notably OEM 8), which have a number of separable elements included as part of the provision of pre-production services to the customer. For such contracts where it has been determined that a good or service is being transferred, the performance obligations which are capable of being distinct must first be identified and then an assessment made of whether the identified performance obligations are distinct in the context of the contract. Judgement is exercised in making this assessment and is driven by what the customers expectation of goods and services to be received are.

When transferring a good or service to the customer the revenue recognition point is determined based on whether the control of the good or service is transferred over time or at a point in time. Where the customer receives and consumes benefits simultaneously over the period of the performance revenue is recognised over time whereas when the service is transferring a good at a point in time the revenue is recognised at that time. Where revenue is recognised on an over time basis, the Company uses a percentage of completion model to recognise the appropriate revenue in the year. This percentage of completion is a judgement based on time booked to the contract.

Government grants
Capital grants are initially recognised as deferred income and credited to the statement of total comprehensive income over the life of the asset to which it relates.

Other income
Other income recognised in the year relates to government support received in the form of the coronavirus job retention scheme. This has been recognised in line with IAS 20 "Government Grants" on a systematic basis over the periods in which the related costs toward which they are intended to compensate are recognised as expenses.

Post-retirement benefits
The Company operates a workplace pension scheme and contributes to specific employees' personal pension schemes. The amount charged to the profit and loss account represents the contributions payable to employees' personal pension schemes and workplace pensions during the accounting year.

1 Accounting policies continued

Leases and right of use assets
The company assesses whether a contract is or contains a lease at inception of the contract. A lease conveys the right to direct the use and obtain substantially all the economic benefits of an identified asset for a period of time in exchange for consideration.

A right of use asset and corresponding lease liability are recognised at commencement of the lease. The lease liability is measured at the present value of the lease payments, discounted at the rate implicit in the lease, or if that cannot be readily determined, at the lessee's incremental borrowing rate specific to the term, country, currency and start date of the lease.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. The right of use asset is initially measured at cost, comprising: the initial lease liability; any lease payments already made less any lease incentives received; initial direct costs. The right of use asset is subsequently depreciated on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. The right of use asset is tested for impairment if there are any indicators of impairment.

Leases of low value assets and short-term leases of 12 months or less are expensed to the income statement, as are variable payments dependent on performance or usage, 'out of contract' payments and non-lease service components.

Reserves
Share Capital
Share capital reflects the nominal value of the shares issued by the Company.

Share Premium
This reserve records the amount above the nominal value received for shares sold, less transaction costs.

Capital Redemption Reserve
This reserve records the nominal value of shares repurchased by the Company.

Research and development expenditure
Expenditure on research activities is recognised in the statement of total comprehensive income as an expense as incurred. Expenditure arising from the Company's development is recognised only if all of the following conditions are met and an asset is created that can be identified:

- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- the Company has the intention to complete the asset and the ability and intention to use or sell it;
- the product or process is technically and commercially feasible; and
- sufficient resources are available to complete the development and to either sell or use the asset.

Expenditure is only capitalised if the company has entered a formal program or development process with the customer. The amount is then amortised straight line over the life of the contract.

Where these criteria have not been achieved, development expenditure is recognised as an expense in the statement of total comprehensive income in the period in which it is incurred.

1 Accounting policies continued

Inventories
Inventories are stated at the lower of cost and net realisable value. In determining the cost of raw materials and consumables the purchase price is used. For work in progress and finished goods, cost is taken as production cost.

Taxation
The charge for taxation is based on the loss for the year and takes into account taxation deferred or accelerated arising from temporary differences between the carrying amounts of certain items for taxation and for accounting purposes.

Deferred taxation is provided for in full at the tax rate which is expected to apply to the period when the deferred taxation is expected to be realised, including on tax losses carried forward.

Deferred taxation assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Tax credits received in relation to research and development expenditure are accrued during the year that the expense is incurred and included in the tax line in keeping with the HMRC small company scheme. The Board considers that there is sufficient probability of future receipts given the Company's history of receiving tax credits from HMRC.

Non-derivative financial instruments
Non-derivative financial instruments comprise trade and other receivables, cash and trade and other payables.

Trade and other receivables
Trade and other receivables are recognised initially at transaction value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. The Company has adopted IFRS 9 standard which looks at how an entity should classify and measure financial assets, financial liabilities and contracts to buy or sell non-financial items. Due to the nature of the current business the Company provides for impairments to trade receivables on an individual basis using management judgement.

The Company has reviewed its classification and measurement of financial assets and liabilities in line with IFRS 9. The classification of financial assets and liabilities has changed however, they are still carried at amortised cost and there has been no impact on the result for the current year. Trade and other receivables represent financial assets and are considered for impairment on an expected credit loss model, The Company continues to trade with the similar customers in the same market sectors and therefore the future expected credit losses have been considered in line with the past performance of the customers in the recovery of their receivables.

Trade and other payables
Trade and other payables are recognised initially at transaction value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing borrowings
Interest-bearing borrowings are recognised initially at transaction value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

Critical accounting estimates and judgements
The preparation of financial statements in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. In considering key judgements, management have considered revenue recognised over time as judgement however this is not material in current year. See revenue recognition accounting policy for further details.

1 Accounting policies continued

Key judgements assessed by management are as follows:

Research and development expenditure

The Board considers the definitions of research and development costs as outlined in IAS 38: Intangible Assets when determining the correct treatment of costs incurred. Where such expenditure is technically and commercially feasible, the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset it is treated as development expenditure and capitalised on the statement of financial position.

In considering whether an item of expenditure meets these criteria, the Board applies judgement in determining when the items are technically and commercially feasible.

Deferred tax

Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. At present management have not recognised deferred tax assets above the value of the deferred tax liability recognised, on the basis that future taxable profits are possible, not probable.

There has been a deferred tax asset recognised for £82k *(2020: £159k)* in current year on the basis that the deferred tax liabilities of £82k could be offset by deductible differences per IAS 12.28. Further information regarding the level of unrecognised deferred tax is included in note 15.

Management do not consider there to be any significant estimates included in the accounts which have a significant risk of causing a material adjustment to carrying amount of assets and liabilities within the next financial year.

2 Segment reporting

Due to the nature of the business the Company is currently focussed on building revenue streams from a variety of different markets. As there is only one manufacturing facility, and as this has capacity above and beyond the current levels of trade, there is no requirement to allocate resources to or discriminate between specific markets or products. As a result, the Company's chief operating decision maker, the Chief Executive, reviews performance information for the Company as a whole and does not allocate resources based on products or markets. In addition, all products manufactured by the Company are produced using similar processes. Having considered this information in conjunction with the requirements of IFRS 8, as at the reporting date the board of Directors have concluded that the Company has only one reportable segment that being the manufacture and sale of carbon fibre materials and the development of technologies associated with this.

The Company considers it offers product technology namely carbon fibre re-enforced ceramic material, which is machined into differing shapes depending on the intended purpose of the end user.

3 Revenue by geographical destination

	12 months to 31 December	
	2021 **£'000**	**2020** **£'000**
United Kingdom	**894**	487
Germany	**188**	230
Sweden	**129**	200
Rest of Europe	**136**	139
United States of America	**831**	806
Rest of World	**191**	90
	2,369	1,952

4 Operating loss and auditors' remuneration

	12 months to 31 December	
	2021 **£'000**	**2020** **£'000**
Operating loss is stated *after charging*		
Loss on disposal of property plant and equipment	**6**	–
Depreciation of property plant and equipment	**601**	433
Amortisation of Intangible assets	**70**	61
Research costs expensed as incurred	**3,405**	2,468
Exchange losses	**24**	18
after crediting		
Government grants	**12**	–

Auditors' remuneration

Amounts receivable by auditors and their associates in respect of:

	12 months to 31 December	
	2021 **£'000**	**2020** **£'000**
Fees payable to the Company auditor for the audit of the financial statements	**60**	55
Total	**60**	55

5 Remuneration of Directors

The aggregate amount of emoluments paid to Directors in respect of qualifying services during the period was £546,084 *(2020: £303,012)*.

The amounts set out above include remuneration in respect of the highest paid director of £262,938 *(2020: £131,960)*.

Pension contributions of £20,154 *(2020: £14,201)*. were made to a money purchase scheme on behalf of two directors.

During the year Michael Cunningham was granted options over 173,700 shares with an exercise price of 57p.

Notes to the Financial Statements

6 Staff numbers and costs

The average number of persons employed by the company (including Directors) during the year, analysed by category, was as follows:

	12 months to 31 December	
	2021	2020
Directors	6	5
Other employees	59	43
	65	48

The aggregate payroll of these persons were as follows:

	12 months to 31 December	
	2021 £'000	2020 £'000
Wages and salaries	2,428	1,764
Social security costs	257	193
Other pension costs	164	123
Share based compensation	96	106
	2,945	2,186

7 Financial Expenses

	12 months to 31 December	
	2021 £'000	2020 £'000
Total interest expense on financial liabilities measured at amortised cost	134	111

Notes to the Financial Statements

8 Taxation

	12 months to 31 December	
	2021 **£'000**	**2020** **£'000**
Analysis of credit in year		
UK corporation tax		
Adjustment in respect of prior years – R&D tax allowances	**(23)**	14
R&D tax allowance for current year	**650**	600
Total income tax credit	**627**	614

	12 months to 31 December	
	2021 **£'000**	**2020** **£'000**
Reconciliation of effective tax rate		
Loss for year	**(3,952)**	(2,303)
Total income tax credit	**(627)**	(614)
Loss excluding income tax	**(4,579)**	(2,917)
Current tax at average rate of 19%	**(870)**	(554)
Effects of:		
Non-deductible expenses	**1**	1
Current year losses for which no deferred tax recognised	**869**	553
R&D tax allowance for current year	**(650)**	(600)
Adjustment in respect of prior years – R&D tax allowances	**23**	(14)
Income tax credit	**(627)**	(614)

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25% for companies with profits of £250,000 or greater. For companies with profits of £50,000 or less the corporation tax rate will remain at 19%. A tapered rate will be introduced for companies with profits greater than £50,000 and less than £250,000. Since the proposal to increase the corporation tax rates had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be immaterial.

Details of the unrecognised deferred tax asset are included in note 15.

Notes to the Financial Statements

9 Property, plant and equipment

	Land and Buildings £'000	Leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Capital in progress £'000	Total £'000
Cost						
At 31 December 2019	1,503	230	1,963	455	3,223	7,374
Transfers	–	–	1,366	–	(1,366)	–
Additions	–	7	237	32	264	540
At 31 December 2020	1,503	237	3,566	487	2,121	7,914
Transfers	–	–	233	2	(247)	(12)
IFRS16 Lease modification	430	–	–	–	–	430
Additions	–	15	150	60	3,742	3,967
Disposals	–	–	(33)	(7)	–	(40)
At 31 December 2021	**1,933**	**252**	**3,916**	**542**	**5,616**	**12,259**
Depreciation						
At 31 December 2019	336	110	1,029	380	–	1,855
Charge	90	15	279	49	–	433
At 31 December 2020	426	125	1,308	429	–	2,288
Charge	126	16	431	28	–	601
Disposals	–	–	(26)	(7)	–	(33)
At 31 December 2021	**552**	**141**	**1,713**	**450**	**–**	**2,856**
Net book value						
At 31 December 2019	1,167	119	935	75	3,223	5,518
At 31 December 2020	1,078	112	2,258	57	2,121	5,626
At 31 December 2021	**1,381**	**111**	**2,203**	**92**	**5,616**	**9,403**

See note 21 for right of use assets included in Land and Buildings

Notes to the Financial Statements

10 Intangibles

	Software £'000	Capitalised R&D £'000	Total £'000
Cost			
At 31 December 2019	245	–	245
Additions	23	141	164
At 31 December 2020	268	141	409
Transfers from Capital in Progress	12	–	12
Additions	52	305	357
At 31 December 2021	**332**	**446**	**778**
Amortisation			
At 31 December 2019	70	–	70
Charge for period	61	–	61
At 31 December 2020	131	–	131
Charge for period	68	2	70
At 31 December 2021	**199**	**2**	**201**
Net book value			
At 31 December 2019	175	–	175
At 31 December 2020	137	141	278
At 31 December 2021	**133**	**444**	**577**

11 Inventories

	12 months to 31 December	
	2021 £'000	**2020 £'000**
Raw materials and consumables	**808**	297
Work in progress	**253**	130
Finished goods	**277**	148
	1,338	575

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £821k *(2020: £642k)*.

12 ## Trade and other receivables

	12 months to 31 December	
	2021 **£'000**	**2020** **£'000**
Trade receivables	**376**	219
Other receivables	**287**	17
Accrued tax credit	**650**	600
Prepayments and accrued income	**571**	235
Contract Assets	**206**	7
	2,090	1,078

All receivables fall due within one year excepting the contract asset which is recoverable over a predetermined number of units with a major customer.

Debt written off in the year amounted to £1k *(2020: £22k)*, Provision against bad debt in the year was £36k *(2020: £27k)*.

13 ## Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate and foreign currency risk, see note 21.

	12 months to 31 December	
	2021 **£'000**	**2020** **£'000**
Current liabilities		
Lease Liabilities	**279**	224
Other borrowings	**325**	75
	604	299

	12 months to 31 December	
	2021 **£'000**	**2020** **£'000**
Non-current liabilities		
Other borrowings	**1,239**	371
Lease Liabilities	**1,449**	1,147
	2,688	1,518

13 Other interest-bearing loans and borrowings continued

Lease Liabilities Payable as follows:

	Future minimum lease payments 2021 £'000	Interest 2021 £'000	Present value of minimum lease payments 2021 £'000	Future minimum lease payments 2020 £'000	Interest 2020 £'000	Present value of minimum lease payments 2020 £'000
Less than one year	399	(121)	278	254	(30)	224
More than one year	2,386	(523)	1,863	1,909	(541)	1,368
	2,785	(644)	2,141	2,163	(571)	1,592

As at 31 December 2021	Due in 1 year £'000	Due in 2-5 years £'000	Total £'000
Other Borrowings (MSIF* Loans)	**325**	**825**	**1,150**

As at 31 December 2020	Due in 1 year £'000	Due in 2-5 years £'000	Total £'000
Other Borrowings (MSIF* Loans)	75	150	225

*MSIF is the Merseyside Investment Fund

14 Trade and other payables amounts falling due within one year

	12 months to 31 December	
	2021 £'000	2020 £'000
Trade payables	1,345	609
Taxation and social security	148	57
Accruals and deferred income	476	254
Contract Liabilities	21	–
	1,990	920

Notes to the Financial Statements

15 Deferred tax

	12 months to 31 December	
	2021 **£'000**	**2020** **£'000**
Difference between accumulated depreciation and amortisation and capital allowances	**417**	159
Tax losses	**(1,739)**	(1,027)
	(1,322)	(868)

The Company has an unrecognised deferred tax asset at 31 December 2021of £1,322k *(2020: £868k)* relating principally to tax losses which the Company can offset against future taxable profits. The Company has recognised its deferred tax liability of £417k as these are recognised as soon as they arise. The Company anticipates that an equal value of its deferred tax asset could be utilised against this liability and this has been offset against the deferred tax liability.

16 Called up share capital

Allotted called up and fully paid of £0.01 each	**Number**	**£'000**
At 31 December 2019	136,099,016	1,361
Issue of shares	18,819,303	188
At 31 December 2020	154,918,319	1,549
Issue of shares	40,270,000	403
At 31 December 2021	195,188,319	1,952

During the year 270,000 shares were issued through the exercise of options.

During the year the Company issued 40,000,000 ordinary shares in the Company in a placing, subscription and open offer taking the total issued share capital to 195,188,319 and raising a total of £19m after fees.

The Company operates a share incentive scheme for the benefit of the Directors and certain employees. All options are granted at the discretion of the Board. The scheme grants options to purchase ordinary shares of £0.01 each.

Notes to the Financial Statements

16 Called up share capital continued

The options granted to Directors, date of grant and exercise price and exercise periods under the scheme are set out in the report on Directors' remuneration on pages 20 and 21. In addition to the Directors' share options, certain employees and former directors have been granted the following options:

Note	At 31 Dec 2020	Granted	Leaver	Exercised	At 31 Dec 2021	Exercise price	Date from which exercisable	Expiry date
(a)	27,842	–	–	–	27,842	£0.1200	01/03/2016	15/03/2022
(a)	300,000	–	–	–	300,000	£0.1050	25/09/2017	25/09/2024
(b)	100,000	–	(100,000)	–	0	£0.1050	25/09/2017	25/09/2024
(a)	125,000	–	–	–	125,000	£0.1450	30/09/2018	30/09/2025
(b)	250,000	–	–	–	250,000	£0.1550	02/10/2018	02/10/2025
(a)	1,725,000	–	(310,000)	(180,000)	1,235,000	£0.1525	04/01/2018	04/01/2028
(d)	700,000	–	–	–	700,000	£0.1525	04/01/2018	04/01/2028
(a)	1,875,753	–	(20,000)	–	1,855,753	£0.2050	04/07/2018	19/09/2027
(a)	565,000	–	(140,000)	(20,000)	405,000	£0.1300	05/12/2019	05/12/2029
(b)	1,910,000	–	–	–	1,910,000	£0.1300	05/12/2019	05/12/2029
(e)	210,000	–	–	(70,000)	140,000	£0.1525	28/03/2019	28/03/2029
(a)	360,000	–	–	–	360,000	£0.2350	04/12/2021	04/12/2029
(f)	210,000	–	–	–	210,000	£0.2600	28/01/2020	28/01/2030
(e)	180,000	–	(40,000)	–	140,000	£0.4600	20/10/2020	20/10/2030
(h)	–	210,000	–	–	210,000	£0.5000	23/02/2021	23/02/2031
(g)	–	40,000	–	–	40,000	£0.5000	23/02/2021	23/02/2031
(i)	–	1,110,105	–	–	1,110,105	£0.5700	10/11/2021	10/11/2031
(g)	–	700,000	(20,000)	–	680,000	£0.5700	10/11/2021	10/11/2031
Total	8,538,595	2,060,105	(630,000)	(270,000)	9,698,700			

There is a total of 4,335,000 unexpired options held by employees, 470,000 unexpired options held by former employees and a total of 5,363,700unexpired options held by Directors. The options issued to directors and senior managers on 19 September 2017,4 January 2018, 5 December 2018, 28 March 2019, 28 January 2020 and 20 October 2020 vest on the achievement of specific performance criteria relating to contract awards, cost targets and revenue levels.

17 Pension scheme

The Company contributes to specific employees' personal pension schemes. The pension charge for the year represents contributions payable by the Company to the schemes and amounted to £223k *(2020: £127k)*. During the year two directors and several senior managers opted to enter into salary exchange arrangements whereby they sacrificed salary for increased pension contributions. These arrangements accounted for £107k of the pension contributions at the year end *(2020: £36k)*.

There were outstanding contributions of £42k *(2020: £3k)* at the year.

Notes to the Financial Statements

18 Related party disclosures

Transactions with key management personnel

During the year Michael Cunningham acquired 50,000 of the shares in the Company in an open market transaction, Matthew Taylor acquired 55,000. David Bundred and Richard Gledhill participated in the February 2021 equity fundraising. Directors of the Company and their close family control 9% *(2020: 11.9%)* of the voting shares of the Company at the year end.

Related party disclosures

	12 months to 31 December	
	2021 £'000	**2020 £'000**
Wages and salaries	**935**	567
Social security costs	**95**	60
Pension costs	**47**	33
Share based payments	**96**	–
	1,173	660

19 Net Debt

	As at 1 January 2021 £'000	**Cash Flow £'000**	**Other non-cash movements £'000**	**31 December 2021 £'000**
Lease Liabilities	(1,371)	320	(528)	(1,579)
Long term loans	(446)	(862)	(404)	(1,712)
Liabilities arising from financing activities	(1,817)	(542)	(932)	(3,291)
Cash	1,058	11,932	(24)	12,966
Total net debt	**(759)**	**11,391**	**(956)**	**9,675**

	As at 1 January 2020 £'000	**Cash Flow £'000**	**Other non-cash movements £'000**	**31 December 2020 £'000**
Lease Liabilities	(1,345)	56	(82)	(1,371)
Long term loans	(594)	128	20	(446)
Liabilities arising from financing activities	(1,939)	184	(62)	(1,817)
Cash	770	306	(18)	1,058
Total net debt	**(1,169)**	**490**	**(80)**	**(759)**

Notes to the Financial Statements

20 Financial Instruments

The Company's policies with regard to financial instruments are set out below. The risks arising from the Company's financial assets and liabilities are set out below with the policies for their respective management.

Currency Risk

The Company transacts business in foreign currencies and therefore incurs some transaction risk due to potential foreign currency cash balances. At the year end the Company held a balance of $3,595k (£2,657k) and a balance of €997k (£838k).

The Company's exposure to foreign currency risk was as follows, this is based on the carrying amount for monetary financial instruments:

Sensitivity Analysis

A ten per cent strengthening of the pound against the US Dollar and the Euro at 31 December 2021 would have increased losses by the amounts below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for December 2020.

	US Dollar £'000	**Euro £'000**
31 December 2020	(28)	(23)
31 December 2021	**(240)**	**(61)**

A ten per cent weakening of the pound against the US Dollar and the Euro at 31 Dec would have reduced losses by the amounts below; on the basis all other variables remain constant.

	US Dollar £'000	**Euro £'000**
31 December 2020	34	28
31 December 2021	**294**	**74**

Price Risk

The Company aims to minimise its exposure to supplier price increases and customer price decreases by offsetting reciprocal supplier and customer arrangements and by entering fixed cost contracts where these are available.

Notes to the Financial Statements

20 Financial Instruments continued

Credit Risk
The Company operates a closely monitored collection policy. The Company closely monitors the credit risk of customers and offers credit only to those with healthy scores.

All sales to retrofit and smaller near OEM customers are on a payment before shipping basis and only OEM's qualify for significant levels of credit. Where appropriate the Company has in the past and would again secure trade credit insurance for significant debt. The total credit risk is therefore £414k *(2020: £219k)*.

	31 December 2021			31 December 2020		
	Gross £'000	**Impairment £'000**	**Net £'000**	**Gross £'000**	**Impairment £'000**	**Net £'000**
Not past due	**39**	**–**	**39**	144	–	144
Past due 0 to 30 days	**111**	**–**	**111**	7	–	7
Past due 31+ days	**300**	**(36)**	**264**	95	(27)	68
	450	**(36)**	**414**	246	(27)	219

The ageing of trade receivables at the reporting date was:

Trade receivables impairment

	2021	**2020**
Opening balance	**27**	6
Amounts written off	**–**	(6)
Amounts provided for	**9**	27
Provision at year end	**36**	27

There was an amount of £36k *(December 2020: £27k)* in the allowance for impairment in respect of trade receivables.

The average debtor days are 41 days *(December 2020: 47 days)*, the average creditor days are 52 days *(2020: 41 days)*.

Liquidity risk
The Company's objective is to maintain a balance between continuity and flexibility of funding through the use of short-term deposits.

The contractual maturity of all cash, trade and other receivables at the current and preceding balance sheet date is within one year.

The contractual maturity of trade and other payables at the current and preceding balance sheet date is within three months.

The contractual maturity of lease liabilities and loan liabilities can be found in note 14.

20 Financial Instruments continued

Interest rate risk

At the balance sheet date, the interest rate profile of the Company's interest-bearing financial instruments was:

	2021 £'000	2020 £'000
Fixed rate instruments:		
Lease liabilities		
Less than one year	**95**	103
More than one year	**457**	458
Total	**552**	560
Other Loans and Borrowings		
Less than one year	**175**	–
More than one year	**825**	–
Total	**1,000**	0

Sensitivity Analysis

A 20% increase in the BOE base rate would result in an increase in interest on the interest-bearing loan of £185k.

	Variable Loan Interest £'000
2022 interest at current rate of 2.5%	23
2022 interest at sensitivity rate of 22.5%	208
Increase in interest payments in 2022 of	185

Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern and satisfy its debt as it falls due whilst also maximising opportunities to progress the development of the business. The capital structure of the Company consists of cash and equity attributable to shareholders comprising issued capital. The key indicator of capital management performance used by management is the level of cash available to the Company.

Financial assets compromise of £13,380k measured at amortised cost, which consists of cash and trade receivables.

Financial liabilities compromise of £4,413k measured at amortised cost, which consists of trade payables, lease liabilities and long term and current interest-bearing loans.

Notes to the Financial Statements

21 Right of use Assets

	L&B £'000	Other £'000	Total £'000
Net Carrying value at 1 January 2021	1,077	19	1,096
Lease Modification	430	–	430
Additions	–	7	7
Depreciation charge for the period	(126)	(8)	(134)
Net Carrying value at 31 December 2021	**1,381**	**18**	**1,399**
Net Carrying value at 1 January 2020	1,167	4	1,171
Additions	–	19	19
Depreciation charge for the period	(90)	(4)	(94)
Net Carrying value at 31 December 2020	**1,077**	**19**	**1,096**

Amounts recognised in the income statement

	December 2021 £'000	December 2020 £'000
Interest on Lease liabilities	**86**	82

Lease liabilities

	December 2021 £'000	December 2020 £'000
Current	**279**	224
Non-Current	**1,449**	1,147
Total Lease Liabilities	**1,728**	**1,371**

	December 2021 £'000	December 2020 £'000
Total Cash outflow for leases	**303**	128

Maturity analysis-Contractual undiscounted lease payments

	December 2021 £'000	December 2020 £'000
Within 1 year	**226**	152
Greater than one year but less than five years	**659**	691
Greater than five years but less than ten years	**1,085**	850
Greater than ten years but less than fifteen years	**163**	128
Total Lease Liabilities	**2,133**	1,821

Capital commitments as at 31 December 2021 were £5,242k *(2020: £579k)* which all related to equipment for the OEM Production line, none related to leases.

22 ## Ultimate controlling party

The Directors do not consider there to be an ultimate controlling party due to no individual party owning a majority share in the Company.

23 ## Loss per ordinary share

The calculation of basic loss per ordinary share is based on the loss for the financial year divided by the weighted average number of shares in issue during the year.

Losses and number of shares used in the calculation of loss per ordinary share are set out below:

Basic	2021	2020
Loss after tax (£)	(3,951,292)	(2,301,426)
Weighted average number of shares (No. of shares)	190,215,345	149,013,664
Loss per share (pence)	(2.08p)	(1.54p)

The calculation of diluted loss per ordinary share is identical to that used for the basic loss per ordinary share. This is because the exercise of options would have the effect of reducing the loss per ordinary share from continuing operations and is therefore anti-dilutive under the terms of IAS 33.

Share based payments

The fair value of options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Exercise is assumed to occur 3 years from the date of grant and historically there has been no early exercise of options and so this has been ignored.

The fair value uses the weighted average share price and a risk free rate of return of 2.0%.

Due to Company's current state of growth no dividends have been included in any calculations however this is reviewed annually by the board.

Volatility is calculated using the standard deviation of the exercise price with respect to the share price since admission. This is due to the price being driven by news flow and it is anticipated that when the share begins to have lower volatility from news then a shorter period will be used. The Board believes that the Company's shares are still very volatile due to this news flow impact and so uses a time period including volatility to achieve this outcome.

Notes to the Financial Statements

23 Loss per ordinary share continued

Share options

The number of options outstanding under the Company's share option scheme is as follows:

Note	At 31 Dec 2020	Granted	Leaver	Exercised	At 31 Dec 2021	Exercise price	Date from which exercisable	Expiry date
(a)	27,842	–	–	–	27,842	£0.1200	01/03/2016	15/03/2022
(a)	300,000	–	–	–	300,000	£0.1050	25/09/2017	25/09/2024
(b)	100,000	–	(100,000)	–	0	£0.1050	25/09/2017	25/09/2024
(a)	125,000	–	–	–	125,000	£0.1450	30/09/2018	30/09/2025
(b)	250,000	–	–	–	250,000	£0.1550	02/10/2018	02/10/2025
(a)	1,725,000	–	(310,000)	(180,000)	1,235,000	£0.1525	04/01/2018	04/01/2028
(d)	700,000	–	–	–	700,000	£0.1525	04/01/2018	04/01/2028
(a)	1,875,753	–	(20,000)	–	1,855,753	£0.2050	04/07/2018	19/09/2027
(a)	565,000	–	(140,000)	(20,000)	405,000	£0.1300	05/12/2019	05/12/2029
(b)	1,910,000	–	–	–	1,910,000	£0.1300	05/12/2019	05/12/2029
(e)	210,000	–	–	(70,000)	140,000	£0.1525	28/03/2019	28/03/2029
(a)	360,000	–	–	–	360,000	£0.2350	04/12/2021	04/12/2029
(f)	210,000	–	–	–	210,000	£0.2600	28/01/2020	28/01/2030
(e)	180,000	–	(40,000)	–	140,000	£0.4600	20/10/2020	20/10/2030
	–	210,000	–	–	210,000	£0.5000	23/02/2021	23/02/2031
(b)	–	40,000	–	–	40,000	£0.5000	23/02/2021	23/02/2031
	–	1,110,105	–	–	1,110,105	£0.5700	10/11/2021	10/11/2031
(b)	–	700,000	(20,000)	–	680,000	£0.5700	10/11/2021	10/11/2031
Total	8,538,595	2,060,105	(630,000)	(270,000)	9,698,700			

(a) These options have been granted under the EMI approved scheme. There have been no variations to the terms and conditions, or performance criteria attached to these share options during the financial year. There are no performance conditions attached to the options issued other than continued employment by the Company.

(b) These options have been granted under the unapproved scheme. There have been no variations to the terms and conditions, or performance criteria attached to these share options during the financial year. There are no performance conditions attached to the options issued other than continued employment by the Company.

(c) These options have been granted under the EMI approved scheme. There have been no variations to the terms and conditions, or performance criteria attached to these share options during the financial year. For these options there are three performance criteria: The nomination of a track car, a nomination by a mainstream OEM for a production vehicle and/or the delivery of £5m of revenue in a financial year.

(d) These options have been granted under the unapproved scheme. There have been no variations to the terms and conditions, or performance criteria attached to these share options during the financial year. For these options there are three performance criteria: The nomination of a track car, a nomination by a mainstream OEM for a production vehicle and/or the delivery of £5m of revenue in a financial year.

(e) These options have been granted under the approved scheme. These options have been granted under the EMI approved scheme. There have been no variations to the terms and conditions, or performance criteria attached to these share options during the financial year. For these options there are performance criteria relating cost and production targets.

Notes to the Financial Statements

23 Loss per ordinary share continued

(f) These options have been granted under the EMI approved scheme. There have been no variations to the terms and conditions, or performance criteria attached to these share options during the financial year. For these options there are three performance criteria: Production cell OEM1 meeting certain production criteria, the company achieving a certain target cost for the manufacture of a carbon ceramic disc and the delivery of £5m of revenue in a financial year.

(g) These options have been granted under the EMI approved scheme. There are no performance conditions attached to the options issued other than continuous employment by the Company for a period of 2 years and continuing employment.

(h) These options have been granted under the EMI approved scheme. There have been no variations to the terms and conditions, or performance criteria attached to these share options during the financial year. For these options there are three performance criteria: Achievement of staffing requirements for start of OEM production, ongoing staff turnover levels below industry average in a 3 year period and the delivery of £5m of revenue in a financial year.

(i) These options have been granted under the EMI approved scheme. There have been no variations to the terms and conditions, or performance criteria attached to these share options during the financial year. For these options there are three performance criteria: Achieving a minimum of £20m of sales in a rolling twelve-month period, achieving a minimum of £5m profit before tax in a rolling twelve-month period and installing capacity capable of achieving annual sales of at least £60m.

24 Government grants

Government grants on the statement of financial position at the year-end related to grants received for capital equipment for use in production. These grants are to be amortised over the life of the equipment to which they relate. During the year to December 2021 no amounts were released to profit and loss as all of the equipment had not entered full production. This is expected to occur in 2022 and the corresponding release of grants will occur.

	2021 £'000	**2020 £'000**
Grant income due less than 1 year	**12**	7
Grant income due more than 1 year	**188**	193
	200	200

In addition the Company was in receipt of £5k *(year ended 31 December 2020: £240k)* of Coronavirus Job retention Scheme funds during the year. These have been treated as other income on the statement of total comprehensive income.

25 Post reporting date events

After the reporting date the Company announced the extension of its contract with OEM 8, increasing the contract value from a previously reported £27m to £100m.

26 Non-recurring items

During the year the Company was involved in a commercial dispute which resulted in legal fees amounting to £180k. These costs are not expected to recur.

Company Information and Advisers

Website	www.surfacetransforms.com
Registered Number	03769702
Directors	**David George Bundred** *(Non-executive Chairman)* **Dr Kevin Johnson** *(Chief Executive)* **Matthew Taylor** *(Non-executive Director)* **Julia Woodhouse** *(Non-executive Director)* **Richard Douglas Gledhill** *(Non-executive Director)* **Ian Cleminson** *(Non-executive Director)* **Michael Cunningham** *(Chief Financial Officer)*
Company Secretary	**Michael Cunningham**
Address	Image Business Park Acornfield Road Liverpool L33 7UF Tel: 0151 356 2141
Nominated Adviser and Joint Broker	**Zeus CapitalLtd** 10 Old Burlington Street London W1S 3AG
Joint Broker	**finnCap** One Bartholomew Close London EC1A 7BL
Auditors	**Grant Thornton UK LLP** Royal Liver Building Liverpool L3 1PS
Solicitors to the Company	**Gateley Plc** Ship Canal House 98 King Street Manchester M3 4WU
Bankers	**NatWest** Chester Branch 33 Eastgate Street Chester CH1 1LG
Registrars	**Link Group** 10th Floor Central Square 29 Wellington Street Leeds LS1 4DL

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of the above named Company will be held on Thursday 30 June 2022 at 11:00am. at the offices of finnCap, 1 Bartholomew Close, London, EC1A 7BL.

Following the AGM the Board will give an update on the Company's progress with the opportunity to question the board.

The AGM will be to consider and if thought fit pass the following resolutions, of which 1 to 6 (inclusive) will be proposed as ordinary resolutions, and resolution 7 which will be proposed as a special resolution:

Ordinary Business

1. To receive the annual accounts of the Company for the financial year ended 31 December 2021 together with the last Directors' report, the last Directors' remuneration report and the auditors' report on those accounts.
2. To reappoint Grant Thornton UK LLP as auditors for the Company to hold office from the conclusion of this meeting until the conclusion of the next annual general meeting of the Company and to authorize the Directors to fix their remuneration.
3. To re-elect Ian Cleminson, who was appointed during the year and retires under article 118 of the Company's articles of association and who, being eligible, offers himself for re-election as a Director.
4. To re-elect David Bundred, who retires by rotation pursuant to article 113 of the Company's articles of association and who, being eligible, offers himself for re-election as a Director.
5. To re-elect Michael Cunningham, who retires by rotation pursuant to article 113 of the Company's articles of association and who, being eligible, offers himself for re-election as a Director.

Special Business

To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

6. "**THAT**, in substitution for all existing and unexercised authorities and powers, the Directors of the Company be and they are hereby generally and unconditionally authorised for the purpose of section 551 of the Companies Act 2006 (the "**Act**"):

    a) to exercise all or any of the powers of the Company to allot shares of the Company or to grant rights to subscribe for, or to convert any security into, shares of the Company (such shares and rights being altogether referred to as "**Relevant Securities**") up to an aggregate nominal value of £650,788 to such persons at such times and generally on such terms and conditions as the Directors may determine (subject always to the articles of association of the Company); and further

    b) to allot equity securities (as defined in section 560 of the Act) up to an aggregate nominal value of £650,788 in connection with a rights issue or similar offer in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them subject only to such exclusions or other arrangements as the directors of the Company may consider appropriate to deal with fractional entitlements or legal and practical difficulties under the laws of, or the requirements of any recognised regulatory body in any territory,

    PROVIDED THAT this authority shall, unless previously renewed, varied or revoked by the Company in general meeting, expire at the conclusion of the next annual general meeting or on the date which is 6 months after the next accounting reference date of the Company (if earlier) save that the Directors of the Company may, before the expiry of such period, make an offer or agreement which would or might require relevant securities or equity securities (as the case may be) to be allotted after the expiry of such period and the Directors of the Company may allot relevant securities or equity securities (as the case may be) in pursuance of such offer or agreement as if the authority conferred hereby had not expired."

Notice of Annual General Meeting

To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

7. "**THAT**, if resolution 6 above is passed the Directors of the Company be and are hereby authorised pursuant to section 570 of the Act to allot equity securities (as defined in section 560 of the Act) pursuant to the authority conferred upon them by resolution 6 as if section 561 of the Act did not apply to any such allotment provided that this authority and power shall be limited to:

   a) the allotment of equity securities in connection with a rights issue or similar offer in favour of ordinary shareholders where the equity securities respectively attributable to the interest of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them subject only to such exclusions or other arrangements as the Directors of the Company may consider appropriate to deal with fractional entitlements or legal and practical difficulties under the laws of, or the requirements of any recognised regulatory body in any, territory; and

   b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £97,628 representing approximately 5% of the current issued share capital of the Company,

   such authority to expire at the conclusion of the next annual general meeting or on the date which is 6 months after the next accounting reference date of the Company (if earlier) save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired."

BY ORDER OF THE BOARD

Michael Cunningham
Company Secretary

Date: 10 May 2022

Registered office:
Image Business Park
Acornfield Road
Liverpool
L33 7UF

Notice of Annual General Meeting

Notes:

1. A member of the Company entitled to attend and vote at the meeting convened by this notice is entitled to appoint one or more proxies to exercise any of his rights to attend, speak and vote at that meeting on his behalf. If a member appoints more than one proxy, each proxy must be entitled to exercise the rights attached to different shares. A proxy need not be a member of the Company.

2. A proxy may only be appointed using the procedures set out in these notes and the notes to the proxy form. To appoint a proxy, a member may complete, sign and date the enclosed proxy form and deposit it at the Company's Registrars, Link Group at 10th Floor, Central Square, 29 Wellington Street, Leeds, LS1 4DL by 11:00am on 28 June 2022. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be enclosed with the proxy form.

3. In order to revoke a proxy appointment, a member must sign and date a notice clearly stating his intention to revoke his proxy appointment and deposit it at the Company's Registrars, Link Group at 10th Floor, Central Square, 29 Wellington Street, Leeds, LS1 4DL by 11:00am on 28 June 2022.

4. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so in relation to the meeting, and any adjournment(s) of that meeting, by utilising the procedures described in the CREST Manual. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message must be transmitted so as to be received by the Company's Agent, Link Group at PXS 1, Link Group, Central Square, 29 Wellington Street, Leeds, LS1 4DL (CREST Participant ID:RA10) by no later than 48 hours before the time of the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

5. Any corporation which is a member of the Company may authorise one or more persons (who need not be a member of the Company) to attend, speak and vote at the meeting as the representative of that corporation.

6. The right to vote at the meeting shall be determined by reference to the register of members of the company. Only those persons whose names are entered on the register of members of the Company at entitlement time and date close of business on 28 June 2022 shall be entitled to attend and vote in respect of the number of shares registered in their names at that time. Changes to entries on the register of members after that time shall be disregarded in determining the rights of any person to attend and/or vote at the meeting.

EXPLANATORY NOTES:

Resolution 6 – Directors' power to allot relevant securities

Under section 551 of the Act, relevant securities may only be issued with the consent of the shareholders, unless the shareholders pass a resolution generally authorising the directors to issue shares without further reference to the shareholders. This resolution authorises the general issue of shares up to an aggregate nominal value of £650,788, which is equal to 33.33% of the nominal value of the current ordinary share capital of the Company and a further issue of shares up to an aggregate nominal value of £650,788, which is equal to a further 33.33% of the nominal value of the current share capital of the Company for the purposes of fully pre-emptive rights issues. Such authorities will expire at the conclusion of the next annual general meeting of the Company or the date which is 6 months after the next accounting reference date of the Company (whichever is the earlier).

Resolution 7 – Disapplication of pre-emption rights on equity issues for cash

Section 561 of the Act requires that a company issuing shares for cash must first offer them to existing shareholders following a statutory procedure which, in the case of a rights issue, may prove to be both costly and cumbersome. This resolution excludes that statutory procedure as far as rights issues are concerned. It also enables the directors to allot shares up to an aggregate nominal value of £97,628 which is equal to 5% of the nominal value of the current ordinary share capital of the Company, subject to resolution 6(b) being passed. The directors believe that the limited powers provided by this resolution will maintain a desirable degree of flexibility. Unless previously revoked or varied, the disapplication will expire on the conclusion of the next annual general meeting of the Company or on the date which is 15 months after the resolution being passed (whichever is the earlier).

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