

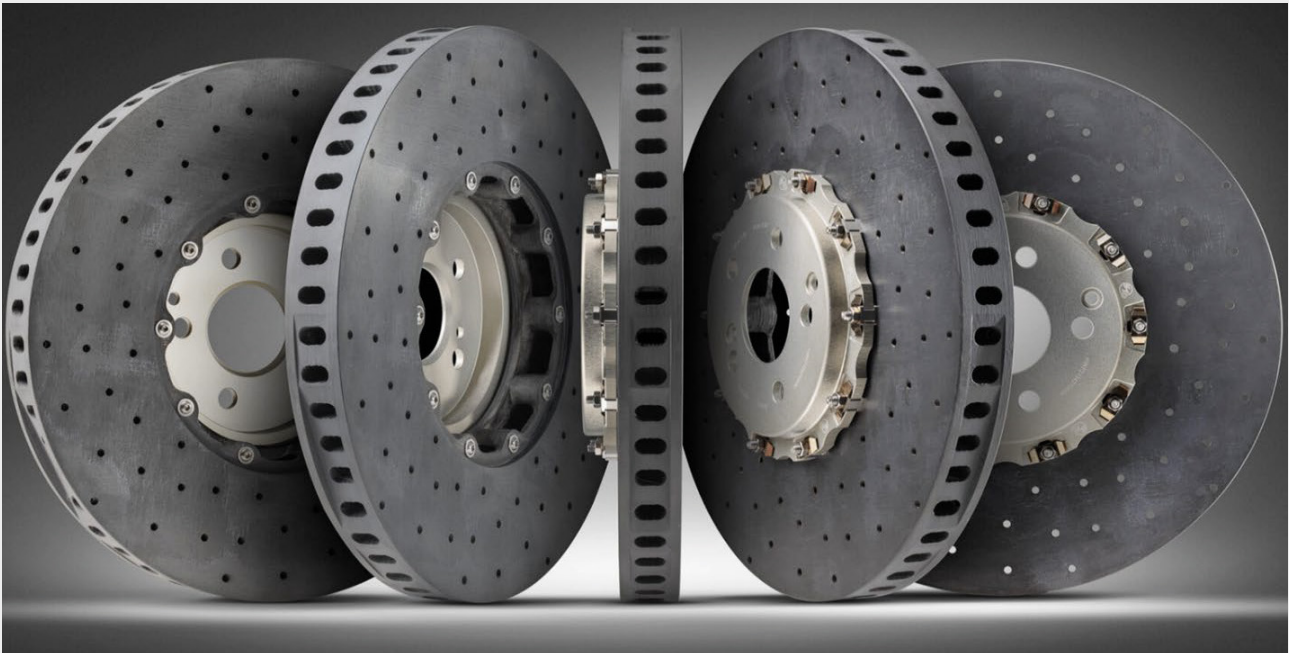


Surface Transforms Plc

Registered number 03769702

Annual Report and Financial Statements

for the year ended 31 December 2023



Company Profile

Surface Transforms plc (AIM: SCE) pioneers the development and manufacturing of cutting-edge carbon ceramic automotive brake discs. As the sole UK-based producer of carbon ceramic brake discs and one of only two global leaders in this field, the company caters to world leading Original Equipment Manufacturers (OEMs) across the automotive landscape. Leveraging its proprietary Carbon Ceramic Technology, Surface Transforms engineers lightweight brake discs tailored for high-performance road and track applications, servicing both traditional combustion engine and emerging electric vehicle markets.

Distinguished by its innovative approach, Surface Transforms sets itself apart from competitors by employing continuous carbon

fibre weaving to construct a robust 3D matrix. This technique enhances product durability and heat conductivity, resulting in lower operating temperatures for brake systems. The outcome: lighter, longer-lasting components delivering superior braking performance. Surface Transforms' carbon ceramic brake discs offer a myriad of advantages over traditional iron discs. These include up to 70% weight savings, extended product lifespan, consistent performance, reduced pad dust, and corrosion resistance.

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Highlights

Financial highlights

- Revenues grew 81% to £7.3m (2022 restated £4.0m), following change to revenue recognition criteria
- Gross margin 57% (2022 Restated: 64%), reduction due to higher temporary outsourcing
- Net research costs of £9.7m (2022: £5.6m)
- £9.2m non-cash impairment of tangible assets (£3.0m) and Intangible assets (£6.2m)
- Loss after taxation, including £9.2m impairment, was £19.6m (2022 Restated: £5.3m)
- Loss per share of 7.92p (2022 Restated: 2.58p)
- Cash used in operating activities £10.3m (2022: £6.5m)
- Cash at 31 December 2023 of £6.1m (2022: £14.9m)
- £10.1m equity placing and open offer to support ongoing working capital needs in the year and £8.8m net of fees further equity raised post balance sheet
- £13.2m loan secured to fund future capital investment

Customer highlights

- Increased order book by £100m (lifetime value) to £390m at the end of the year
- Further demonstrated the ability to win “carry over” business with existing customer OEM 10
- 5 contracts in multi-year revenue generation phase
- Customers have been critical but supportive in response to our production difficulties

Operational highlights

- Continuing operational problems restricted sales throughout the year albeit quarter- on - quarter growth in output
- Resultant extensive program of technical, personnel and process changes in the year to reduce equipment down time and scrap rates
- Capital investments of £9.1m (2022: £8.4m) in the year
- Capacity constraints progressively reduced
- Focus now on improving process capability of all operations

Senior Management Changes

- Post balance sheet, in April 2024, David Bundred announced his intention to retire as Chairman
- Isabelle Maddock joined the board as CFO on 4 September 2023
- Stephen Easton appointed COO on 4 September 2023
- Michael Cunningham resigned from the Board as CFO on 31 May 2023

Other

- Awarded London Stock Exchange “Green Economy Mark” in the year

Chairman's Statement

After many years of product development, leading to our £390m order book, 2023 was dominated by the challenge of converting that hard won order book into consistent volume production. Progress was made, sales have grown in each quarter, we were awarded a significant carry over contract in the year, but the overall operational progress simply was not good enough.

As a result, the Company had to seek fresh equity funding both in 2023 and in May 2024, and in parallel negotiated a £13.2m loan ringfenced for capital expenditure. The pricing of the funding and resultant market capitalisation has impacted the annual review of asset valuation and led to a subsequent, non-cash, asset impairment. The Board obviously regrets the circumstances that have led to these distressed equity raisings and completely understands the frustration and anger of shareholders over the subsequent dilution. The Board believes the combination of these equity fundraisings and local authority loan is sufficient for working capital and capital expenditure needs.

Sales Progress

The Company is growing; 81% year on year revenue growth. The central issue in 2023 was that there was sufficient demand for twice the level of the H2 output; we had originally forecast that we would satisfy this demand, but production issues meant we could not.

Progress on Operations

Surface Transforms is not sales constrained. The inability to achieve production targets, a recurring theme of 2023, has therefore been a continuing key frustration. We are in a learning curve, involving numerous interrelated but separate technical problems. That learning curve has proved to be both steeper and longer than we expected.

There were three broad reasons for these continuing 2023 problems, the delays in installing notional capacity, the inability to achieve the target output from this notional capacity and the personnel learning curve.

- **New capacity installation delays.** The Company entered 2023 without adequate capacity to meet demand and spent the year closing the capacity gap with £5.8m of fixed asset capital expenditure in the year.

The background is well known to shareholders. We ordered our Phase 1 £20m p.a. sales capacity in 2020, and phase 2 (£50m p.a.) in 2021. For both phases, we believed that 2 years was sufficient lead time for both the suppliers and the Company. Additionally, we assumed, that the projected demand for 2023 would not exceed £20m.

In the event the plant has taken 3 years, not 2, to build and commission, and the speed of our commercial success exceeded our most optimistic assumptions. The subsequent lack of capacity impacts the Company in two ways. Firstly, we had underlying demand for £30m sales in 2023, that we could not satisfy, requiring careful customer management. However, the immediate 2023 problem was that without the headroom of spare capacity, a single point of failure (down time or scrap) on a single machine became a total factory bottleneck.

The Phase 2 £50m sales capacity was progressively installed during the year and into 2024. With one exception, the £50m notional capacity has been achieved in the first half of 2024, albeit with work required on process capability to achieve all the notional capacity. The outstanding item from this £50m programme is one furnace that is now expected to be installed at the end of the year.

However the growth in demand continues and the installed capacity increase will soon be thereafter be overtaken by the next step change in demand, requiring the next part of the phase 2 capacity increase to £75m. This increase to £75m sales is planned for commissioning in H2 2025, with equipment being ordered in 2024. That task is underway and is in line with plan.

In summary we had planned to take 2 years to install our £50m capacity but will have taken over 3 years. The 2024 capacity task is therefore twofold; completing this phase to £50m p.a capacity increase whilst, at the same time, ordering the plant for our £75m p.a sales

factory, thus competing Phase 2. We expect to have balanced short-term demand and capacity by the end of 2024 and will maintain this resilience thereafter.

- **Process capability, and scrap:** The issue of lack of capacity was compounded by the inability, in some sub processes to achieve the planned output from this notional capacity. As the Company scaled production, technical (and some tooling) issues emerged with the capital equipment that were not apparent during the development phase resulting in excessive down time and scrap. Running furnaces 24/7 is a different challenge to running them occasionally producing prototype volumes.

The central problem was excessive variability in some production processes – known as process capability. The effect was high levels of rejected product scrap. Improving process capability is a well-known technique in volume manufacture, requiring detailed analysis of input and output variables. This programme started in the year with, reduced scrap results already seen in 2024.

- **New personnel and procedures:** We always knew that setting up a volume production site required new skills and operational procedures not previously needed in a prototype factory. Not everybody in our original team, at all levels, was able to transition from prototype to volume production.

To this end the Company made two significant senior management appointments in Q3 2023, with Isabelle Maddock joining us as Chief Financial Officer and Stephen Easton as Chief Operating Officer. In turn, both Isabelle and Stephen have subsequently made further appointments in their own departments. In particular, over the last few months, operations have been significantly re-organised, at all levels, involving both new and existing personnel, with, for example a fundamentally different approach to the type of furnace technicians and maintenance personnel we needed.

We have also instigated a step change in internal training, ranging from CNC programming for operators to a Manchester University executive degree programme for managers. We have always been proud of being a “learning” company, (27% of our workforce are graduate level) but nonetheless have now stepped up a gear in that area.

In parallel, the Company has undertaken a deep review of the organisational procedures of operational planning, maintenance, quality, and supplier development. Unsurprisingly all show the potential for significant improvement with work on these projects, under the new leadership, now well advanced.

Progress with customers

Given the operational background the key commercial task in 2023 was to ensure that we kept customers fully informed, including realistic expectations of what they could expect. The customer’s response has been what we would have hoped; they have reiterated that they want to buy our product and expect us to fix our operational problems. They have been, rightly, critical but have also offered technical support. We remain in continuous dialogue.

Crucially, the customers continue to support us. Indeed OEM 10 awarded us a carry-over £100m contract in October 2023. We do not take this support for granted and whilst the threat to existing contracts now seems under control, the real proof of our ongoing relationship will be the continuing ability to convert the prospective contract pipeline (“PCP”) into firm orders. Customers will want to see firm operational progress before making future commitments.

Looking beyond 2024 we have contracted demand that enables us to reach up to £75m sales per annum within the next 4 – 5 years. Our PCP is in addition to this and is dominated by carryover business from our existing customers, and the Company’s ambition remains generating revenues of £100m per annum within the next 5 years.

Beyond these major customers, we are continuing to widen our customer base including the very small niche vehicle builders (we describe them as “Near OEMs”) as they provide both a very attractive return on the investment required, offer a degree of flexibility in our operational planning and have only a marginal impact on capacity in a market segment that is growing and larger than we previously believed.

Chairman's Statement continued

Accounting policies

Following an audit committee review and application of accounting policies there were two material items which have impacted these financial statements:

• Impairment

At the balance sheet date, the Company recognised £9.2m of asset impairments in respect to two separate issues:

- **Intangible and Right of Use Assets:** The annual re-assessment of the carrying value of the Company's assets was this year heavily influenced by a judgement on risk and the pricing of the recent fundraise and subsequent market capitalisation. As a result – and with no cash implications – the Company has recognised an impairment charge of £6.2m. It should be noted that the assets continue to generate revenue and underpin both our £390m order book and £300m prospective contract pipeline.

- **Furnace:** Self-evidently almost all our furnaces have had commissioning problems. Overall, it is pleasing to now report that with one exception the issues have been resolved and we are now seeing consistent output from the furnace area of production.

However, there is one furnace that has simply failed to deliver target output and is, in our opinion, clearly not meeting the basic contractual performance. The operational issue has been resolved through better than planned output from other existing furnaces; the team also have a longer-term solution that avoids the need for this furnace at all.

Nonetheless, the fact remains that the original furnace is not contributing to current or expected output. We are in vigorous discussions with the furnace supplier and do not exclude formal legal action. In the meantime, we believe it prudent to take a very cautious view of the value of this asset. As a result of the furnace's current inoperability and the uncertainty surrounding potential legal recovery, an impairment of £3.0 million has been recognised in the Statement of Comprehensive Income for the year.

• Revenue Recognition

We have reassessed our approach to revenue recognition for certain engineering, testing, and tooling services provided to OEM customers, during the development phase of the contract. This adjustment reflects a change in management's interpretation of accounting standards to only recognise revenue upon completion of system integration by the OEM or when control is passed over for the contracted services, as opposed to in line with work performed and percentage completion. We have therefore adjusted our financial statements for the current and prior year. For 2023 this had the effect of moving £0.6m of revenue from 2023 to the future years when the car is in production and £1.4m over a number of previous years of which the 2022 adjustment was £1.1m.



Environmental, Social and Governance (ESG)

Progress on Environmental, Social and Governance

Notwithstanding the priority on improving operations, we are maintaining our ESG activities. In addition to the importance of ESG, as a corporate goal, we continue to believe that our ESG work contributes directly to improving both short term and long-term profitability.

- **Environmental:** The Company's product contribution to the environment is well known. Lower weight leads to reduced exhaust emissions on internal combustion engine vehicles ("ICE") and, amongst other benefits, range extension on electrical vehicles ("EV"). Additionally, and of increasing importance, for both ICE and EV, is the impact of carbon ceramic brakes on reducing brake dust. This reduction in tyre dust and brake dust is a central feature of the new Euro 7 regulations due for implementation from 2025. Many of our customers see carbon ceramic discs as a contributor to them progressively achieving Euro 7 compliance.

Our ESG task is to ensure that these environmental benefits are not lost in the manufacturing process, therefore reducing our carbon footprint remains a high priority. This programme also translates directly into improving our profitability, as it is also a cost reduction. For example, all our new furnaces have significantly lower power and gas requirement and the installation of the proposed combined heat and power plant ("CHP"), will have a further dramatic impact on gas demand.

The Company was proud to be awarded the London Stock Exchange "Green Economy Mark" in the year.

- **Social:** Our prime social task is still that of providing well paid employment in one of the most deprived UK local authority areas. To this end we continue to adopt the policy of meeting the real living wage as set out by the Living Wage Foundation for all employees.

We have also established partnerships with two schools - the local High School and the leading university technical college ("UTC") in Liverpool. Our ambitions are both long term and short term and our motivations both social and financial. In the short

term we are seeking to improve our recruitment of the most able technical young people in the northwest. It is therefore encouraging to report, in the year, our first recruitment from the UTC into our graduate apprentice scheme. Our longer-term objective is with the local High School to increase the number of pupils, particularly girls, doing STEM subjects, to at least at GCSE level, if not beyond. Our programme involves interaction with school staff, site visits, and even a presentation to their parents!

- **Governance:** The Board conducted its self-assessment this year and there was broad agreement on opportunities. At this stage of the company's development, the strong focus on operational matters needs to continue. However, the Board also plans to ensure increased time spent on strategic opportunities, including people and team development plans. The board appraisal process will be repeated in 2025.

Post balance sheet date, in April 2024, and after 12 years as Chairman, I announced my intention to retire, and a search is underway for my successor, embracing both external and internal candidates. Additionally in March 2024 Julia Woodhouse has taken over, from me, the Chair of the Remuneration Committee.



Chairman's Statement continued

Trading Update and Outlook

The Board's expectation of 2024 and 2025 financial performance are unchanged from those described in the recent fund raising, albeit now at the lower end of that described range. And as we note in our going concern statement below, at the current time we need to recognise a material uncertainty in our sales forecast. As described in the fundraising circular dated 3 May 2024, the first half of 2024 is expected to be one of consolidation as capacity is installed and the process capability work maintains momentum, with growth accelerating in the second half. Almost all the single point of failure capacity bottlenecks have now been dealt with.

In relation to which, significant progress was made in Q1 on reducing scrap and expanding capacity; this continued into Q2. However, April and May were impacted by operational supply chains caused by our working capital constraints in Q2 (now, since early June, fully resolved by the fund raising). The Company will be reporting the output for H1 FY24 before the Annual General Meeting on 23 July.

To reiterate the comments above, the problematic furnace, the cost of which has been fully impaired has neither had nor is expected to have an impact on overall production output and the team has a longer term solution that avoids the need for this furnace at all.

The Company's ambition remains generating revenue of £100m sales per year within the next five years.

Summary

The last twelve months have been, arguably, the most difficult in the history of the Company. The operational underperformance was a particular disappointment leading to the need for an unplanned cash injection. As previously stated, the Board obviously regrets the circumstances that have led to this distressed fund raising and completely understands the frustration and anger of shareholders over the subsequent dilution.

However, it is important to remind ourselves that the Company's long-term sales and profit potential is unchanged. Our product works, is wanted by the marketplace, there is still only one other worldwide competitor, the market is likely to be demand constrained for at least the next 5 years, and we are continuing to install capacity that will, eventually,

reach £150m sales. The Board would not be building this capacity without anticipating the detail of how we will fill it.

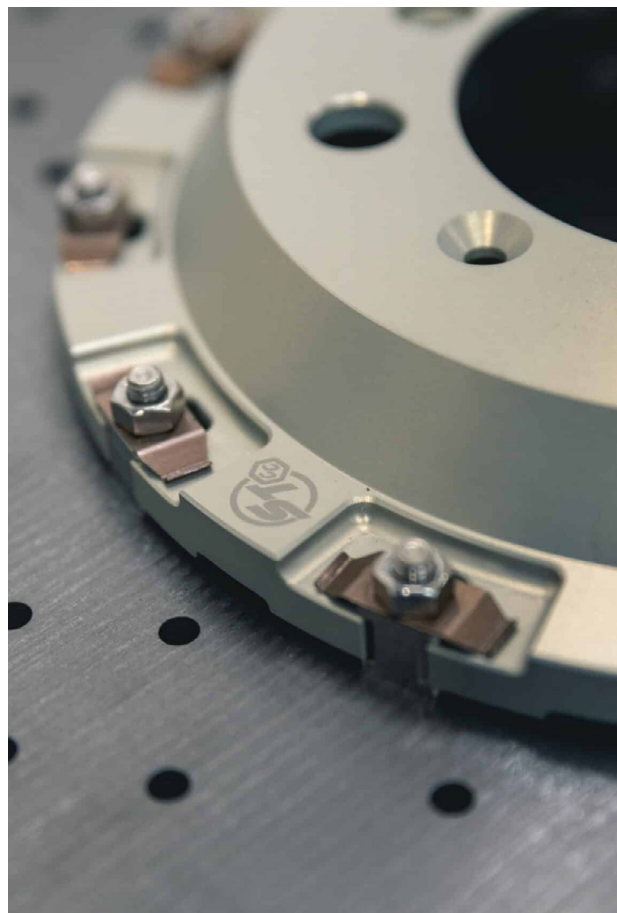
The central immediate need remains that of resolving the twin problems of installing the capacity and then achieving the output from this notional capacity. Last year we made progress yet there is still much work to be done, further progress has been made in 2024 year to date and that continuing progress will be maintained.

Finally, I want to take the opportunity to thank employees for their valiant work during a tough year and of course to thank all shareholders for their support of our recent equity fundraisings.



David Bundred
Chairman

27 June 2024



Strategic Report

Strategic Background

In 2022 some 85 million cars were produced worldwide, each of which has 4 brakes, Historically the brake system was based on drum brakes but, since the 1960's, disc brakes have gradually superseded drum brakes. The foundation of a disc brake system is the disc, calliper and the brake pad. Hitherto the disc has been manufactured using grey iron but over the past ten years the operational limits of grey iron have been reached as cars have got heavier and faster, a trend accelerated by the weight of batteries in electric vehicles.

Carbon ceramic discs counter the technical limits of grey iron discs. Carbon ceramic entered the market at the turn of the century pioneered by Brembo-SGL, a joint venture between a well-known brake system company and a carbon specialist. The technical advantages of carbon ceramic discs are unarguable – lower weight and faster heat dissipation – but the growth has been limited by both the need for extensive testing (many years) of a safety critical component and the fact that carbon ceramic discs are significantly more expensive than grey iron discs.

Nonetheless adoption is well underway in the higher end car market – cars with a retail value over £60,000. These cars represent less than 1% of the total automotive market, but even this small niche represents an immediately accessible market for carbon ceramic discs valued at more than £2 billion. Grey iron discs still predominate in this market but are slowly being replaced by carbon ceramic. We believe that carbon ceramic discs manufactured by the monopolist Brembo-SGL, now have around 10% of the market, all taken from grey iron.

Surface Transforms is the new entrant to this market effectively breaking the Brembo-SGL monopoly in replacing grey iron. Our current share of the immediately accessible £2 billion is tiny but our contracted order book and prospective pipeline indicates a 4 to 5 year potential of between 5% and 10% market share. Having reached this short term milestone, the next step is to achieve duopoly with SGL Brembo in this high cost cars niche.

The ultimate potential, as technology matures, and costs drop is to reach out from this niche into the wider – 99% – of the 85 billion car production market. The potential is revenue measured in billions.





Operational Review and principal activity

Our strategic objective 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.

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

Our strategy is closely aligned to the key market drivers and customer values.



Significant and rapidly growing market, estimated at more than £2 billion.



Unique product technology enabling the design and development of desirable braking solutions that deliver to vehicle manufacturer’s needs.



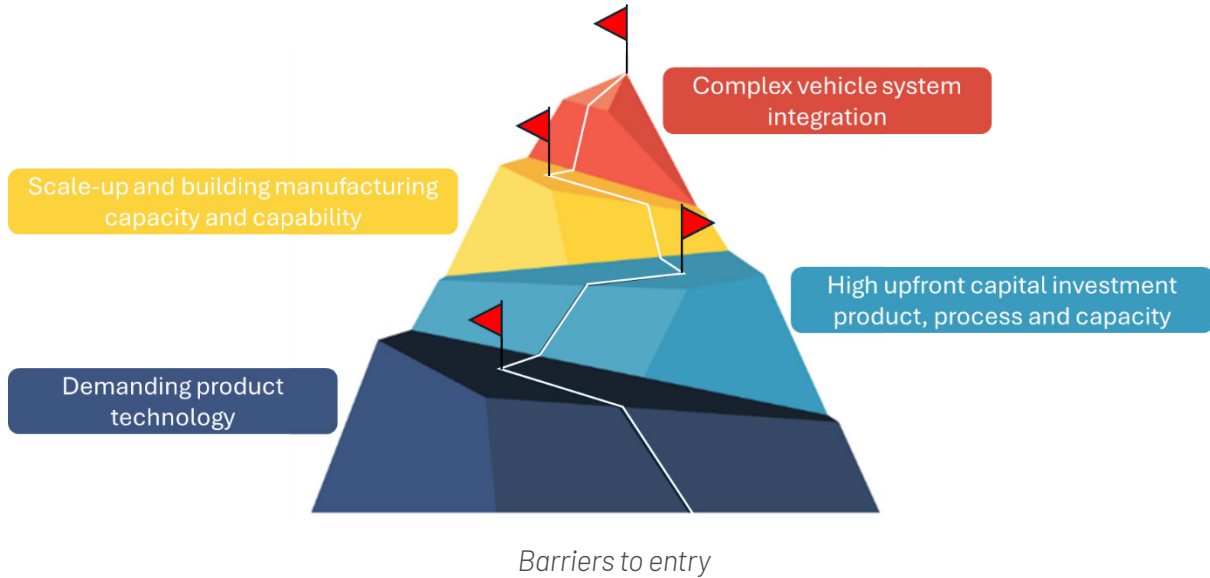
Reduce the environmental impact of automotive vehicles, lowering CO2 emissions, improving air quality and meeting environmental regulations.



Breaking a monopolist market, which is restricting market growth through a constrained amount of manufacturing capacity.

Market drivers and ST strategy

There are high barriers to entry



Bringing a complex product to market

There are many complexities and challenges of bringing a new, complex product to market, particularly one requiring significant upfront investment and integration with existing systems.

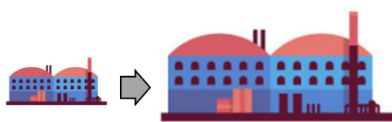
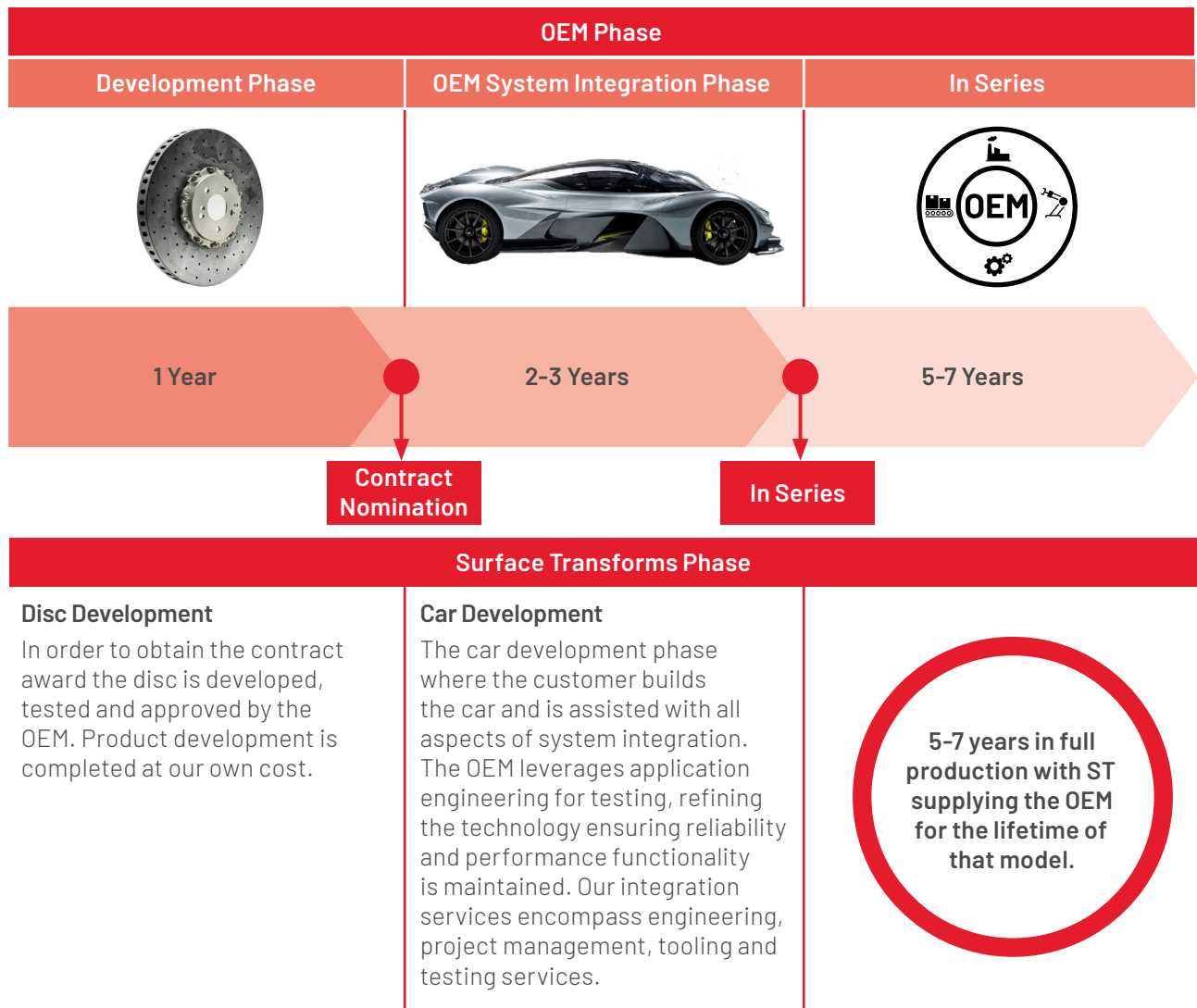


We meet the development of proprietary product technology, to meet customer needs, for a safety critical component, operating in extreme environments.

Developing new technology requires a substantial initial investment. The process will involve a lengthy development phase to design and test the foundation disc, followed by system integration phase to seamlessly incorporate them into the complex vehicle platform. Building manufacturing capacity will occur concurrently, demanding careful planning to ensure consistency with the final product design.



Lead time with an OEM



Technologically challenging scaling up and capacity expansion capabilities, requiring use of scarce manufacturing engineering expertise and supply chain partners with capability for scaling up large scale manufacturing equipment.

Automotive market drivers – fueling customer demand for carbon-ceramic brakes:

Customer – Support our customer across key geographical markets, achieving contract awards to multiple OEMs with products for multiple models with multi-year long term supply agreements.

Product – 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, are corrosion free and are highly desirable.

Price – with our product and process differentiation, operating lean manufacturing techniques and market positioning we are securing long term pricing agreements with good margins.

Quality – 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.

Manufacturing capacity – Build phase 2 manufacturing capacity revenue of, £50m p.a. in Q4 2024, with circa £75m p.a. manufacturing capacity revenue coming on stream in 2025. We plan to build £150m p.a. manufacturing capacity revenue in 2027.

Security of supply – Support, manage and develop our supply chain partners across both the manufacturing supply chain and scale up equipment to deliver to our customer contracts.

Environment – 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.

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:

The Company continues to invest in its engineering development to support existing contract awards and in anticipation of further contract awards for both ‘carry over’ customer contracts and new customer contracts in the future.

Series supply for a number of our OEM contracts has now commenced with demand exceeding supply.

The Company is capacity constrained and continues to focus on improving the utilisation of its existing capacity and building additional capacity to support our customer contracts. The effective utilisation of our capacity, scale up and additional capacity expansion objectives are the pathway to profitability and cash generation.

The Company’s internal activities are therefore focused on firstly improving our manufacturing processes with our existing capacity to support series supply contracts and secondly executing its manufacturing capacity expansion programs.

Strategic Report continued

Improving our manufacturing processes

Having completed our £20m p.a. manufacturing capacity revenue build and experienced capacity constraints we have worked on improving our manufacturing resilience and stabilising our manufacturing processes.

To improve manufacturing resilience, we have mitigated most of our single points of failure with the installation of additional machines. Once capacity headroom is available (from our phase 2 capacity build program) we will establish buffer stocks to further reduce the risk of disruption to manufacturing output and flow.

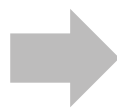
As we have been scaling up, we have observed instability in some manufacturing processes and

gone through a significant process technology learning curve. Having grown our work force rapidly and having unique processes, finding all the required skilled and experienced resource has been difficult. We have been able to strengthen our manufacturing and maintenance engineering teams. We have also begun a training program to broaden the base of employees with critical equipment skills and experience. We have also restructured the operational leadership team. This has resulted in improvements in our overall equipment effectiveness with further steady improvements expected through 2024.

We are also improving our management and control systems to further assist in the maintenance and operational planning.

Risks

- Manufacturing resilience**
 - Single points of failure heighten risk
 - No buffer stocks
- Stability of manufacturing processes**
 - Maintenance learning curve for complex equipment
 - A marked increase in headcount causes disruption in the short term



Mitigation

- Building additional capacity**
 - Reduce single point of equipment dependency
 - Enable buffer stock builds
- Embed manufacturing management processes**
 - Strengthened team leaders and leadership
 - Better plant maintenance
 - Improved manufacturing control systems



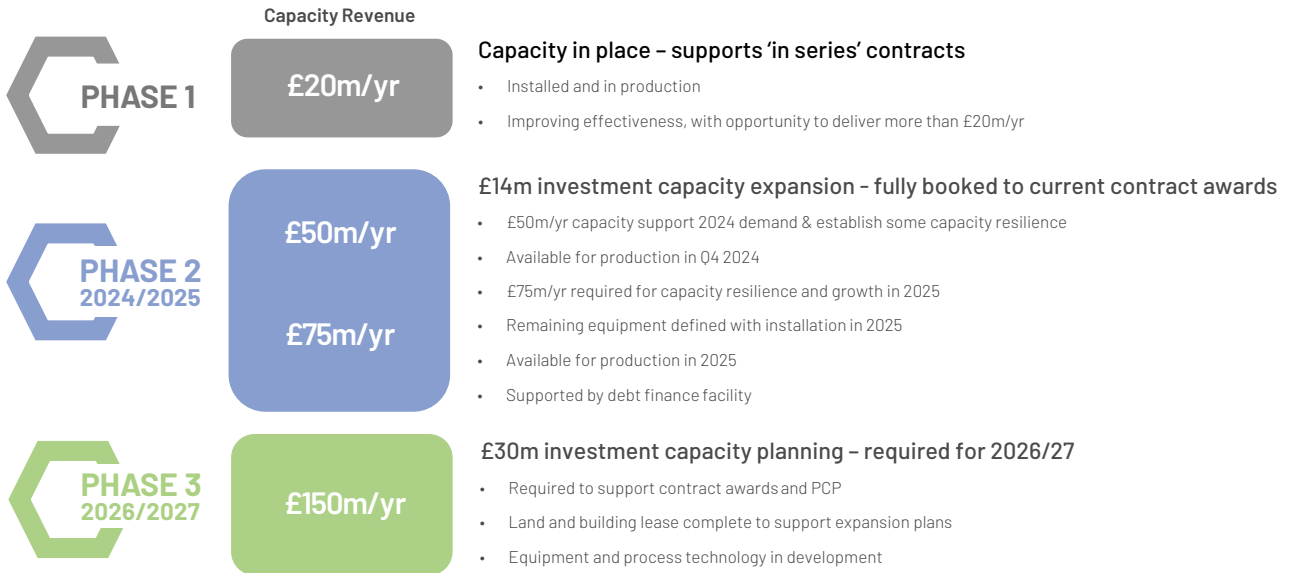
Building manufacturing capacity

Our Phase 2 capacity build program for £50m p.a. has progressed but not without delays to key equipment meaning the completion is now expected in Q4 of 2024. This £50m capacity build will provide the capacity needed to support customer contracts in 2025. Our £75m p.a. manufacturing capacity revenue investment program is on track for completion in 2025 and is fully reserved with current contract awards. It will therefore provide both further capacity for customer contracts and capacity resilience/headroom in 2025 and 2026.

Phase 3 – £150m p.a. manufacturing capacity revenue is required to support contracts in 2027 and our prospective contract pipeline. A lease for some additional land and buildings adjacent to our current site has been completed as part of the Phase 3 programme.

Manufacturing capacity

Increasing capacity capability and capacity resilience



Health and Safety, Quality and ESG

Health and Safety – maintain and improve our health and safety record. We have an excellent health and safety record which we will continue to focus on.

Quality – maintain product and improve process quality. Improving quality is a never-ending process, therefore our primary focus is on continuous improvement and reducing the internal cost of quality. A key area of focus is the reduction in scrap levels. Reductions in scrap will not only reduce the cost of poor quality but will also increase our capacity in the short to medium term.

Environmental – Our product is renowned for reducing brake dust, light weighting and durability. We are targeting the reduction of energy used in the manufacturing process with the introduction of new furnace technology. We are also very pleased to receive the LSE green economy mark.

Social – We believe in training and developing our own talent and continue to invest in people. We actively support employee health and wellbeing with health surveillance and mental health support. We actively engage in local school partnerships and promote STEM awareness through school events, work experience and promoting STEM career pathways.

See page 5 for further information on ESG. See the S172 statement on pages 16 and 17 for further information on employees, health and safety, accreditations, and society.



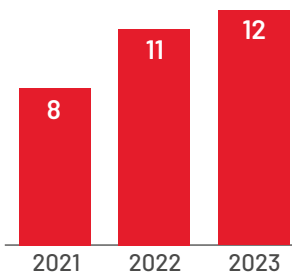
Strategic Report continued

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 progress has been made against the Company's targets.

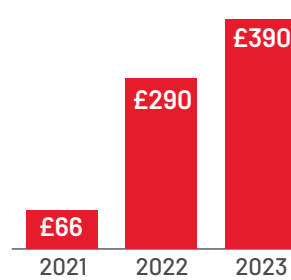
In addition to these financial metrics the board assesses the performance of the Company against 8 business development KPI's:

Cumulative Contract Awards



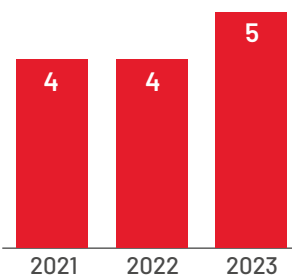
During the year the Company was awarded new models with OEM 10 a US car manufacturer.

Lifetime Contract Value £'m



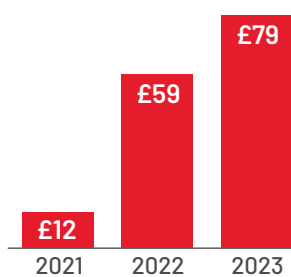
This OEM 10 contract translated into a significant increase in contracted value.

Follow on Contracts



With the OEM 10 contract being another follow on award, the Company's believes that, once awarded one contract, further contracts naturally follow.

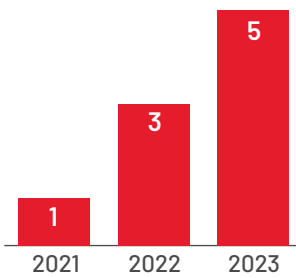
Contracts revenue/yr £'m (average)



The average revenue from awarded contracts has grown to £79m/yr requiring all of our phase 2 capacity build and creating the need for further capacity beyond £75m/yr.

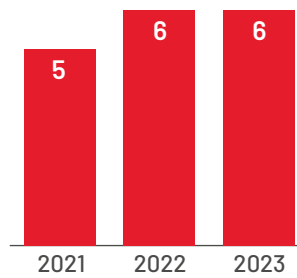


Contracts in Series



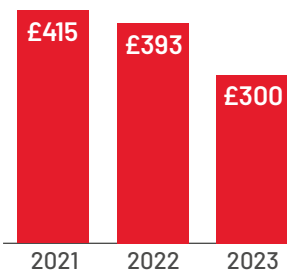
There are now 5 contracts in series production driving revenue growth in 2023 and 2024.

Contracted OEMs



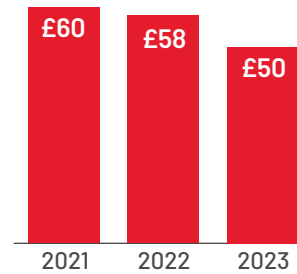
We continue to have contracts with 6 OEMs.

Prospective Contract Pipeline £'m



The Company maintains a healthy prospective contract pipeline, mainly made up from existing OEM customers and with follow on models.

Prospective Contract Pipeline revenue/yr £'m (average)



The average revenue from the prospective contract pipeline is £50m/yr, which is in addition to our contract average revenue of £79m/yr. All our PCP is schedule within the next 4 years. We are therefore planning our capacity build to £150m/yr for 2027/2028.



Section 172 statement

The Board is committed to acting in accordance with Section 172 of the Companies Act and promoting the long-term success of the Company for the benefit of all stakeholders. During the year, we secured £10.1m funding (net of fees) to support our working capital requirements and fulfill orders, as well as a further £13.2m to support our investment programme and be able to deliver future growth. We actively engage with key stakeholders, including Customers, Investors and Funders to foster strong relationships and act fairly in their interests.

Customers

We prioritise building strong partnerships with our global customer base, recognising their vital role in our success. Throughout the development process, we engage in collaborative development projects with key customers, fostering long-term relationships and mutual benefit. This strategy has been instrumental in securing new multi-year contracts and renewals with global OEMs in the automotive industry. Notably, in 2023, proactive communication and regular consultations with customers helped us navigate the year that gave us many scale up production challenges, with equipment failures and process maturity impacting the manufacturing process, however our customers worked alongside us. We maintain this commitment to open communication and problem-solving, ensuring our valued customers remain satisfied and our partnerships continue to thrive.

Employees

Our employees are our biggest asset, a continuing part of our success story and enjoy an open and inclusive workplace environment where everyone has an opportunity to contribute, learn and grow.

- During the year the Company performed well against KPI's relating to Health and Safety. The company is accredited with ISO 45001.
- This year, employees actively shaped our company culture by defining and shaping our values: Teamwork, Excellence, Ambition, and Leadership. Management fosters open communication through regular employee forums, both formal and informal and with regular "Townhalls" throughout the year where we listen and respond to our employees, as well as

various routine activities to drive a commitment to continuous improvement and encourage all employees to share their ideas for enhancing our facilities, process and work environment.



- In 2023, we received shareholder approval to launch a company-wide Share Incentive Plan (SIP) which launched in H1 2024, with a 42% take up. By sharing ownership through the SIP, we align employee interests with those of our shareholders, creating a more unified focus on long-term value creation for everyone. With over 170 employees eligible we believe the SIP will foster a stronger sense of community and shared purpose, leading to an enhanced work environment for all.
- 27% of our workforce are graduate level or above, we also have 11 apprenticeships of which in 2023 two apprenticeships completed the year each with distinction. We have local school partnerships in place providing STEM awareness sessions and work experience on site with our qualified personnel.

Investors and shareholders

- Throughout the year, we actively engaged with our shareholders through various channels. Numerous in-person and virtual meetings were held, providing investors with the opportunity to directly question board members about our progress and strategic direction. Additionally, we host webcasts specifically for retail investors, fostering open communication. Capital market days further enhanced shareholder understanding by offering them the chance to visit our facilities and gain firsthand insights into our operations.

- In June 2023 the Company was accredited with the London Stock Exchange's "Green Economy Mark", which recognises companies and funds that derive more than 50% of their revenues from products and services that are contributing to the environmental objectives such as climate change mitigation and adaptation, waste and pollution reduction, and the circular economy.
- In December 2023 the Company received a £13.2m loan from the Liverpool's city region's Urban Development Fund which is part funded by the European Regional Development Fund (ERDF). The £13.2m loan from the Mayor and the Liverpool City Region Combined Authority will enable the company to invest in new manufacturing facilities to increase its production capacity and meet the growing demand for its products. The Company continues to invest in research and development within its manufacturing site to enable scale up and bring carbon ceramic brakes to the market.

The loan is forecast to result in 70 high value jobs being created over time and, thanks to the introduction of newer, more efficient furnace technology, lead to an annual decrease of 1,500 tonnes of CO₂ emissions, from 2026 onwards. The Company also expects the expansion to create additional opportunities for current apprentices and graduates.

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. In 2023 the Company secured re-certification of the ISO 14001 environmental management system. The Company is also accredited with ISO 45001 2018 certification that helps to reduce workplace-related risks and provides a solid framework for the health, safety, and well-being of our employees.



Partners and suppliers

In 2023 we took significant strides to strengthen our relationships with partners and suppliers. Understanding the importance of trust, and security of supply, we prioritised discussions and commercial arrangements with our supplier base during our production challenges and are focused on rebuilding trust after the cash injection in December. This commitment to financial responsibility is crucial for mitigating the inherent risks associated with scaling up our operations.

The Company values open communication and collaboration with our partners. We believe in ethical conduct and hold ourselves and our partners to the highest standards of responsibility. This collaborative approach fosters long-term, mutually beneficial relationships. As a testament to this commitment, we have established long-term contracts with key suppliers, providing them with stability and certainty to support our shared success.

Society

The Company is committed to being a responsible corporate citizen and making a positive impact on society. We strive to:

- Reduce CO₂ in our manufacturing process and wherever commercially viable to source materials and technical support locally in the Knowsley and Liverpool area.
- Engage with the local schools and actively participate in work placement programs and STEM initiatives.
- We foster a welcoming and inclusive workplace that values the unique contributions of all individuals.
- The Company demonstrates our commitment as a responsible employer, by paying employees, except apprentices, the Living Wage Foundation's recommended rate of £12 per hour, with an average hourly wage of 18% above the national living wage. This commitment ensures our team members can afford a decent standard of living and contributes to a positive and motivated workforce. The Company is one of only 17 employers in Liverpool playing their part in tackling in-work poverty.

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

Financial Review

Prior Year Re-statement – Revenue Recognition for System Integration Services:

We have reassessed our interpretation of revenue recognition for multi-year service integration contracts under IFRS 15. This has resulted in changes to the criteria upon which revenue is recognised for certain engineering, testing, and tooling services. Previously, revenue had been recognised by a careful assessment of these services over time based on the stage of completion for each contract, using detailed project information. This approach which aimed to reflect a fair representation of revenue earned, aligned with management's previous interpretation of IFRS 15. However, since we have been unable to adequately evidence the right to payment for incomplete performance obligations, the criteria for recognising revenue has been revised to only recognise revenue at a point in time being either upon completion of system integration by the OEM or when control is passed over for the contracted services.

Impact of prior year:

Based on this new interpretation management determined there to be a material difference in how the Company has previously recognised revenue. To comply with IAS 8 the Company is retrospectively applying this new interpretation and adjusting prior year audited financial statements. The prior year revenue related to these services amounts to a cumulative decrease of £1.4million, with £1.1m impacting 2022 and £0.3m impacting 2021.

These adjustments have also impacted other financial statement line items, such as cost of sales, contract receivables and contract fulfillment assets, as detailed in Note 30. The Company now expects to recognise more revenue for these services in future periods as system integrations are completed by the OEMs as detailed in Note 3.

Revenue

Revenue increased 81% to £7.3m in 2023, driven by increasing customer in series production contracts.

Revenue expectations fell short notably stemming from the production challenges which took a considerable amount of research and development to overcome, impacting timelines, revenue, overhead costs and cashflow. In response, the Company has made a number of significant technical, personnel and procedural changes improving machinery output, operational planning, maintenance, quality, and supplier development to enable a continuous evolution of the technology for more effective future scaling.

Gross margin

Gross profit margin decreased to 57% due to product mix and process outsourcing which will continue in 2024 whilst some of our larger pieces of equipment are installed and commissioned.

Overheads

Administrative expenses rose 59% to £5.4 million in 2023, compared to £3.4 million in 2022. In addition, £9.2m of impairments and £0.5m of other non-recurring costs are discussed below.

Excluding the impairments and other non-recurring costs, underlying administrative expenses increased by £2.0 million, primarily driven by the addition of 54 new personnel to support series production. The Company was staffed to meet the forecast demand that was not met due to the operational problems. Accordingly future growth, beyond actual achieved 2023 revenues will not result in further proportional overhead increases.

Our commitment to research and development continues to fuel our growth, yet expenditure in the year was unusually high rising, after capitalisation, by £4.0 million to £9.7 million (2022: £5.6m) during the period. The R&D spend was focussed on process development, reflecting the considerable technical spend in the year fixing the manufacturing problems. This spend is reducing as the problems are being resolved.

Looking ahead, R&D expenditure is anticipated to stabilise at a more sustainable level following the significant investments made in 2023. The valuable insights and improvements gained from this past year's R&D efforts will inform future strategies. Research will continue to focus on:

- Exploring new techniques to enhance efficiency and product quality
- Optimising production processes
- Identifying ways to utilise better materials, and lower costs

This focus on continuous improvement through process and cost optimisation will remain a core strategy for the future.

Other non-recurring costs

As well as the unusually high incidence of R&D in 2023 management have identified £0.5 million of non-recurring costs that were incurred in the first half of the year due to a temporary lapse in our fixed-price energy contract. The Company has secured fixed energy prices until March 2025, and the practice of fixed-term contracts is expected to continue, management view this as an exceptional item albeit for reporting purposes it is within overhead.

Impairment

At the balance sheet date the Company recognised £9.2m of asset impairment.

As reported in the Chairman's report we identified that a particular furnace is not performing to contracted specification. We have resolved the issue operationally, using other furnaces and external supply but hold the supplier responsible for the failure. We are pursuing potential contractual and legal remedies yet the outcome remains uncertain. As a result of the furnace's inoperability, an impairment of £3.0 million has been recognised in the Statement of Comprehensive Income for the year. This figure reduces the value of the asset to the best estimate of its recoverable amount. We have not recorded an asset in relation to any potential legal recovery as we do not currently meet the recognition criteria for a contingent asset under IAS 37.

IAS 36 requires us to assess the recoverable amount of our assets annually and whenever there is an

indication of impairment. To apply IAS 36 the company has necessarily included the recent fundraises as one market assessment indication along with the risk inherent in the company. Management's discounted cash flow model assumed no expansion capital expenditure or growth beyond current capacity and applied a pre-tax discount rate of 14% based on our determination of our weighted average cost of capital. This initially demonstrated no impairment as the discounted cash flows exceeded the carrying value of assets. In order to address the combined challenges of cash flow forecasting risk in a scale up company and the potential gap between implied market value and carrying value, we have reassessed the carrying value of our assets. The final impairment test applied a pre-tax discount rate of 22% to reflect a further risk premium of 8%. This resulted in a recoverable amount lower than the carrying value, and an impairment charge of £6.2 million, with £5.2 million allocated to capitalised development costs and £1.0 million allocated to software and right-of-use assets.

It's important to note that the impaired development assets continue to generate revenue aligned with our contracted order book with a lifetime value of £390 million. As a consequence of this impairment, future amortisation expense related to these assets will no longer be amortised on a systematic basis over each contract's useful life, thus reducing future amortisation expense.

A reconciliation of the above impairments is detailed in Note 4 to the accounting statements.

Exceptional costs

The Company recognised £0.4m of other non-recurring exceptional costs in the year relating to restructuring costs.

Net loss

Net loss in the year (after taxation) after impairments and other non-recurring and exceptional costs was £19.6m (2022 Restated: £5.3m). Expected tax credit similar to previous years due to R&D tax regime. The increase in net loss was driven by significant levels of spend on research and development, production challenges and high defects, growth in workforce in readiness for increased volumes and lower than expected revenues.

Financial Review continued

Cash Flow

Gross cash at the year end was £6.1m (2022: £14.9m). Supported by £10.1m fundraising to facilitate working capital growth, supplier and customer confidence.

Balance Sheet

Capital investment in the period amounted to £5.8m (2022: £8.4m), with an impairment of £3.0m recognised against a furnace reflecting its best estimated recoverable amount. A further £6.2m impairment charge resulted in a £5.2 million reduction in the carrying value of capitalised development costs and a £1.0 million reduction in software and right-of-use assets. This impairment reflects the results of an impairment test using a pre-tax 22% discount rate.

Revenue grew in the period, leading to a £0.5 million increase in trade and other receivables, a £0.6 million increase in contract fulfilment assets, and a £1.1 million rise in inventory. Contract fulfilment assets are described in note 1 of the notes to the financial statements.

Equity

During the year, the Company successfully raised £10.1 million in equity funding (net of fees) to support working capital requirements and fulfil orders. Shareholder contributions, including the exercise of 1,120,000 employee share options, totalled £10.5 million net of fees for the year. Despite this after the net loss of £19.6m, net assets decreased by £9.1m.

Loans

In December 2023, the Company secured a £13.2 million loan from the LCR UDF Limited partnership. This loan originates from Liverpool city region's Urban Development Fund, which is part-funded by the European Regional Development Fund (ERDF). The loan will be used to invest in new manufacturing facilities, thereby increasing our production capacity. It is solely for capital purposes and can be drawn down for eligible capital projects over the next 24 months until 31 December 2025. Similar to a revolving credit facility, the loan liability will only be recognised once funds are drawn down. No funds had been drawn down as at 31 December 2023 accordingly no financial asset or liability at 31 December 2023 has been recognised.

Going Concern

The continued operation of the company as a going concern is dependent on our ability to successfully navigate the upcoming scale-up phase. Two key areas of material uncertainty have been identified:

1. **Scaling Up Production:** Successfully ramping up production to meet the demands of our major OEM contracts is essential to our financial viability. This process presents inherent risks, and any unforeseen challenges could delay our ability to deliver on these contracts. Such delays could necessitate additional cash injections to bridge any funding gaps.
2. **Maintaining Financial Flexibility:** Our current cash reserves provide us with a runway to achieve our goals. However, there is a risk that we may exhaust this cash headroom before achieving profitability. This scenario could lead to a breach of our loan covenants, potentially jeopardising our access to future funding.

The Directors acknowledge the existence of a material uncertainty related to the Company's ability to continue as a going concern. This uncertainty arises from challenges associated with yield improvement and necessary investments during the scale-up phase to meet production targets for the 12 OEM contracts. The duration and extent of these challenges could significantly impact operational performance, particularly sales and EBITDA generation, which are crucial for transitioning the Company from a loss-making entity to a cash-generating business.

The Directors have modelled a management high case, base case and low case scenarios. Performance since the balance sheet date has demonstrated strong growth on prior year, yet short of management expectations for the base case forecast at the time of writing this report. Additional disclosures are given in note 1 to the financial statements to provide an understanding of the forecast scenarios bank facilities, and cash. The Company cannot be assured that it will not exhaust its cash headroom or breach its covenants and that there is therefore a material uncertainty over the going concern of the Company. The challenges are described in detail in this report along with mitigating actions to address them.

Yield challenges have significantly impacted the Company's profitability. Lower yields not only limit the number of saleable discs, reducing revenue, but also inflate manufacturing costs due to disc scrappage before the final stage. This directly affects our profit margins.

Management has proactively addressed this issue. Recent months have seen several successful upgrades to the manufacturing process, leading to a significant reduction in scrappage rates. We are committed to long-term efficiency and scalability. While strategically investing in process optimisation might temporarily delay reaching desired production levels and impact cash flow in the short term, it will ultimately establish a more robust and sustainable operation, well-positioned to meet future demand.

Our ongoing investment to expand production capacity carries the potential for delays or exceeding initial funding estimates. As our manufacturing strategy relies heavily on capital and working capital expenditure, any unforeseen issues with existing equipment during production ramp-up, challenges with new equipment installation, or delays in equipment investment or arrival could affect our ability to meet production targets or limit our internally generated funding from operations.

To mitigate these risks, we leverage a dedicated Project Management Office (PMO) with expertise in executing complex projects on time. The PMO proactively identifies and manages long lead times for equipment within the program. Additionally, we prioritise talent through proactive recruitment, retention, and development programs, including graduate and apprenticeship initiatives under the guidance of seasoned PMO professionals. These initiatives foster career progression, knowledge continuity, and succession planning. While we are confident that our manufacturing plans incorporate sufficient contingencies to fulfill existing, future, and prospective contracts, inherent uncertainties could still impact our ability to achieve these goals within the anticipated timeframe.

Achieving our strategic goals hinges on effective planning, robust project management, and access to timely management information. While we have growth plans in place, executing them can put significant strain on our management, operational, financial, and personnel resources.

Recognising this potential challenge, we are actively taking steps to mitigate it. We are implementing a rigorous prioritisation framework within our phased approach to growth. This ensures we focus on the most critical initiatives along the critical path, ensuring efficient resource allocation. Additionally, we have proactively addressed resource constraints by:

- **Scaling our team:** We have recruited experienced engineers and professionals to bolster our technical expertise. We're also investing in training and development programs to upskill existing operators and create future team leaders.
- **Investing in technology:** We view software applications supporting manufacturing, maintenance, and project management as a continuous value-add process. Ongoing investment in these tools streamlines operations and empowers our team.

Management believes the Company has the ability to meet future demand due to the ongoing investments in capacity, people, software and process optimisation. However, there can be no guarantee that recent improvements in yield can be maintained or improved at levels in line with management expectations, particularly as production volumes are increasing, and there can be no guarantee that the increase in production capacity is effected at the pace planned for. For these reasons the Company cannot be assured that it will not exhaust its cash headroom or breach its covenants, and that there is therefore a material uncertainty over the going concern of the Company.

Notwithstanding the material uncertainty, after due consideration the Directors have a reasonable expectation that the Company has sufficient resources to continue in operational existence for the period of 12 months from the date of approval of these financial statements. Accordingly, the financial statements continue to be prepared on the going concern basis. The circumstances noted above indicate the existence of a material uncertainty which may cast significant doubt over the ability of the Company to continue as a going concern. The financial statements do not contain the adjustments that would arise if the Company were unable to continue as a going concern.

Risks and uncertainties

The Company has embedded risk management activities as part of its business planning process with risks being routinely reviewed throughout the year. The principal risks are execution risks; these may affect the strategy of the Company or the pace at which we can deliver our aims. The Company has a comprehensive plan to mitigate these risks and to minimise disruptions and delays.

Execution risk refers to the potential for unexpected challenges and problems arising during the process of increasing our manufacturing output from a small scale to a large scale operation. These challenges can lead to delays impacting the customer and creating cost overruns and cash constraints. The principal execution risks are described in the table below.

We have now established an experienced team, with clear communications between areas to oversee smooth execution. Organisational structures have been enhanced with a new Plant Manager Leadership role reporting into Stephen Easton (Chief Operating Officer) enabling management and oversight on a daily basis on the majority of execution risks.

Risk description	Impact	Mitigation Strategies	Likelihood (Post-Mitigation)
<p>Safety Employee health, safety and wellbeing are paramount. If an incident within our manufacturing facilities were to arise this could potentially cause serious harm, illness or injuries to employees, lost production time and reputational damage.</p>	Moderate (increased injuries, workplace fatigue)	<ul style="list-style-type: none"> Board-level commitment to safety culture (e.g., training, visible leadership) Standards-based approach to health and safety (ISO 45001) 	Low
<p>Liquidity Risk of difficulty meeting short-term obligations due to limited cash.</p>	Moderate (supplier issues)	<ul style="list-style-type: none"> Prioritise production, optimise working capital financing, develop cost cutting contingency plans 	Low
<p>People Difficulty retaining critical skills and ensuring a smooth workforce adaptation to evolving technologies and business needs.</p>	High (Lost "Know-How", Production inefficiencies, quality control issues, low morale)	<ul style="list-style-type: none"> Foster an engaged and rewarded workforce Succession planning for senior team with specialist know how and skills Onboarding programmes Comprehensive training 	Moderate

Risk description	Impact	Mitigation Strategies	Likelihood (Post-Mitigation)
<p>Process technology Inefficiencies, inconsistencies, or failures in manufacturing processes due to newly specified and evolving technology, inadequate process control, or process deviations.</p>	High (Production downtime, increased costs, lost revenue)	<ul style="list-style-type: none"> • Dedicated maintenance team and strategy shift to “reliability” • Dedicated heat treatment team • 24/7 support system for critical equipment, • Duplicate equipment eliminating single point of failure, • Skill workforce with continuous training and development programmes Adoption of maintenance management system for efficient upkeep • Develop headroom capacity on equipment 	Low
<p>Yield Production output falls short of expectations</p>	High (Scrap rate, lost sales)	<ul style="list-style-type: none"> • Have a strong quality team and assurance process • Root cause analysis and targeted improvements Cross-functional scrap reduction teams 	Low
<p>Product safety The risk of product recalls, liability claims, damaging to business and brand reputation.</p>	Low (Reputational damage from product liability recall and financial loss)	<ul style="list-style-type: none"> • 2 years of pre-launch testing, alongside stringent product and quality specifications. • We maintain a robust quality assurance (QA) and quality control (QC) program throughout the manufacturing process and have an extremely low risk of a defect reaching the customer. • Insurance provides the ultimate cover to the Company in the event of a recall. 	Low

Risks and uncertainties continued

Risk description	Impact	Mitigation Strategies	Likelihood (Post-Mitigation)
<p>Capacity constraints and bottlenecks Risk of production delays and lost revenue due to limitations in manufacturing capacity or the presence of bottlenecks that slow down the overall production process.</p>	<p>High (bottlenecks, customer delays, lost sales, reputation, revenue)</p>	<ul style="list-style-type: none"> Expand production space and progress £40m investment program for increased capacity. Research and development furnace programs to maximise production volumes at key stages. Reduce defects and scrap rate. Develop production headroom capacity and build buffer stocks . 	<p>Low</p>
<p>Cybersecurity Risk of disruption, data breaches, or operational paralysis due to cyberattacks on IT systems, production controls, or confidential information</p>	<p>High (Financial loss, reputational damage)</p>	<ul style="list-style-type: none"> Dedicated cyber security resources Industry-leading security measures Ongoing policy development 	<p>Moderate</p>
<p>Supply chain Risk of production disruptions or delays due to issues with obtaining raw materials, components, or finished goods from suppliers</p>	<p>Moderate (Production delays, increased costs, lost revenue)</p>	<ul style="list-style-type: none"> Dual sourcing of critical materials Strong supplier relationships and supply agreements 	<p>Low</p>
<p>Inability to meet customer demand Risk of customer dissatisfaction if the company cannot fulfill orders on time or in the desired quantities</p>	<p>High (Lost revenue, customer trust loss)</p>	<ul style="list-style-type: none"> Build capacity and resilience Regular customer engagement & planning Contingency plans for production disruptions using open communication with customers 	<p>Moderate</p>
<p>High customer concentration Reduced potential for customer bargaining power due to a reliance on a limited number of customers for a significant portion of revenue.</p>	<p>Moderate dependency, reduced commercial leverage)</p>	<ul style="list-style-type: none"> Prospecting to broaden customer base over the mid-term and ensure continued scalability 	<p>Moderate</p>

Risk description	Impact	Mitigation Strategies	Likelihood (Post-Mitigation)
<p>Energy: Risk of production disruptions or increased costs due to the inability to secure sufficient energy supplies locally to meet the Company's intensive production requirements.</p>	High (Capital plans constrained, forecasting and budgeting difficult)	<ul style="list-style-type: none"> Progress combined heat and power (CHP) plant solutions and other energy-efficient technologies Energy prices are fixed to March 2025 	Moderate

By being proactive and taking steps to mitigate these risks we are increasing the likelihood of achieving our production objectives.



Kevin Johnson
CEO

27 June 2024



Director's Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2023.

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*	<i>(Non Executive Chairman)</i>
Dr K Johnson	<i>(Chief Executive)</i>
I Cleminson*	
I Maddock	<i>(Chief Financial Officer Appointed 4 Sept 2023)</i>
M Cunningham	<i>(Chief Financial Officer and Company Secretary Resigned 31 May 2023)</i>
M Taylor*	
J Woodhouse*	

* denotes non-executive director. All non-executive directors are deemed to be independent except 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 (£0.01 ordinary shares) of the Company:

	Interest in Ordinary shares at the start of the period*	Interest in Ordinary shares at the end of the period*	% of Issued share capital at the end of the period
D Bundred	1,397,525	2,052,626	0.59%
Dr K Johnson	991,308	1,141,308	0.33%
I Cleminson	164,443	319,654	0.09%
J Woodhouse	125,000	535,203	0.15%
M Taylor	430,000	1,240,203	0.35%
I Maddock	0	113,763	0.03%

* Number of £0.01 ordinary shares

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 33 to 35.

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

Corporate governance

The Company is quoted on the Alternative Investment Market (AIM) of the London Stock Exchange, 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://surfacettransforms.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 new senior appointments, and reviewing executive performance and remuneration. This committee is made up of four non-executive Directors, David Bundred, Matthew Taylor, Julia Woodhouse and Ian Cleminson. Post balance sheet date the committee is now chaired by Julia Woodhouse. The Audit Committee is made up of the three independent NEDs and is chaired by Ian Cleminson. Details of the Remuneration Committee are disclosed in the report on Directors' remuneration on page 33.

Going concern

The Directors acknowledge a material uncertainty regarding the Group's ability to operate as a going concern. Further details on the uncertainty are detailed in the Financial Review and on the relevant scenarios and bank facilities in note 1 to the financial statements.

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 will 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. The Company's exposure to exchange risk is partially mitigated through natural hedging activities. Contracts for all OEMs with the exception of OEM 5, have been negotiated in sterling to mitigate any exchange risk. It is the Company's policy to negotiate contracts in sterling where possible.

A more detailed discussion of these risks, including price risk and credit risk, can be found in Note 22 to the financial statements.

Principal Activity

The principal activity of the Company is to design, manufacture and sell carbon ceramic components. The Company also conducts R&D into better performing carbon ceramic discs (see Strategic Report, Section "Bringing a complex product to market").

Impairment

The impairment charge described in the Financial Review reflects an accounting adjustment required under IFRS. The underlying assets continue to be integral to fulfilling our customer contracts and generating future revenue.

Result for the year and proposed dividend

The loss for the year after taxation amounted to £19.6m (2022 Restated: £5.3m). The Directors do not recommend the payment of a dividend (2022: £nil).

Post balance sheet event

Subsequent to the balance sheet date, the Company undertook a successful equity raise. On 2 May 24, the placing of firm, conditional, and subscription shares was announced, targeting £6.5 million in

gross proceeds, alongside an open offer. Exercising the right granted under the open offer terms, the Company accepted applications for 300,000,000 Open Offer Shares on May 24th, raising an additional £3.0 million. In total, the Placing, Subscription, and Open Offer are generated £9.5 million in gross proceeds, circa £8.8million net.

Disclosure of information to auditor

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.

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

27 June 2024

Image Business Park
Acornfield Road
Liverpool
L33 7UF

Board of Directors

Board Skills and Experience



David Bundred
Non Executive Chairman
Appointed August 2011

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.

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
Appointed April 2005

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 2004 and the Board as CEO in 2005. 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.



Isabelle Maddock
Chief Financial Officer
Appointed September 2023

Isabelle brings a wealth of experience to the board, having served for nine years as Chief Financial Officer at James Cropper Plc, a leading manufacturer of high-performance industrial materials. Her proven financial acumen, gained over 30 years in various sectors, strengthens the board's strategic decision-making. Isabelle is a Fellow of the Chartered Institute of Management Accountants (CIMA), has extensive experience across manufacturing, software, retail, PFI, and publishing, with previously held financial positions at Angus Fire Armour, Ethicon Ltd, Adobe Systems Europe Ltd, Landmark Ltd, and Haden Building Management Ltd.

For the past two years, Isabelle has also championed economic growth as Chair of the Confederation of British Industry's Economic Growth Board. Isabelle has transitioned away from this early this year to dedicate her full focus to the success of Surface Transforms plc.

Isabelle's diverse background and strong financial leadership are valuable assets to the company.



Julia Woodhouse
Non Executive Director
Appointed March 2021

Julia spent her executive career in Automotive with Ford Motor Company where her roles included Director, Global Power Train Purchasing, based in USA and Director, Global Chassis Purchasing, based in Germany. Following her retirement from Ford in 2018, she moved into non-executive roles. Julia is currently a non-executive director of Outokumpu Oy a leading global stainless-steel manufacturer based in Helsinki and is also a member of their external ESG Council.

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



Matthew Taylor
Senior Independent Non-Executive Director
Appointed March 2021

Matthew retired from his role as CEO of Bekaert SA in 2020 and joined the Board in March 2021. Bekaert SA, 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.

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



Ian Cleminson
Non-Executive Director
Appointed 1 May 2022

Ian is currently Executive Vice President and Chief Financial Officer of Innospec Inc., an international speciality chemical business employing 2400 personnel, in 22 countries with sales of over \$2.0 billion and quoted on the US NASDAQ exchange with a market capitalisation of over \$3 billion. Ian joined Innospec in 2002 and has served as CFO since 2006. Prior to joining Innospec, Ian held several senior financial management and accounting positions including Financial Controller at a division of BASF and an accountant in practice at KPMG.

Ian has a Master of Social Science degree from Birmingham University and is a Fellow of the Association of Chartered Certified Accountants

During the year the following meetings were held:

	Board Meeting	Audit committee	Remuneration committee
No of meetings	12	2	2
Attendance by director:			
D Bundred ⁺	11	2	2
K Johnson	12	2	2
I Cleminson ^{*+}	12	2	2
I Maddock	4	1	-
M Cunningham	5	1	-
J Woodhouse ^{*+}	12	2	2
M Taylor ^{*+}	12	2	2

* Member of the Audit Committee

+ Member of the Remuneration Committee

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

Report of the Audit Committee

The main objectives and key areas of focus for the Committee's work this year were:

1. To recruit and oversee a smooth transition to a new Chief Financial Officer.
2. To oversee a smooth transition to a new Audit Partner from our audit firm Grant Thornton.
3. Support Management in driving continuous improvements in accounting and internal financial control across the Company.
4. Work with management and the Board to oversee the equity and debt raise of the Company which concluded in December 2023.
5. Work with the Board to continue to refine the approach to business risk management, and further clarify the respective responsibilities of the Committee and the Board. The key outcome of these discussions was to confirm the Board's overall responsibility for business risk management and control, with the focus of the Committee being on matters of financial reporting, financial risk management and internal financial control.

Composition

The Audit Committee comprises of three members:

Ian Cleminson (chair)
Matthew Taylor
Julia Woodhouse

All of us are independent Non-Executive Directors. The Committee therefore complied with the requirements of the 2016 Code for a smaller company, this being to have at least two independent Non-Executive members.

Biographical details and experience of members are set out on pages 28 to 29. The Board believes that Committee members have an appropriate range of financial, operational, commercial management expertise to allow the Committee to fulfil its duties. The Board considers that Ian Cleminson has the relevant and recent financial experience to perform the role of Committee Chair.

Responsibilities during the year

During the year ended 31 December 2023, the Committee met two times. The meetings were attended by the independent Non-Executive Directors (the members), the Company Secretary and, by invitation, the Chair of the Board, the Chief Executive Officer, the Chief Financial Officer and representatives of the external auditors.

The external auditors have access to all Committee papers and minutes. The Committee meets privately at least once a year with representatives from the external auditors which provides an opportunity for any matters to be raised in confidence which they consider should be brought to the attention of the Committee without the Executive Directors being present. Full details of Director attendance during the year are set out in the table of all Committee meetings on page 29.

In addition to the specific areas of focus described above, the Committee also carried out the following work under its Terms of Reference:

- Review, comment on, and recommend to the Board the Companies interim and full year financial statements for approval;
- Review and consider the appropriateness of the outcome of areas where significant judgements and estimates are required in the preparation of the financial statements, including those outlined on pages 58 to 59
- Consider the appropriateness of the going concern basis used to prepare the financial statements.
- Consider the appropriateness of presenting alternative performance measures and the clarity of disclosure relating to these measures;
- Consider and approve proposals from the external auditor regarding the approach to the audit strategy for the year ended 31 December 2023, including the proposed materiality level for the audit, and review of the findings of the audit;
- Review and update the Committee's terms of reference; and
- Review the Committee's effectiveness.

Going concern:

The Audit Committee has carefully assessed the Group's ability to continue as a going concern. This assessment considered the current cash position, available credit facilities, and a range of forecast scenarios, including the assumptions underlying those forecasts. The Committee acknowledges the challenges described in the Financial Review that introduce uncertainty into the performance outlook. We believe these assumptions are reasonable in the circumstances. However, given the inherent uncertainties surrounding the year's performance, the Committee concludes that a reference to a material uncertainty in the context of the going concern basis of the financial statements is appropriate.

Revenue Recognition for System Integration Services (IFRS 15):

A change in management's interpretation of IFRS 15 regarding engineering, testing, and tooling services provided to OEM customers led to adjustments to our prior year audited financial statements. Previously, revenue recognition was based over time on stage completion using detailed project information. In the current year, we recognised revenue at a point in time: upon completion of system integration by the OEM or a change in control.

The Audit Committee reviewed and challenged management's judgment and interpretation and are satisfied with the revised approach. The error in prior year revenue related to these services amounts to a cumulative decrease of £1.4million, with £1.1m impacting 2022 and £0.3m impacting 2021. More detail can be found in Note 30 to the financial statements.

Impairments

The Audit Committee reviewed the impairment tests performed by management and the resulting charges described in Note 4 to the Financial statements. We are satisfied that the procedures were conducted in accordance with IAS 36 and that the impairment loss is appropriately reflected in the financial statements.

The Audit Committee challenged management's assessment of the impairment on a furnace that will not be commissioned. We considered the following:

- The justification for a zero recoverable amount based on the bespoke design and inoperability.
- The company's pursuit of legal advice and the potential limitations on recovery allied to the stringent recognition criteria of IAS 37
- The application of the prudence principle in recognising the full impairment provision.

We are satisfied with management's assessment and believe the impairment loss is appropriately recognised in the financial statements.

The Committee monitors the integrity of the Company's financial information and other formal documents relating to its financial performance and makes appropriate recommendations to the Board before publication. A key factor in the integrity of financial statements is ensuring that suitable and compliant accounting policies are adopted and applied consistently year-on-year. In this respect, the Committee also considers significant estimates and judgements made by management in preparing the financial statements. The Committee's considerations are supported by input from other assurance providers, e.g. the external auditors.

Details of total remuneration for the Auditor for the year, including audit services, audit-related services and other non-audit services, can be found in Note 4 to the consolidated financial statements.

Report of the Audit Committee continued

(a) Auditor independence and objectivity

The independence of the external Auditor is essential to the provision of an objective opinion on the true and fair view presented in the financial statements. Auditor independence and objectivity is safeguarded by limiting the nature and value of non-audit services performed by the external Auditor. The Company has policies of not recruiting senior employees of an external Auditor who have worked on the audit in the past two years to senior financial positions within the Company. The lead engagement partner of the auditor is rotated at least every five years.

(b) Non-audit services provided by the external Auditor

To safeguard the independence and objectivity of the Auditor, the Committee has approved a policy on non-audit services provided by the Auditor in line with professional practice and in accordance with ethical standards published by the Audit Practices Board of the Financial Reporting Council. Control of non-audit services is exercised by ensuring that all non-audit services, where fees exceed an agreed limit, are subject to the prior approval of the Committee, who must be satisfied there is no conflict of interest. The policy is available on the Company's website.

(c) Assessment of effectiveness of external audit

The Committee has a formal system for evaluating the performance and independence of the external Auditor. This system involves active dialogue with the lead engagement partner and the auditor's response to accounting, financial control and audit issues as these arise. The Committee conducts an annual review of the structure and approach taken in the external audit, the level of non-audit fees, and the effectiveness, independence and objectivity of the external Auditor.

Having made the requisite enquiries, so far as the Directors in office at the date of the approval of this report are aware, there is no relevant audit information of which the Auditor is unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the Auditor is aware of that information.

Ian Cleminson
Chair to the Audit Committee

27 June 2024



Report on 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.

During the year the Remuneration Committee comprised of David Bundred, Julia Woodhouse, Matthew Taylor and Ian Cleminson. In discussions with advisors and following latest QCA guidance. Post balance sheet date, Julia Woodhouse has taken over from David Bundred as Chair of the Remuneration Committee.

The Remuneration Committee plays a crucial role in ensuring good governance by overseeing two key areas: board composition and executive compensation.

- The committee reviews and determines appointments to the Board, ensuring the Board has

the necessary skills and experience to guide the company effectively.

- The committee oversees the company's policy on executive remuneration, including granting options under the Share Option Scheme. This ensures executive pay is fair and competitive, reflecting individual contributions and aligning with the company's long-term goals.
- The Committee also monitors performance and succession planning at both Board level and the Senior Leadership Team.

Fees for non-executive Directors

The fees for non-executive Directors are determined by the Board, after taking advice from its brokers and advisors. 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:

	31 December				31 December			
	Salary £	Bonus £	Fees £	2023 £	Salary £	Bonus £	Fees £	2022 £
Executive Directors								
Dr K Johnson	284,500	50,000	-	334,500	256,960	34,116	-	291,076
I Maddock	69,002	-	-	69,002				
M Cunningham	58,455	25,000	-	83,455	127,000	15,408	-	142,408
	411,957	75,000	-	486,957	383,960	49,524	-	433,484
Non-Executive Directors								
DG Bundred	65,000	-	18,000	83,000	20,000	-	60,000	80,000
RD Gledhill	-	-	-	-	23,333	-	-	23,333
J Woodhouse	35,000	-	-	35,000	35,000	-	-	35,000
M Taylor	35,000	-	-	35,000	35,000	-	-	35,000
I Cleminson	35,000	-	-	35,000	23,333	-	-	23,333
	170,000	-	18,000	188,000	136,666	-	60,000	196,666

Report on Directors' remuneration continued

The consultancy agreement with DG Bundred terminated in the year and remuneration set at an annual salary of £80,000. With the exception of Dr Kevin Johnson, M Cunningham and I Maddock, none of the Directors received pension contributions in respect of their office. In addition to the emoluments received, as stated above, Dr Kevin Johnson received £20,847 (2022: £17,612) in respect of pension contribution, M Cunningham received £5,582 (2022: £7,875) and I Maddock received £ 4,611 (2022: £nil) in respect of pension contribution.

Directors' interests

Information regarding directors' shareholdings in the Company for 2023 is detailed in the sections below on Share Saving Schemes and Long-Term Incentive Plans. The Company has maintained Directors' and Officers' liability insurance throughout the period. We are pleased to report that no contracts requiring disclosure due to a director's material interest were entered into during the reporting period. For further details on related party transactions, please refer to Note 20.

Share Saving Schemes and Long-Term Incentive Plans

The Directors believe that the Company benefits from all employees participating in the share ownership of the company's shares through share option plans. By sharing ownership we align employee interests with those of our shareholders, creating a more unified focus on long-term value creation for everyone. As the Company has grown, we are no longer eligible to participate in the highly tax efficient HMRC approved Enterprise Management Incentive Scheme (EMI) and therefore established a Long Term Incentive Plan, approved at the 2023 AGM.

All options are granted at the discretion of the Board. Existing awards to directors under the EMI scheme, 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 2023	Disposals	Holding on 31 December 2023	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
Dr K Johnson	04/07/2018	1,590,000	-	1,590,000	£0.16	19/09/18-19/09/28
Dr K Johnson	05/12/2018	1,910,000	-	1,910,000	£0.13	05/12/18-05/12/28
M Cunningham*	04/01/2018	990,000	(990,000)	-	£0.15	04/01/18-04/01/28
M Cunningham*	11/11/2021	173,700	-	173,700	£0.57	11/11/21-11/11/31
		5,363,700		4,373,700		

* M Cunningham resigned from the board in May 2023

In 2023, after consulting in detail with shareholders and advisors, the Company received shareholder approval to replace the long standing EMI scheme for Executive share options with a Long-Term Incentive Plan (LTIP).

On 16 January 2024 Surface Transforms granted, in total, 7.3m share options to three PDMRs and five non-PDMR senior managers pursuant to its long term incentive plan ("LTIP"). Kevin Johnson (CEO) has been awarded 2.50m Options, Isabelle Maddock (CFO) 1.37m, Stephen Easton (COO) 1.20m, and the five other senior managers a total of 2.21m. The exercise price of the Options was 10.98p. The Options represents 2.1% of the total issued share capital of the Company. The Options vest at the third anniversary of grant if the following vesting requirements are met:

- EBITDA per share between 3.34 pence (10.5% of the award) and 4.00 pence per share (30% of the award).
- This is based on achieving between £12.5m EBITDA and £15m EBITDA in the year to 31 December 2026
- Installation of realisable £75m sales capacity (30% of the award)
- Share price above 60p on a VWAP basis for the 20 days prior to the vesting date (20% of the award)
- A commercially confidential strategic milestone providing additional technical excellence, aimed at maintaining the Company's technical leadership in the marketplace (20% of the award)

The vesting criteria are independent of each other, albeit clearly linked if the separate criteria are to be achieved.

After exercise, the participants in the LTIP will be required to maintain a level of shareholding proportional to their salary.

In addition to the LTIP for the Executive Directors and senior leadership team and after extensive consultation with advisors and shareholders in reviewing share schemes, the Company received shareholder approval in 2023 to also launch a company-wide Share Incentive Plan which now launches in H1 2024. This scheme is a mix of individual employee savings and share awards in proportion to the employee savings. While HMRC allows non-executive directors to participate, the QCA guidelines do not approve of NEDs holding share options, and the Company will follow these guidelines.

The market price of the shares as at 31 December 2023 was 11.13 pence and during the period varied from 10.25 pence to 40.50 pence.

On behalf of the board



D Bundred
Chairman

27 June 2024

Statement of Director's responsibilities

The directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law, including international accounting standards in conformity with the requirements of the Companies Act 2006/ UK- adopted international accounting standards.

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 in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing 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 applicable UK adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the 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

27 June 2024

Independent auditor's report

to the members of Surface Transforms Plc

Opinion

Our opinion on the company financial statements is unmodified

We have audited the company financial statements of Surface Transforms Plc for the year ended 31 December 2023, which comprise the Statement of Total Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the 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 company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its 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 company 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 company 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.

Material uncertainty related to going concern

We draw attention to the going concern section within Note 1 to the financial statements, which indicates that there is uncertainty in the ability to navigate the scale-up phase, due to two key areas, that may cast significant doubt on the Company's ability to continue as a going concern. There is a risk that the Company cannot successfully ramp up production to meet the demands of their customers, and this scenario may necessitate additional cash injections. Additionally, there is a risk that the Company may not be able to maintain financial flexibility which may exhaust cash headroom or breach loan covenants in a reasonably plausible downside scenario.

As stated in note 1, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

Independent auditor's report continued



Our evaluation of management's assessment of the entity's ability to continue as a going concern

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding of relevant controls relating to the assessment of the going concern model;
- obtaining and reviewing management's assessment of going concern, including forecasts covering the period up to and including June 2025, being at least 12 months from the date of approval of the financial statements and tested the mathematical accuracy of the forecasts, as approved by the Board;
- assessing the reasonableness of the inputs and assumptions used in the model;
- testing the accuracy of management's historical forecasting through a comparison of budget to actual data;
- corroborating the existence of the Company's loan facilities and relevant covenant requirements to loan agreements for the period covered by management's forecasts;
- assessing scenario sensitivities and reverse stress tests performed by management, and determined if they are plausible;
- performing our own scenario sensitivities over and above the sensitivities of management and considered the available headroom and compliance with covenants;
- testing the adequacy of the supporting evidence for cash flow forecasts by agreeing to relevant supporting documentation and actual performance, and considered the headroom available to the Company;
- assessing the appropriateness of assumptions regarding mitigating actions to reduce costs or manage cashflows in downside scenarios;
- engaging an internal going concern specialist to assist in forming our opinion and conclusion in relation to going concern; and
- assessing the adequacy of related disclosures within the annual report.

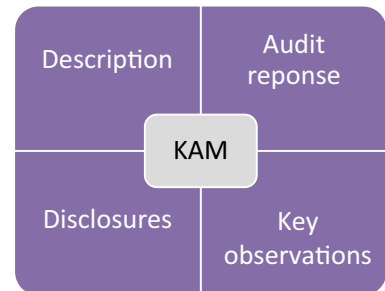
Based on the work we have performed, we have identified two material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our approach to the audit

 	Overview of our audit approach
	<p>Overall materiality: £567k, which represents 5% of the company's loss before tax excluding impairment charges.</p>
	<p>Key audit matters were identified as:</p> <ul style="list-style-type: none"> • Revenue recognition on over-time contracts subject to the conditions of IFRS 15 (same as previous year); • Going concern (same as previous year); and • Carrying value of intangible and tangible assets (new in current year). <p>Our auditor's report for the year ended 31 December 2022 included no key audit matters that have not been reported as key audit matters in our current year's report.</p>
	<p>We have performed a full-scope audit of the financial statements of the Company.</p>

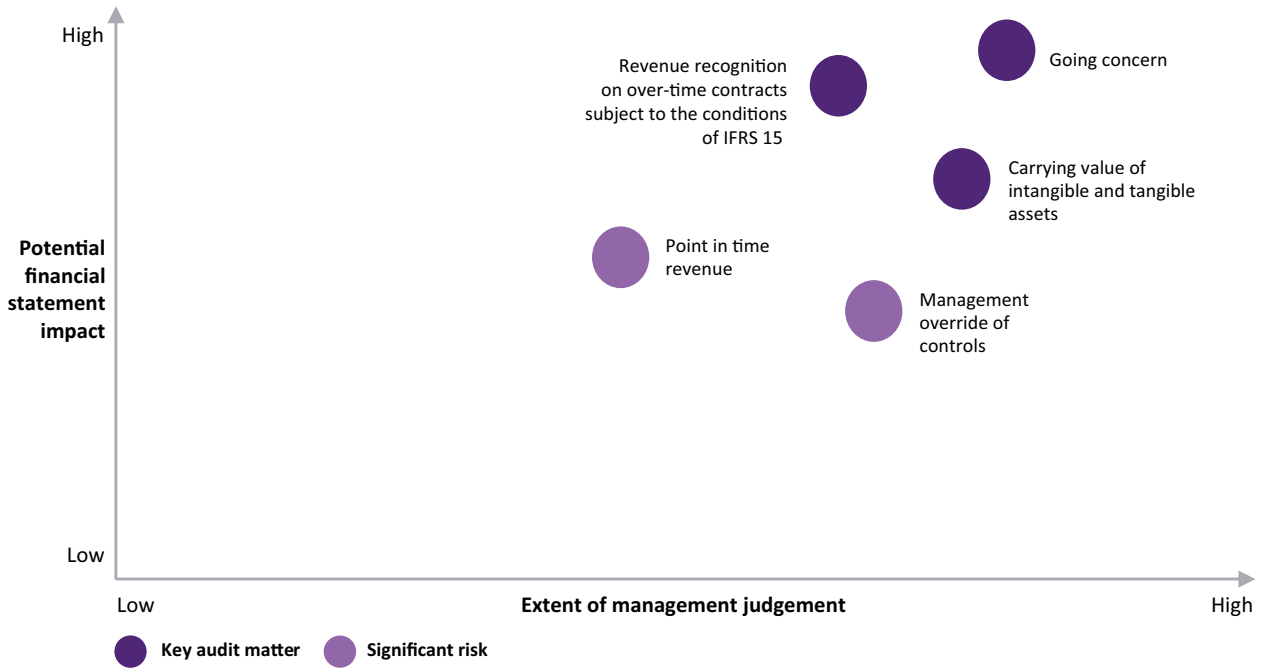
Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the company 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 company 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 continued

In the graph below, we have presented the key audit matters and significant risks relevant to the audit. This is not a complete list of all risks identified by our audit.



Key Audit Matter

Revenue recognised on over-time contracts subject to the conditions of IFRS 15

We identified revenue recognised on over-time contracts subject to the conditions of International Financial Reporting Standard (IFRS) 15 'Revenue from Contracts with Customers' as one of the most significant assessed risks of material misstatement due to fraud and error.

There is a risk that revenue has been misstated through fraud or error, due to the complexity of the revenue contracts and the recognition criteria of IFRS 15's 5-step approach.

We also consider there to be significant judgement in the assessment of performance obligations per the contract in accordance with IFRS 15, which determines revenue recognition over multi-year contracts.

Relevant disclosures in the Annual Report

- Financial statements: Note 1 Accounting policies; Basis of preparation and Note 30 Prior Year Restatement
- Audit committee report: Revenue Recognition for System Integration Services (IFRS 15):

How our scope addressed the matter

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

- obtained an understanding of and evaluated the design and implementation of relevant controls over the revenue cycle;
- assessed the revenue recognition accounting policy for compliance with accounting standards, including appropriateness and disclosure within the financial statements;
- obtained and inspected contract documents and challenged the identification of performance obligations, contract clauses and assessed whether the method of revenue recognition is in accordance with IFRS 15 'Revenue from contracts with customers';
- made inquiries of project managers to obtain an understanding of the performance of the contract throughout the period and at period end;
- assessed the adequacy of disclosures

Key observations

In performing our audit procedures, we noted the Company's accounting for long-term contracts did not meet the requirements of the accounting standard IFRS 15. These findings resulted in material adjustments in the current and prior period. The prior period restatement in revenue of £1,076,590 is outlined in Note 30 of the financial statements. Following these adjustments, there was no revenue recognised over time in either the current year, prior year or earlier years.

Independent auditor's report continued

Key Audit Matter

Carrying value of intangible and tangible assets

We identified the carrying value of intangible and tangible assets as one of the most significant assessed risks of material misstatement due to error following the continued operational challenges experienced by the Company.

Under International Accounting Standard (IAS) 36 'Impairment of Assets', management are required to perform an annual assessment of whether there is any indication that an asset may be impaired or for assets that are not amortised, an annual impairment review.

Indicators were deemed to exist therefore management prepared an impairment model to assess the value in use. Calculating value in use, through forecasting cash flows for the CGU, and the determination of CGUs, appropriate discount rates and other assumptions to be applied is highly judgemental and subject to management bias or error. The selection of certain inputs into the cash flow forecasts can also significantly impact the results of the impairment assessment.

How our scope addressed the matter

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

- obtained an understanding of and evaluated the design and implementation of relevant controls relating to the impairment model;
- obtained management's Board-approved assessment over carrying value and value in use, understood and challenged sensitivities performed;
- assessed the mathematical accuracy of the impairment model and methodology applied by management for consistency with the requirements of IAS 36, including the associated sensitivities performed;
- tested the accuracy of management's forecasting through a comparison of current period budget to actual data;
- assessed the appropriateness of management's assumptions and sensitivities, and performed our own sensitivities, relating to the calculations of the value in use of CGUs and estimated future cash flows, including growth rates and discount rates used to assess the level of headroom;
- used our internal valuation specialists to inform our challenge of management, that the assumptions used within the calculation of weighted average cost of capital and specific cash flow risk premiums were reasonable; and
- assessed the accuracy and sufficiency of financial statements disclosures.

Relevant disclosures in the Annual Report

- Financial statements: Note 1 Accounting policies; Impairment of Assets, Note 11 Property, plant and equipment and Note 12 Intangibles
- Audit committee report: Impairment

Our results

Our audit testing and challenge of management resulted in revision of their forecasts and discount rate utilised and the following impairment charges recognised:

- Intangible assets £5,820k
- Tangible assets £3,795k

Based on our audit work, we are satisfied that the assumptions used in management's revised impairment model were appropriate and we did not identify any remaining material misstatements in the carrying value of intangible and tangible assets. We consider the disclosures with respect to the carrying value of intangible and tangible assets to be in accordance with IAS 36.

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.

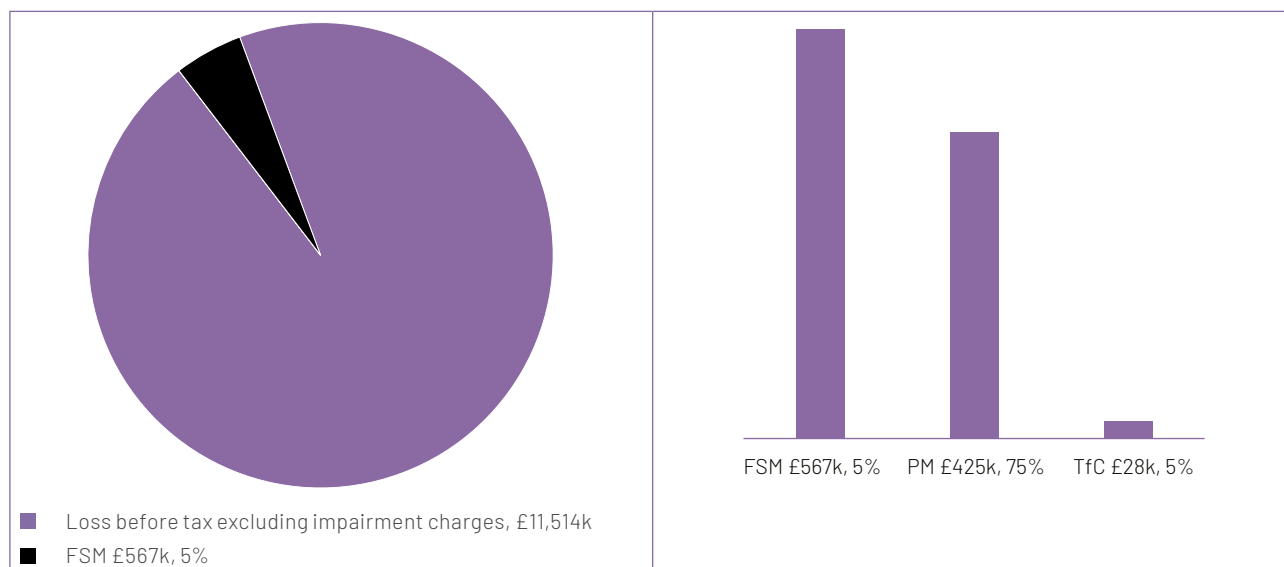
Materiality was determined as follows:

Materiality measure	Company
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	£567k (2022: £308,800), which represents 5% of loss before tax excluding impairment charges (2022: 5% of loss before tax).
Significant judgements made by auditor in determining materiality	<p>In determining materiality, we made the following significant judgements:</p> <ul style="list-style-type: none"> 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; We excluded impairment charges on the basis that they are material and non-recurring and as such do not reflect the underlying performance of the Company; and A percentage of 5% was chosen given ongoing risk due to wider macro-economic impacts. <p>Materiality for the current year is higher than the level that we determined for the year ended 31 December 2022 to reflect the higher loss in the current year compared to the prior year. Despite making a higher loss than in the prior year, the company has benefited from an increase in revenue and growth of their customer base. This materiality is considered a suitable threshold in capturing any significant balances for audit purposes.</p>
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole 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	£425k (2022: £231,600), which is 75% (2022: 75%) of financial statement materiality.

Independent auditor’s report continued

Materiality measure	Company
Significant judgements made by auditor in determining performance materiality	<p>In determining performance materiality, we made the following significant judgements:</p> <ul style="list-style-type: none"> • The Company has a strong governance structure in place, with separate governance and audit committees. Furthermore, there is a strong culture of compliance and doing the right thing; • The senior finance team are experienced in both their industry and within the wider finance and accounting industry and have the relevant qualifications to perform their roles effectively; • The number and quantum of unadjusted misstatements identified in the prior year were not considered to be significant; and • The nature and impact of control deficiencies identified in the prior year.
Specific materiality	<p>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.</p>
Specific materiality	<p>We determined a lower level of specific materiality for the following areas:</p> <ul style="list-style-type: none"> • Directors’ remuneration; and • Related party transactions.
Communication of misstatements to the audit committee	<p>We determine a threshold for reporting unadjusted differences to the Audit Committee.</p>
Threshold for communication	<p>£28k(2022: £15k), which represents 5% of materiality, and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.</p>

The graph below illustrates how performance materiality interacts with our overall materiality and the threshold for communication to the Audit Committee.



FSM: Financial statement materiality, PM: Performance materiality, TfC: Threshold for communication to the Audit Committee

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, its environment, including controls

- we obtained an understanding of the Company, its environment and the controls in place; and
- we evaluated the design and implementation of controls relevant to the audit and assessed the risk of material misstatement.

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

- a full-scope audit of the financial statements of the Company;
- an evaluation of significant management estimates and judgements, including those estimates and judgements made in respect of over-time revenue contracts;
- an assessment of material accounting policies for compliance with the financial reporting framework;
- undertaking substantive audit procedures on over-time revenues, 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 over-time revenue contracts subject to the requirements of IFRS 15';
- undertaking substantive audit procedures over the carrying value of intangible and tangible assets, subject to the requirements of IAS 36, including review and challenge of management's value in use calculation which addressed the key audit matter 'Carrying value of intangible and tangible assets; and 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

- In order to gain sufficient appropriate audit evidence to address the risks described above, an audit of financial information of the Company was carried out, this included a mix of onsite visits and remote working.

Changes in approach from previous period

- There have been no changes in approach from the prior year.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the company 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 of the

Independent auditor's report continued

company financial statements themselves. 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 company financial statements are prepared is consistent with the company 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

As explained more fully in the directors' responsibilities statement set out on page 36, the directors are responsible for the preparation of the company 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 company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the company 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.

Auditor's responsibilities for the audit of the company financial statements

Our objectives are to obtain reasonable assurance about whether the company 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 company financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. 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 applicable to the Company and the industry in which they operate. We determined that the most significant laws and regulations as those that relate to the financial reporting framework, being the Companies Act 2006 and UK-adopted international accounting standards, together with tax legislation and health and safety law;
- We obtained an understanding of how the Company was complying with those legal and regulatory frameworks by making inquiries of management, the finance team, 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 our inquiries to relevant supporting documents and through our review of Board minutes and papers provided to the Audit Committee;
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the engagement team included:
 - evaluation of the design and implementation of controls that management has put in place to prevent and detect fraud;
 - obtaining an understanding of how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
 - identifying and testing journal entries, in particular any journals with unusual characteristics, and increasing our testing in areas of higher risk as identified during our audit;
 - designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing;
 - challenging assumptions and judgements made by management in its significant accounting estimates;
 - identifying and testing related party transactions; and
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;
- 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;

Independent auditor's report continued

- The engagement partner's assessment of 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 engagements of a similar size and complexity through appropriate training and participation; and
 - understanding of the legal and regulatory requirements specific to the Company.
- We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

Use of our report

This report is made solely to the 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.

Michael Lowe

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

27 June 2024

Statement of Total Comprehensive Income

For the year ended 31 December 2023

	Note	Year to 31 December 2023 £'000	Year to 31 December 2022 (Restated) £'000
Revenue	3	7,312	4,045
Cost of Sales		(3,137)	(1,448)
Gross Profit		4,175	2,597
		57%	64%
Other Income		16	36
Gross profit after other income		4,191	2,633
Administrative Expenses:			
Before research and development costs		(5,439)	(3,365)
Research and development costs		(9,676)	(5,625)
Impairment of fixed assets		(9,238)	-
Total administrative expenses		(24,353)	(8,990)
Operating loss before exceptional items	4	(20,162)	(6,357)
Exceptional items	5	(389)	-
Operating loss after exceptional items		(20,551)	(6,357)
Financial Income	9	5	6
Financial Expenses	8	(176)	(180)
Loss before tax		(20,722)	(6,531)
Taxation	10	1,163	1,264
Loss for the year after tax		(19,559)	(5,267)
Total comprehensive loss for the year attributable to members		(19,559)	(5,267)
Loss per ordinary share			
Basic and diluted	26	(7.92)p	(2.58)p

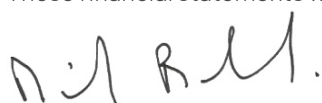
The notes on pages 53 to 83 form part of these financial statements

Statement of Financial Position

At 31 December 2023

	Note	As at 31 December 2023 £'000	As at 31 December 2022 (Restated) £'000
Non-current Assets			
Property, plant and equipment	11	16,017	15,188
Intangibles	12	-	2,237
Total non-current assets		16,017	17,425
Current assets			
Inventories	13	4,469	3,376
Trade receivables	14	1,702	1,051
Other receivables	14	1,161	1,276
Tax receivable	14	1,196	1,206
Contract fulfillment asset		1,342	693
Cash and cash equivalents		6,064	14,924
Total current assets		15,934	22,526
Total assets		31,951	39,951
Current liabilities			
Other interest-bearing borrowings	15	(211)	(211)
Lease liabilities	15	(357)	(295)
Trade and other payables	16	(5,649)	(4,220)
Total current Liabilities		(6,217)	(4,726)
Non-current liabilities			
Government grants	27	(174)	(188)
Lease liabilities	15	(1,429)	(1,335)
Other interest-bearing borrowings	15	(404)	(887)
Total non-current liabilities		(2,007)	(2,410)
Total liabilities		(8,224)	(7,136)
Net assets		23,727	32,815
Equity			
Share capital	18	3,521	2,406
Share premium		67,370	58,215
Capital reserve		464	464
Retained loss		(47,628)	(28,270)
Total equity attributable to equity shareholders of the company		23,727	32,815

These financial statements were approved by the board of directors on 27 June 2024 and were signed on it's behalf by:



D Bundred

Chairman

Company Registered Number 03769702

The notes on pages 53 to 83 form part of these financial statements

Statement of Changes in Equity

For the year ended 31 December 2023

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained Loss £'000	Total £'000
Balance as at 31 December 2022 as originally stated	2,406	58,215	464	(27,534)	33,551
Impact of restatement	-	-	-	(736)	(736)
Balance as at 31 December 2022 as restated	2,406	58,215	464	(28,270)	32,815
Comprehensive income for the year					
Loss for the period	-	-	-	(19,559)	(19,559)
Total comprehensive income for the year	-	-	-	(19,559)	(19,559)
Transactions with owners, recorded directly to equity					
Shares issued in the period	1,104	9,921	-	-	11,025
Share options exercised	11	159	-	-	170
Cost of issue to share premium	-	(925)	-	-	(925)
Equity settled share based payment transactions	-	-	-	201	201
Total contributions by and distributions to the owners	1,115	9,155	-	201	10,471
Balance as at 31 December 2023	3,521	67,370	464	(47,628)	23,727

For the year to 31 December 2022 (Restated)

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained Loss £'000	Total £'000
Balance as at 31 December 2021 as originally stated	1,952	41,446	464	(22,968)	20,894
Impact of restatement	-	-	-	(251)	(251)
Balance as at 31/12/21 as restated	1,952	41,446	464	(23,219)	20,643
Comprehensive income for the year					
Loss for the period	-	-	-	(5,267)	(5,267)
Total comprehensive income for the year	-	-	-	(5,267)	(5,267)
Transactions with owners, recorded directly to equity					
Shares issued in the period	449	17,536	-	-	17,985
Share options exercised	5	61	-	-	66
Cost of issue to share premium	-	(828)	-	-	(828)
Equity settled share based payment transactions	-	-	-	216	216
Total contributions by and distributions to the owners	454	16,769	-	216	17,439
Balance as at 31 December 2022 as restated	2,406	58,215	464	(28,270)	32,815

The notes on pages 53 to 83 form part of these financial statements

Statement of Cash Flows

For the year ended 31 December 2023

	12 Months to 31 December 2023 £'000	12 Months to 31 December 2022 (as Restated) £'000
Cash flow from operating activities		
Loss after tax for the year	(19,559)	(5,267)
Adjusted for:		
Depreciation and amortisation charge	1,262	969
Disposal of fixed assets	6	-
Impairment of assets	9,238	-
Non-government grant amortisation	(13)	(12)
Equity settled share-based payment expenses	201	216
Foreign exchange (gains)/losses	54	(345)
Financial expense	176	180
Financial income	(5)	(6)
Taxation	(1,163)	(1,264)
	(9,803)	(5,529)
Changes in working capital		
Increase in inventories	(1,093)	(2,038)
Increase in trade and other receivables	(537)	(974)
Increase in Contract Fulfillment Asset	(649)	(693)
Increase in trade and other payables	649	2,068
	(11,433)	(7,166)
Taxation received	1,172	709
Net cash used in operating activities	(10,261)	(6,457)
Cash flows from investing activities		
Acquisition of tangible assets	(4,769)	(8,281)
Acquisition of intangible assets	(3,279)	(70)
Cash transfer (to)/from current asset investments	-	3,007
Interest received	5	6
Net cash used in investing activities	(8,043)	(5,338)
Cash flows from financing activities		
Proceeds from issue of share capital	11,195	18,050
Costs for issue of share capital	(925)	(828)
Payment of finance lease liabilities	(356)	(153)
Payments of interest bearing borrowings	(240)	(473)
Interest paid	(176)	(180)
Net cash generated from financing activities	9,498	16,416
Net (decrease)/increase in cash and cash equivalents	(8,806)	4,621
Foreign exchange losses	(54)	345
Cash and cash equivalents at the beginning of the period	14,924	9,958
Cash and cash equivalents at the end of the period	6,064	14,924

The notes on pages 53 to 83 form part of these financial statements

Notes to the Financial Statements

For the year ended 31 December 2023

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 27 June 2024.

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.

Error Correction under IAS 8

The financial statements reflect a change in presenting the tax credit on the Statement of Financial Position (SFP) and in note 14. Previously included in "Other Receivables", the tax credit (FY22 £1,206) is now a separate line item for improved clarity (operating vs. other receivables). This change is applied retrospectively, restating prior period amounts in the SFP and note 14. This change is classified as an error correction under IAS 8. We believe previously the balance was not separately presented in accordance with the requirements of IAS 1. [IAS 8.49(a)].

Prior Year Restatement – Revenue Recognition for System Integration Services (IFRS 15):

We have reassessed our interpretation of revenue recognition for multi-year service integration contracts under IFRS 15. This has resulted in changes to the criteria upon which revenue is recognised for certain engineering, testing, and tooling services. Previously, revenue had been recognised by a careful assessment of these services over time based on the stage of completion for each contract, using detailed project information. This approach which aimed to reflect a fair representation of revenue earned, aligned with management's previous interpretation of IFRS 15. However, since we have been unable to adequately evidence the right to payment for incomplete performance obligations, the criteria for recognising revenue has been revised to only recognise revenue at a point in time being either upon completion of system integration by the OEM or when control is passed over for the contracted services.

Based on this new interpretation management determined there to be a material difference in how the company has previously recognised revenue. To comply with IAS 8 the company is retrospectively applying this new interpretation and adjusting prior year audited financial statements. The error in prior year revenue related to these services amounts to a cumulative decrease of £1.4million, with £1.1m impacting 2022 and £0.3m impacting 2021. This revised approach reflects a reduction in revenue recognised in the years ended December 31, 2023 and 2022.

These adjustments have also impacted other financial statement line items, such as cost of sales, contract receivables and contract fulfillment assets, as detailed in Note 30. The Company now expects to recognise more revenue for these services in future periods as system integrations are completed by the OEMs as detailed in Note 3.

Going concern – Judgements

The Directors acknowledge the existence of a material uncertainty related to the Group's ability to continue as a going concern. The Company cannot be assured that it will not exhaust its cash headroom or breach its covenants, and that there is therefore a material uncertainty over the going concern of the Company. The Financial Review details the challenges we face and our mitigation strategies. Information on forecasts used in the financial scenarios is provided below.

Notes to the Financial Statements continued

1 Accounting policies continued

The Board of Directors has developed management forecasts encompassing high case, base case, downside, and severe but plausible downside scenarios. While recent performance has shown strong year-over-year growth, it falls short of the initial expectations for the base case. Recent equity financing has bolstered working capital headroom in all scenarios.

The base case scenario

Our base case scenario anticipates significant revenue growth, exceeding 170% in 2024 and moderating to 95% in 2025. This growth is attributed to successful production output. This scenario targets an average yield of 84% in 2024 and 91% in 2025. Rework is projected at 9% of output in 2024, decreasing to 4% in 2025. Equipment capacity is expected to be achieved in line with Project Management Office (PMO) plans. While base case cash headroom is adequate, it will diminish if performance weakens.

The low case scenario

Our low case scenario anticipates revenue growth, exceeding 140% in 2024 and moderating to 50% in 2025. This growth is attributed to successful production output. This scenario anticipates lower revenue due to equipment delays, a potential equipment failure, and reduced yields. Yields are projected to drop by 6% year-over-year compared to the base case, indicating a slower improvement timeline. Output is expected to be curtailed to 85% of the base case in 2024 and 74% in 2025 due to delays in implementing growth capital expenditures (capex) and equipment upgrades. Additionally, a four-week critical equipment failure simulation is factored in. Under this scenario, the company may experience tight working capital headroom at certain points. Consequently, the company would prioritise slower utilisation of the LCA ERDF Loan to slow down capital investment and avoid financial strain. Additionally, a covenant waiver request might become necessary and this creates a material uncertainty.

Loan facilities

In December 2023, the Company obtained additional debt financing, specifically a £13.2 million Loan Facility from Liverpool City Region Urban

Development Fund which is part funded by the ERDF, which together with equity financing and retained operating cashflows, is expected to be sufficient to fully finance the development and construction of Phase 2 and commence Phase 3 of the Board's manufacturing strategy. A breach of covenant would require the Liverpool Combined Authority to grant a waiver or for the Company to renegotiate its banking facilities, or raise funds from other sources. At the first test point of 2024 year a breach occurred which the lender has waived. The lender and borrower have subsequently formally amended the loan agreement to establish revised financial covenants for the loan.

Management believes in the Company's ability to invest in capacity, people, software and process optimisation. However, there can be no guarantee that recent improvements in yield can be achieved at the pace required and whilst production volumes are increasing. There can be no guarantee that the increase in production capacity is effected at the pace planned for. For these reasons, and that there is therefore a material uncertainty over the going concern of the Company.

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. 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.

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 | 15 – 5 years |
| • Fixtures and fittings | 3 years |
| • Leasehold improvements | Over life of lease |
| • Buildings(right of use) | Over life of lease |
| • Land | n/a |

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 is brought into use by the business. Land is held at cost, subject to impairment charges.

ROU leases

The Company leases property and equipment to support its operations. These leases are typically property leases with some finance equipment leases, and lease terms range from 1 to 10 years.

Intangibles

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

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 statement of total comprehensive income.

Impairment of Assets

The Company reviews the carrying amount of its tangible and intangible assets at each financial statement date and for event-driven assessments to determine potential impairment losses. Impairment testing is performed by establishing the recoverable amount of an asset in line with IAS 36 "Impairment of Assets." The recoverable amount is the higher of fair value less costs to sell and value in use. When assessing value in use, discounted future cash flows are used to reflect current market assessments and risks. If the recoverable amount is estimated to be less than the asset's carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is then recognised as an expense in the Statement of Consolidated Income.

Revenue Recognition for the provision of brake discs

For core manufacturing activities, where the primary activity is the sale of manufactured carbon ceramic brake discs, revenue is typically recognised at a point in time when control of the goods has passed to the customer, which usually occurs upon dispatch of the goods. These contracts typically contain only one performance obligation, which is the delivery of the goods. 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.

Notes to the Financial Statements continued

1 Accounting policies continued

For revenue recognition in a bill-and-hold arrangement, the following criteria must be met:

The contract specifies the good, delivery date, and payment terms. The seller's obligations are identified. The customer has control of the goods even though physical possession might be delayed. The Customer has legal title to the goods, bears the risk of loss or damage to the goods, Can use or sell the goods to a third party, and we have no significant remaining obligations except for delivery. The price is determined and collectible. As these criteria are met, revenue is recognised at the point of sale even if the goods are not physically delivered yet. This is because the customer has assumed the significant risks and rewards of ownership.

Revenue Recognition for System Integration Services (IFRS 15)

Revenue for contracted services, including engineering, testing, and tooling services provided during system integration projects, is recognised at a point in time when the performance obligation is deemed satisfied.

The performance obligation for these contracted services is considered satisfied when the system integration by the OEM is complete, or when control is passed over for the contracted services.

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.

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.

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 expenditure

Expenditure on research activities is recognised in the statement of total comprehensive income as an expense as incurred.

Development expenditure

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
- the company owns the know how and IP

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, refer to the note in Intangibles.

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.

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.

Financial Instruments

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.

Non-derivative financial instruments

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

Trade 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. Due to the nature of the current business the Company provides for impairments to trade receivables on an individual basis using management judgement. Trade and other receivables represent financial assets and are considered for impairment on an expected credit loss model. In accordance with IFRS 9, all receivables, including unbilled receivables, are assessed for impairment going forward, the expected credit loss (ECL). The assessment incorporates historical information (past customer payment behavior) and forward-looking estimates of potential credit losses and economic risk.

Notes to the Financial Statements continued

1 Accounting policies continued

Contract fulfillment assets (IFRS 15.95)

The Company recognises certain engineering services as contract fulfillment costs in accordance with IFRS 15. These services meet the following criteria for qualifying as a contract asset:

- **Directly Linked to Fulfilling a Contract:** The system integration services (including engineering, testing, and tooling services) are incurred specifically to fulfill a customer contract and are not for general or future use.
- **Expected Recoverable Cost:** The Company has reasonable certainty that it will recover the costs from the customer through payment or by generating sufficient contract margins.
- **Measurable Cost:** The cost of the engineering services can be reliably measured based on detailed project information.

Costs that meet these criteria will be recognised as a contract fulfillment asset on the statement of financial position. The asset will be 100% expensed upon completion of system integration by the OEM or when control is passed over for the contracted services and revenue is recognised at the same point in time.

This policy is applied retrospectively, with any prior period adjustments reflected in the current year's financial statements.

Trade and other payables

Financial liabilities are initially measured at the fair value of the consideration received, adjusted for directly attributable transaction costs. These liabilities are subsequently measured at amortised cost. The company derecognises financial liabilities when the obligations that gave rise to them are extinguished.

Cash and cash equivalents

Cash is defined as cash in hand and on demand deposits. Cash equivalents are defined as short-term highly liquid investments with original maturities of three months or less.

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.

Key estimates assessed by management are as follows:

Impairment

IAS 36, Impairment of Assets, requires us to assess the recoverable amount of our assets annually and whenever there is an indication of impairment. The recoverable amount is the higher of fair value less costs of disposal and value in use. Estimating the recoverable amount requires significant judgment, particularly when using valuation techniques such as discounted cash flow models. Key factors considered in this process include:

- **Discount rate:** The discount rate reflects the time value of money and the risks specific to the asset. Determining the appropriate discount rate requires significant judgment and involves estimating the entity's weighted average cost of capital (WACC) and incorporating additional risk premiums for factors such as market sensitivities and uncertainties in future cash flows.
- **Cash flow projections:** The accuracy of the recoverable amount is highly dependent on the reliability of the underlying cash flow projections used in the discounted cash flow model. These projections require careful consideration of customer demand, execution and operational plans.

Deferred tax

Management estimation is required to determine the amount of deferred tax assets recognised. This requires considering the likelihood and timing of future taxable profits, along with potential tax planning strategies. Currently, management hasn't recognised deferred tax assets exceeding the recognised deferred tax liability because they believe future taxable profits are possible, but not probable. However, a deferred tax asset of £4,280K (compared to £2,646k in 2022) is recognised based on the potential to offset future tax liabilities with deductible differences as per IAS 12.28. Refer to note 17 for further details on the unrecognised deferred tax amount.

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.

Loans

In December 2023, the Company secured a £13.2 million loan facility from the LCR UDF Limited partnership. This loan originates from Liverpool city region's Urban Development Fund, which is part-funded by the European Regional Development Fund (ERDF). The loan will be used to invest in new manufacturing facilities, thereby increasing our production capacity. It is solely for capital investment purposes and will be drawn down for eligible capital projects over the next 24 months

until December 31, 2025. Loan funds are held in a "blocked account", while the cash physically resides in a company account, the European Regional Development Fund (ERDF) approval process dictates that the company does not have full control over the funds. Due to this lack of control, the cash is not recognised on the company's balance sheet. The loan liability will only be recognised once funds are drawn down, there has been no utilisation of the loan as at 31 December 2023 and no financial asset or liability has been recognised.

New standards and interpretations

From 1 January 2023 the following became effective and were adopted by the Company:

- Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies (effective 1 January 2023)
- Amendments to IAS 8 - Definition of Accounting Estimates (effective 1 January 2023)
- Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective 1 January 2023)
- Amendments to IAS 12 - International tax reform - pillar two model rules (effective 1 January 2023)
- IFRS 17 - Insurance Contracts, as amended in December 2021 (effective 1 January 2023)

Their adoption did not have a material effect on the Company's profit for the year or equity.

- New standards, amendments and interpretations issued but not yet effective and not early adopted
- Amendments to IAS 1 - Non-current Liabilities with Covenants (effective 1 January 2024)
- Amendments to IFRS 16 - Lease Liability in a Sale and Leaseback (effective 1 January 2024)
- Amendments to IAS 7 and IFRS 7 - Supplier finance (effective 1 January 2024)
- Amendments to IAS 21 - Lack of Exchangeability (effective 1 January 2025).

It is not considered that the above standards and amendments will have a significant effect on the results or net assets of the Company.

Notes to the Financial Statements continued

2 Segment Reporting

The Company operates in a single segment being the manufacture and sale of carbon fiber materials and associated technologies. This segment includes all manufacturing, development, and sales activities related to carbon fiber materials, regardless of the specific market or product application. All carbon fiber materials are manufactured using comparable processes, further supporting a single segment view. The Company recognises its product technology as carbon fiber-reinforced ceramic material, which can be customised into various shapes for diverse end-user applications.

The Company currently operates one manufacturing facility, eliminating the need to allocate resources or discriminate between markets or product lines. The Chief Executive Officer, who acts as the chief operating decision maker, reviews performance information for the entire company and does not allocate resources based on individual markets or products.

3 Revenue by geographical destination

Revenue by Geographical Destination

	2023 £'000	2022 (Restated) £'000
United Kingdom	845	1,623
Germany	492	349
Sweden	168	354
Netherlands	583	1
Rest of Europe	117	341
United States of America	5,006	1,177
Rest of World	102	200
	7,312	4,045

System Integration Services (Not Applicable): While our accounting policies mention system integration services, we did not recognise any revenue related to these services in fiscal year 2023 or 2022. Therefore, all revenue recognised in the current and prior year pertains solely to the sale of goods category. This approach ensures transparency and accurately reflects the nature of our current business activities.

The table below presents the transaction price allocated to the remaining performance obligations for our system integration services, as required by IFRS 15.120. These obligations represent unperformed services that we will deliver to customers in the future and for which we will recognise revenue upon completion of system integration by the OEM or when control is passed over for the contracted services. The table provides a breakdown of the estimated recognition of the transaction price by year, reflecting the expected timing of revenue recognition.

As at 31 December 2023:	2024 £'000	2025 £'000	2026 Onwards £'000	Total £'000
Total transaction price allocated to the remaining performance obligations	2,437	486	-	2,923

As at 31 December 2022:	2023 £'000	2024 £'000	2025 Onwards £'000	Total £'000
Total transaction price allocated to the remaining performance obligations	-	2,437	-	2,437

4 Operating loss and auditor's remuneration

	12 months to 31 December 2023 £'000	12 months to 31 December 2022 (Restated) £'000
Operating loss is stated after charging		
Loss on disposal of property plant and equipment	6	0
Depreciation of property plant and equipment	1,189	865
Impairments (see 4.2 below)	9,238	-
Amortisation of Intangible assets	73	104
Research costs expensed as incurred (see 4.1 below)	9,676	5,625
Exchange losses/(gains)	54	(345)
after crediting		
Government grants	13	36

Notes to the Financial Statements continued

4 Operating loss and auditor's remuneration continued

Auditors remuneration

Amounts receivable by auditors and their associates in respect of:

	12 months to 31 December 2023 £'000	12 months to 31 December 2022 £'000
Fees payable to the company auditor for the audit of the financial statements	170	78
Total	170	78
Fees payable to the company auditor for other services		
Financial due diligence for debt financing arrangement	80	-
	80	-

4.1 Research costs expensed in the year rose by £4.1 million to £9.7 million during the period. R & D spend was focused on process development more than product, reflecting the considerable technical spend in the year fixing the manufacturing problems.

4.2 Impairments

IAS 36 requires us to assess the recoverable amount of our assets annually and whenever there is an indication of impairment.

The Company operates as a single Cash-Generating Unit (CGU) for impairment testing under IAS 36. Its cash inflows and value in use are best assessed at the entire company level due to its singular Business, it has no separate operating segments with independent cash flows, all revenue and cash flows stem from the Company's core activities. This approach provides a more meaningful impairment assessment compared to individual asset testing or further grouping.

To apply IAS 36 the company has necessarily included the recent fundraises as one market assessment indication along with the risk inherent in the company. Management's discounted cash flow model assumed no expansion capital expenditure or growth beyond current capacity and applied a pre-tax discount rate of 14% based on our determination of our weighted average cost of capital. The model shows growth against assets in use at the balance sheet date for a period of 2 years to December 2025, after that period, a terminal growth rate of 2% has been applied to all balances, except tax (as the company has a large deferred tax asset which takes 7 years before a full year of tax is recognised). This initially demonstrated no impairment as the discounted cash flows exceeded the carrying value of assets. In addition to the discounted cash flow (DCF) valuation, the Company considered fair value less costs of disposal (FVLCOD) as an alternative measure of recoverable amount. This involved referencing recent observable market capitalisation of comparable assets. While this comparison did not suggest an impairment, it is acknowledged that it is not a formal business valuation and may not fully capture the Company's specific circumstances. The DCF valuation was used as the primary basis for the impairment assessment.

In order to address the combined sensitivities and challenges of cash flow forecasting risk and the potential gap between implied market value and carrying value, we have reassessed the pre-tax discount rate. The company has determined that the recoverable amount calculations are most sensitive to changes in revenue and discount rates. To determine the final recoverable amount, taking on board the sensitivities and challenges described a Value in Use (VIU) approach was employed, incorporating a pre-tax discount rate of 22% to reflect a further risk premium of 8%. This resulted in a recoverable amount lower than the carrying value, and an impairment charge of £6.2 million, with £5.2 million allocated to capitalised development costs and £1.0 million allocated to software and right-of-use assets. The calculation is sensitive to any movement in these assumptions and with regard to the discount rates a 1% reduction would lead to a £1.2m increase in the carrying value, whilst a 1% increase leads to a £1m reduction in carrying value.

The company also identified an inoperable furnace and the impairment reflects recoverable amount. No legal recovery asset recognised (IAS 37). In total an impairment charge of £9,238K has been taken in 2023, the split of impairment charge by asset is shown below;

	Note	At Cost	Amortisation	NBV
Tangible Fixed Assets				
Land and Buildings	11	736	-	736
Capital in progress	11	3,060	-	3,060
Intangible Fixed Assets				
Software	12	587	(367)	220
Capitalised R&D	12	5,233	(11)	5,222
		9,615	(378)	9,238

5 Exceptional items

The company recognises £389,000 of other non-recurring exceptional costs in the year relating to restructuring costs.

6 Remuneration of directors

The aggregate amount of emoluments paid to Directors in respect of qualifying services during the period was £674,957 (2022: £630,150).

The amounts set out above include remuneration in respect of the highest paid director of £334,500 (2022: £291,016). Pension contributions of £24,453 (2022: £25,468) were made to a money purchase scheme on behalf of two directors.

The share transactions and key compensations of management designated as Key Management Personnel are disclosed in note 20 Related Party Disclosures.

7 Staff numbers and costs

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

	Year to 31 December	
	2023	2022
Staff numbers and costs		
Directors	6	6
Other employees	141	90
	147	96

Notes to the Financial Statements continued

7 Staff numbers and costs continued

The aggregate payroll costs of these persons were as follows:

	Year to 31 December	
	2023 £'000	2022 £'000
Wages and salaries	5,684	3,552
Social security costs	687	436
Other pension costs	262	196
	6,633	4,184

8 Financial Expenses

	Year to 31 December	
	2023 £'000	2022 £'000
Interest expense in relation to lease liabilities	129	99
Other interest charges	47	81
Total interest expense on financial liabilities measured at amortised cost	176	180

9 Financial Income

	Year to 31 December	
	2023 £'000	2022 £'000
Total Interest Income	(5)	(6)

10 Taxation

	2023 £'000	2022 (Restated) £'000
Analysis of credit in year		
UK corporation tax		
Adjustment in respect of prior years – R&D tax allowances	33	(59)
R&D tax allowance for current year	(1,196)	(1,205)
Total income tax credit	(1,163)	(1,264)

The tax assessed for the year is lower (2022: lower) than the rate of corporation tax in the UK of 25% (2022: 19%).

The differences are explained below:

	Year to 31 December	
	2023 £'000	2022 (Restated) £'000
Reconciliation of effective tax rate		
Loss for year	(19,559)	(5,268)
Total income tax credit	(1,163)	(1,264)
Loss excluding income tax	(20,722)	(6,532)
Current tax at average rate of 23.5%	(4,870)	(1,241)
Effects of:		
Non-deductible expenses	1	1
Change in unrecognised timing differences		
Current year losses for which no deferred tax recognised	4,869	1,240
R&D tax allowance for current year	(1,196)	(1,205)
Adjustment in respect of prior years – R&D tax allowances	33	(59)
Income tax credit	(1,163)	(1,264)

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19% previously enacted). This new law was substantively enacted on 24 May 2021. For the financial year ended 31 December 2023, the current weighted average tax rate was 23.5%. Deferred taxes as at the reporting date have been measured using these enacted tax rates.

Notes to the Financial Statements continued

11 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 2021	1,934	252	3,916	542	5,616	12,260
Transfers from Capital in Progress	-	12	2,873	5	(2,890)	-
Transfers to Intangible assets					(65)	(65)
Additions	-	147	1,285	41	5,241	6,714
At 31 December 2022	1,934	411	8,074	588	7,902	18,909
Transfers from Capital in Progress	-	-	1,408	-	(1,408)	-
Additions	-	6	1,634	96	4,101	5,837
Disposals	-	-	(51)	(6)	-	(57)
Impairment	(736)	-	-	-	(3,060)	(3,795)
At 31 December 2023	1,198	417	11,065	678	7,535	20,894
Depreciation						
At 31 December 2021	552	141	1,713	450	-	2,856
Charge	142	24	656	43	-	865
At 31 December 2022	694	165	2,369	493	-	3,721
Charge	142	34	953	60	-	1,189
Disposals	-	-	(27)	(6)	-	(32)
At 31 December 2023	836	199	3,295	547	-	4,878
Net book value						
At 31 December 2021	1,381	111	2,203	93	5,616	9,403
At 31 December 2022	1,240	246	5,705	95	7,902	15,188
At 31 December 2023	362	218	7,770	131	7,535	16,017
Impairment Loss 2023	(736)	-	-	-	(3,060)	(3,795)

The carrying value of certain fixed assets has been assessed for impairment. An impairment loss of £3.8 million has been recognised in the year. Please see note 4 for further detail.

12 Intangibles

	Software £'000	Capitalised R&D £'000	Total £'000
Cost			
At 31 December 2021	332	446	778
Transfers from Capital in Progress	65	0	65
Additions	70	1,629	1,699
At 31 December 2022	467	2,075	2,542
Transfers from Capital in Progress	0		0
Additions	120	3,158	3,278
Impairment	(587)	(5,233)	(5,820)
At 31 December 2023	-	-	-
Amortisation			
At 31 December 2021	199	2	201
Charge for period	97	7	104
At 31 December 2022	296	9	305
Charge for period	71	2	73
Impairment	(367)	(11)	(378)
At 31 December 2023	-	-	-
Net book value			
At 31 December 2021	134	444	577
At 31 December 2022	171	2,066	2,237
At 31 December 2023	-	-	-
Impairment Loss	220	5,222	5,442

Capitalised R&D assets are primarily development costs for product and are amortised over the expected volume of the contract. All intangible assets have been impaired in the year following a value in use assessment. Please see note 4 for further detail.

Notes to the Financial Statements continued

13 Inventories

	Year to 31 December	
	2023 £'000	2022 £'000
Raw materials and consumables	2,286	2,117
Work in progress	1,187	491
Finished goods	997	768
	4,469	3,376

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £3,137k (2022 restated: £1,448k). There is no significant difference between the replacement cost of work in progress and finished goods and their carrying amounts.

14 Trade and other receivables

	Year to 31 December	
	2023 £'000	2022 (Restated) £'000
Trade receivables	1,757	1,093
Provision for impairment on trade receivables	(55)	(42)
Net trade receivables	1,702	1,051
Other receivables	222	837
Prepayments and accrued income	939	439
Contract Assets	-	-
Total other receivables	1,161	1,276
Tax receivable	1,196	1,206
Trade and other receivables	4,058	3,532

All receivables fall due within one year.

The Company uses the expected credit loss (ECL) model under IFRS 9 to assess credit risk for all receivables. This model considers historical payment performance, and forward looking factors such as economic forecasts, and individual customer creditworthiness.

Bad debts amounting to £Nil were written off in the year (Dec 2022; £4k). Exposure to credit risk arises from the potential of a customer defaulting on their invoiced sales. The Company closely monitors the credit risk of customers and offers credit only to those with healthy scores, on-going credit risk is managed through regular review of ageing analysis. Based on the current assessment and the Company's strong contractual relationships with major customers, the estimated ECL for unbilled receivables is currently low. All trade receivables (billed and unbilled) have been reviewed for expected credit loss impairment and the expected credit loss (ECL) is estimated to be £55k (Dec 2022; £43k) and is accounted for under "Provision impairment on trade receivables".

15 Interest-bearing borrowings and lease liabilities

This note provides information about the contractual terms of the Company's interest-bearing borrowings and liabilities which are measured at amortised cost. For more information about the Company's exposure to interest rate and foreign currency risk see note 22.

	As at 31 December	
	2023 £'000	2022 £'000
Current liabilities		
Lease Liabilities	357	295
Interest bearing borrowings	211	211
	568	506
Non-current liabilities		
Lease Liabilities	1,429	1,335
Interest bearing borrowings	404	887
	1,833	2,222

Finance lease liabilities are payable as follows:

Finance lease liabilities are payable

	Future minimum lease payments 2023 £'000	Interest 2023 £'000	Present value of minimum lease payments 2023 £'000	Future minimum lease payments 2022 £'000	Interest 2022 £'000	Present value of minimum lease payments 2022 £'000
Less than one year	475	(119)	357	418	(123)	295
More than one year	1,742	(313)	1,429	2,014	(406)	1,608
	2,217	(432)	1,786	2,432	(528)	1,903

As at 31 December 2023	Due in 1 year £'000	Due in 2-5 years £'000	Due in 6-10 years £'000	Total Contractual cash flows £'000	Carrying amount £'000
Interest bearing borrowings	248	433	–	681	615
Lease liabilities	475	1,145	597	2,217	1,787
Trade and other payables	5,649	–	–	5,649	5,649
Total Non-Derivatives	6,372	1,578	597	8,547	8,051

Notes to the Financial Statements continued

15 Interest-bearing borrowings and lease liabilities continued

The presentation of hire purchase leases and ROU leases has been changed for the current year to classify them together. However, due to the immateriality of the difference in the prior year, the prior year's presentation has not been restated.

As at 31 December 2023	Due in 1 year £'000	Due in 2-5 years £'000	Total £'000
Other Borrowings (MSIF Loans)	211	404	614

As at 31 December 2022	Due in 1 year £'000	Due in 2-5 years £'000	Total £'000
Other Borrowings (MSIF Loans)	211	614	825

MSIF Loans

In March 2021, the Company secured a £1 million loan from River Capital Management Limited (formerly Alliance Fund Managers Limited) from the Merseyside Investment Fund (MSIF) supported by the Liverpool City Region Combined Authority's Flexible Growth Fund programme. As of the 31 December 2023 the Company has a remaining loan balance of £614,000.

Future Loan Funding

In December 2023, the Company secured a £13.2 million funding facility from the LCR UDF Limited partnership. This loan facility is supported by the Liverpool city region's Urban Development Fund, which is part-funded by the European Regional Development Fund (ERDF). The loan will be used to invest in new manufacturing facilities, thereby increasing our production capacity. It is solely for capital investment purposes and can be drawn down for eligible capital projects over the next 24 months until 31 December 2025. There is no enforceable right to receive cash until a utilisation request is made with applicable supporting documentation evidencing eligible projects, the loan liability will only be recognised once funds are drawn down. £Nil had been drawn down at the period end and no financial liability at 31 December 2023 is recognised. Future drawdowns will be subject to interest at the EC reference rate for the period, which as at 1 March 2024 is 5.65%, with a commercial margin is 6.50% the aggregate interest rate 12.15%.

16 Trade and other payables

	12 months to 31 December	
	2023 £'000	2022 (Restated) £'000
Trade payables	3,859	2,031
Taxation and social security	357	220
Accruals and deferred income	841	1,404
Contract Liabilities	593	566
	5,649	4,220

17 Deferred tax

	As at 31 December	
	2023 £'000	2022 £'000
Difference between accumulated depreciation and amortisation and capital allowances	4,280	2,646
Tax losses	(8,934)	(5,955)
Un-recognised deferred tax asset	(4,654)	(3,309)

The Company has an un-recognised deferred tax asset at 31 December 2023 of £4,654k (2022; £3,309k) relating principally to tax losses which the Company can offset against future taxable profits. The Company has recognised a deferred tax liability of £4,280k 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 deferred against the deferred tax liability.

18 Called up share capital

Allotted called up and fully paid of £0.01 each	Number	£'000
At 31 December 2021	195,188,319	1,952
Issue of shares	45,424,914	454
At 31 December 2022	240,613,233	2,406
Issue of shares	111,459,405	1,115
At 31 December 2023	352,072,638	3,521

During the year 1,120,000 shares were issued through the exercise of options.

During the year the Company issued 110,339,405 ordinary shares in the Company in a placing, subscription and open offer taking the total issued share capital to 352,072,638 and raising a total of £10.1m after fees.

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

The options granted to Directors, date of grant and exercise price under the scheme are set out in the report on Directors' remuneration on page 34.

In addition to the Directors' share options certain employees and former employees have been granted options the details are listed in note 27.

19 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 £320k (2022; £341k). During the year two Directors and several senior managers opted to enter salary exchange arrangements whereby they sacrificed salary for increased pension contributions. These arrangements accounted for £232k of the pension contributions (2022; £178k).

Notes to the Financial Statements continued

20 Related party disclosures

Transactions with key management personnel

Individuals are designated as Key Management Personnel (KMP) due to their involvement in planning, directing, controlling, and making crucial decisions for the company. Share transactions and Compensation paid to key management personnel are reported below;

During the year 4 directors acquired 930,608 shares in the Company through an open market transaction and 5 Directors participated in the placing and subscription, and the shares acquired in both these events are detailed below:

	Pre-employment open market transaction	Open Market Transaction	Share placing and subscription	Acquired in Year
D Bundred	n/a	155,101	500,000	655,101
Dr K Johnson	n/a	-	150,000	150,000
I Cleminson	n/a	155,101	-	155,101
J Woodhouse	n/a	310,203	100,000	410,203
M Taylor	n/a	310,203	500,000	810,203
I Maddock	13,763	-	100,000	113,763
	13,763	930,608	1,350,000	2,294,371

* Number of £0.01 ordinary shares

On 21 April 2023 Chief Financial Officer, Michael Cunningham has exercised his rights over 990,000 options in the Company at an exercise price of 15.25p. Mr Cunningham then sold 917,168 ordinary shares of 1p each in the Company ("Ordinary Shares") at an average price of 32.98p. Following these transactions, Mr Cunningham retained a beneficial interest in 242,832 Ordinary Shares. Michael Cunningham resigned from the Board as CFO on 31 May 2023.

Compensation paid to key management personnel in the year is as follows:

	Year to 31 December	
	2023 £'000	2022 £'000
Base salary	751	1,131
Bonuses	86	50
Benefits (fees, pension)	61	58
Share-based payments	202	216
Termination benefits	30	0
	1,129	1,455

21 Net debt

			As at 31 December	
	Note		2023 £'000	2022 £'000
Current liabilities	15	Interest-bearing borrowings and lease liabilities	568	506
Non-current liabilities	15	Interest-bearing borrowings and lease liabilities	1,833	2,222
Total debt			2,401	2,728
Cash			(6,064)	(14,924)
Net debt (cash)			(3,663)	(12,196)

	As at 1 January 2023 £'000	Cash Flow £'000	Other non-cash movements £'000	31 December 2023 £'000
Lease Liabilities	(1,489)	534	(831)	(1,786)
Interest bearing borrowings	(1,239)	258	367	(614)
Liabilities arising from financing activities	(2,728)	792	(464)	(2,400)
Cash	14,925	(8,807)	(54)	6,064
Total net debt	12,197	(8,016)	(518)	3,664

	As at 1 January 2022 £'000	Cash Flow £'000	Other non-cash movements £'000	31 December 2022 £'000
Lease Liabilities	(1,579)	189	(99)	(1,489)
Interest bearing borrowings	(1,712)	554	(81)	(1,239)
Liabilities arising from financing activities	(3,291)	743	(180)	(2,728)
Cash	9,959	4,621	345	14,925
Total net debt	6,668	5,364	165	12,197

The presentation of HP and ROU leases has been changed for the current year to classify them together. However, due to the immateriality of the difference in the prior year, the prior year's presentation has not been restated and the total 2022 liabilities arising from financing activities has not changed.

22 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 along 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 \$3k (£2k) and a balance of €109k (£95k).

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

Notes to the Financial Statements continued

22 Financial instruments continued

Sensitivity analysis

A ten per cent strengthening of the pound against the US Dollar and the Euro at 31 December 2023 would have increased losses by the amounts shown below. This analysis assumes that all other variables, most notably, interest rates, remain constant. The analysis is performed on the same basis for December 2022.

	US Dollar £'000	Euro £'000
31 December 2022	12	20
31 December 2023	(35)	44

A ten percent weakening of the pound against the US Dollar and the Euro at 31 December 2023 would have reduced losses by the amounts shown below; on the basis all other variables remain constant.

	US Dollar £'000	Euro £'000
31 December 2022	(15)	(25)
31 December 2023	43	(54)

Price risk

The Company manages price risk associated with large contracts with major Original Equipment Manufacturers (OEMs). These contracts typically fix the price per part for the entire manufacturing period, mitigating the risk of price reductions based on volume fluctuations. However, the Company acknowledges the potential impact of inflationary pressures on raw material and labour costs, which could increase the cost of manufacturing. To address this long-term challenge, the Company has commenced a capital programme which invests in technology for scale alongside the pursuit of operational efficiencies and improved processes. These combined efforts aim to drive down manufacturing costs over time.

Credit risk

The Company uses the expected credit loss (ECL) model under IFRS 9 to assess credit risk for all receivables, including unbilled receivables. This model considers historical payment performance, and forward looking factors such as economic conditions and forecasts, and individual customer creditworthiness.

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 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 £1,702k (2022; £860k).

The aging of trade receivables at the reporting date was:

	31 December 2023	31 December 2022
Opening balance	43	36
Amounts written off	-	(4)
Amounts provided for	12	10
Provision at year end	55	43

There was an amount of £55k (December 2021; £43k) in the allowance for impairment in respect of trade receivables and unbilled receivables. The average debtor days are 94 days (2022; 64 days), the average creditor days are 54 days (2022; 31 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 3 months.

Interest rate risk

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

	2023 £'000	2022 £'000
Fixed rate instruments:		
<i>Lease liabilities</i>		
Less than one year	358	295
More than one year	1,429	1,335
Total	1,787	1,630
<i>Other Loans and Borrowings</i>		
Less than one year	211	211
More than one year	404	887
Total	615	1,098

Notes to the Financial Statements continued

22 Financial instruments continued

Sensitivity analysis

A 20% increase in the BOE base rate would result in an increase in interest on the interest bearing loan of £252k.

	£'000
2023 interest at current rate of 2.5%	47
2023 interest at sensitivity rate of 22.5%	299
Increase in interest payments in 2023	252

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 are comprised of £15,934k which consists of cash and trade receivables.

Financial liabilities are comprised of £8,224k which consists of trade payables, lease liabilities and current and long-term interest-bearing loans.

23 Right of use assets

Amounts recognised in the income statement

	L&B £'000	Other £'000	Total £'000
Net Carrying value at 1 January 2023	1,240	55	1,294
Additions	-	135	135
Depreciation charge for the period	(142)	(47)	(189)
Disposals Net Book Value	-	(25)	(25)
Impairment	(736)	-	(736)
Net Carrying value at 31 December 2023	362	118	479
Net Carrying value at 1 January 2022	1,382	18	1,399
Additions	-	63	63
Depreciation charge for the period	(142)	(26)	(168)
Net Carrying value at 31 December 2022	1,240	55	1,294

Amounts Recognised in the Income Statement

	December 2023 £'000	December 2022 £'000
Interest on Lease liabilities	129	99

Lease Liabilities

	December 2023 £'000	December 2022 £'000
Current	357	295
Non-Current	1,429	1,335
Total Lease Liabilities	1,786	1,630

	December 2023 £'000	December 2022 £'000
Total Cash outflow for leases	454	276

	December 2023 £'000	December 2022 £'000
Within 1 year	475	222
Greater than one year but less than five years	1,145	655
Greater than five years but less than ten years	597	1,085
Greater than ten years but less than fifteen years	-	-
Total Lease Liabilities	2,217	1,962

24 Capital Commitments

Contracts placed for future capital expenditure as at 31 December 2023 were £1,406k (2022; £5,791k)

25 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.

Notes to the Financial Statements continued

26 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	2023	2022 (Restated)	2022 (As Reported)
Loss after tax (£)	(19,558,869)	(5,266,295)	(4,780,363)
Weighted average number of shares (No. of shares)	247,044,609	204,340,456	204,340,456
Loss per share (pence)	(7.92p)	(2.58p)	(2.34p)

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.

27 Share options

There is a total of 3,668,825 unexpired options held by employees and a total of 4,200,000 unexpired options held by Directors. The number of options outstanding under the Company's share option scheme is as follows:

Note	At 31 December 2022	Leaver	Exercised	At 31 December 2023	Exercise price	Date from which exercisable	Expiry date
E1	300,000	(300,000)	-	-	£0.1050	25/09/2017	25/09/2024
E1	125,000	(125,000)	-	-	£0.1450	30/09/2018	30/09/2025
U1.0	250,000	-	-	250,000	£0.1550	02/10/2018	02/10/2025
E1	1,331,667	-	(1,010,000)	321,667	£0.1525	04/01/2018	04/01/2028
U1.1	450,000	-	-	450,000	£0.1525	04/01/2018	04/01/2028
E1	1,815,753	-	(40,000)	1,775,753	£0.2050	04/07/2018	19/09/2027
E1	265,000	(20,000)	-	245,000	£0.1300	05/12/2019	05/12/2029
U1.0	1,910,000	-	-	1,910,000	£0.1300	05/12/2019	05/12/2029
E2	140,000	(70,000)	(70,000)	-	£0.1525	28/03/2019	28/03/2029
E1	360,000	-	-	360,000	£0.2350	04/12/2021	04/12/2029
E3	210,000	-	-	210,000	£0.2600	28/01/2020	28/01/2030
E2	120,000	-	-	120,000	£0.4600	20/10/2020	20/10/2030
E5	210,000	-	-	210,000	£0.5000	23/02/2021	23/02/2031
E4	40,000	-	-	40,000	£0.5000	23/02/2021	23/02/2031
E6	1,110,105	(463,700)	-	646,405	£0.5700	10/11/2021	10/11/2031
E4	520,000	(20,000)	-	500,000	£0.5700	10/11/2021	10/11/2031
E7	910,000	(80,000)	-	830,000	£0.0500	12/07/2022	12/07/2032
Total	10,067,525	(1,078,700)	(1,120,000)	7,868,825			

EMI approved scheme

All the options below have been granted under the EMI approved scheme. The options under E2, E3, E5, E6 and E7 below vest on the achievement of specific performance criteria relating to contract awards, cost targets and revenue levels.

- E1 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.
- E2 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 continued

27 Share options continued

- E3 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.
- E4 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.
- E5 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.
- E6 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.
- E7 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 £80m.

Unapproved scheme

All the options below have been granted under the unapproved scheme. The options under U1.1 below vest on the achievement of specific performance criteria relating to contract awards and revenue levels.

- U1.0 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.
- U1.1 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.

28 Government grants

Government grants on the statement of financial position at the year end relate 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 2023 the Company recognised £13k of income against the furnaces which have entered production.

29 Post reporting date events

Following the period end, the Company contractually completed lease ownership of additional property adjacent to the existing factory. The estimated impact on amortisation expense for the acquired property is expected to be £63,000 annually. The impact on other financial categories is not material.

30 Prior Year Restatement

This note describes a restatement of prior year revenue related to system integration services (engineering, testing, and tooling). Previously, revenue had been recognised by a careful assessment of these services over time based on the stage of completion for each contract, using detailed project information. This approach which aimed to reflect a fair representation of revenue earned, aligned with management's previous interpretation of IFRS 15. However, since we have been unable to adequately evidence the right to payment for incomplete performance obligations, the criteria for recognising revenue has been revised to only recognise revenue at a point in time being either upon completion of system integration by the OEM or when control is passed over for the contracted services. To ensure our financial statements comply with this revised interpretation, we have corrected the error in prior year revenue for related to these services.

Based on this new interpretation the error in prior year revenue related to these services amounts to a cumulative decrease of £1.4million, with £1.1m impacting 2022 and £0.3m impacting 2021.

The restatement of prior year revenue for system integration services has resulted in a £1.07 million reduction in 2022 revenue. In reversing the revenue this adjusts the unbilled receivables balance within Other Receivables, as the revenue cannot be recognised yet, the costs associated with these contracts are removed from the statement of total comprehensive income and shown as contract fulfilment assets on the face of the statement of financial position until such time that control is transferred to the customer and revenue can be recognised.

The financial statements reflect a change in presenting the tax credit on the SFP and in note 14. Previously included in "Other Receivables," the tax credit (FY22 £1,206) is now a separate line item for improved clarity (operating vs. other receivables). This change is applied retrospectively, restating prior period amounts in the SFP and note 14. This change is classified as an error correction under IAS 8. We believe previously the balance was not separately presented in accordance with the requirements of IAS 1. IAS 8.49(a).

The impact of these restatements are shown in the tables below.

Loss per ordinary share IAS 8.49 (b)

	2022 (As Reported)	Prior Year Adjustment	2022 (Restated)
Basic			
Loss after tax (£)	(4,780,363)	(485,932)	(5,266,295)
Weighted average number of shares (No. of shares)	204,340,456	-	204,340,456
Loss per share (pence)	(2.34p)	(0.24p)	(2.58p)

Notes to the Financial Statements continued

30 Prior Year Restatement continued

Statement of Total Comprehensive Income

	2022 (As Reported) £'000	Prior Year adjustment £'000	2022 (Restated) £'000
Revenue	5,121	(1,077)	4,045
Cost of Sales	(2,039)	591	(1,448)
Gross Profit	3,083	(486)	2,597
Gross profit after other income	3,119	(486)	2,633
Operating loss before exceptional items	(5,871)	(486)	(6,357)
Operating loss after exceptional items	(5,871)	(486)	(6,357)
Loss before tax	(6,045)	(486)	(6,531)
Taxation	1,264	-	1,264
Loss for the year after tax	(4,781)	(486)	(5,267)
Total comprehensive loss for the year attributable to members	(4,781)	(486)	(5,267)

Statement of Cash Flows

	2022 (As Reported) £'000	Prior Year adjustment £'000	2022 (Restated) £'000
Cash flow from operating activities			
Loss after tax for the year	(4,781)	(486)	(5,267)
Changes in working capital			
Decrease/(increase) in inventories	(2,038)	-	(2,038)
Decrease/(increase) in trade and other receivables	(1,805)	831	(974)
Decrease/(increase) in Contract Fulfillment Asset	-	(693)	(693)
Increase/(decrease) in trade and other payables	1,720	348	2,068
	(7,167)	-	(7,167)
Net (decrease)/increase in cash and cash equivalents	4,621	-	4,621

Under the revised interpretation, revenue for the year end 2021 has also been adjusted down by £0.35m, this has been adjusted on the balance sheet. To ensure consistency across the financial statements, the net assets on the balance sheet have been retrospectively adjusted by £0.74 million for both 2022 and 2021. This ensures the 2022 carried-forward net assets reflect all historical corrections.

Statement of Financial Position

	2022 (As Reported) £'000	Prior Year adjustment £'000	2022 (Restated) £'000
Current assets			
Inventories	3,376	-	3,376
Trade receivables	1,051	-	1,051
Other Receivables	3,401	(919)	1,276
Tax receivable	-	1,206	1,206
Contract Fulfillment Asset	-	693	693
Cash and cash equivalents	14,924	-	14,924
	22,752	(226)	22,526
Total assets	40,177	(226)	39,951
Current liabilities			
Trade and other payables	(3,710)	(510)	(4,220)
	(4,216)	(510)	(4,726)
Total liabilities	(6,626)	(510)	(7,136)
Net assets	33,551	(736)	32,815
Equity			
Retained loss	(27,534)	(736)	(28,270)
Total equity attributable to equity shareholders of the company	33,551	(736)	32,815

Notice of Annual General Meeting

NOTICE IS GIVEN that the annual general meeting (the **AGM**) of Surface Transforms PLC will be held at 1 Paternoster Square, London EC4M 7DX 23 July 2024 at 11 am to consider, and if thought fit pass, the following resolutions, of which 1 to 5 (inclusive) will be proposed as ordinary resolutions and 6 will be proposed as a special resolution.

Ordinary Resolutions

1. To receive the company's annual reports and accounts for the financial year ended 31 December 2023.
2. To re-appoint Grant Thornton UK LLP as auditors of 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 authorise the Directors to fix their remuneration.
3. To re-elect Julia Woodhouse, who retires by rotation under article 118 of the Company's articles of association and who, being eligible, offers herself for re-election as a director.
4. To re-elect Isabelle Maddock, who was appointed during the year and retires under article 118 of the Company's articles of association and who, being eligible, offers herself for re-election as a director.
5. That in substitution for all existing and unexercised authorities and powers, the directors of the Company be generally and unconditionally authorised for the purpose of section 551 Companies Act 2006 (the **Act**):

5.1 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 (those shares and rights being together referred to as **Relevant Securities**) up to a total nominal value of £4,340,242.12 to those persons at the times and generally on the terms and conditions as the directors may determine (subject always to the articles of association of the Company); and further

5.2 to allot equity securities (as defined in section 560 of the Act) up to a total nominal value of £4,340,242.12 (that amount to be reduced by the nominal value of any Relevant Securities allotted under the authority in paragraph 5.1 above) 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 those 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 six months after the next accounting reference date of the Company (if earlier) save that the directors of the Company may, before the expiry of that 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 that period and the directors of the Company may allot relevant securities or equity securities (as the case may be) under that offer or agreement as if the authority conferred by this resolution had not expired.

Special Resolution

6. That if resolution 5 above is passed, the directors of the Company be authorised to allot equity securities (as defined in section 560 of the Act) for cash under the authority given by that resolution 5 and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Act did not apply to that allotment or sale, the authority to be limited to:

6.1 the allotment of equity securities or sale of treasury shares 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 those 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

6.2 the allotment of equity securities or sale of treasury shares (otherwise than under paragraph 6.1 above) up to a total nominal amount of £1,302,073, representing approximately 10% of the current share capital of the Company,

that authority to expire at the end of the next annual general meeting of the Company (or, if earlier, at the close of business on the date which is 6 months after the next accounting reference

date of the Company) but, in each case, before its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the directors of the Company may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

By Order of the Board



Richard Hattersley
Secretary

Date: 27 June 2024

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

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 or her rights to attend, speak and vote at that meeting on his or her 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 in these notes. To be effective, the proxy vote must be submitted at www.signalshares.com so as to have been received by the Company's registrars not less than 48 hours (excluding weekends and public holidays) before the time appointed for the meeting or any adjournment of it. **By registering on the Signal Shares portal at www.signalshares.com, you can manage your shareholding, including:**
 - cast your vote
 - change your dividend payment instruction
 - update your address
 - select your communication preference.

3. Alternatively, you can vote via the LinkVote+ app, a free app for smartphone and tablet provided by Link Group (the company's registrar). It offers shareholders the option to submit a proxy appointment quickly and easily online, as well as real-time access to their shareholding records. The app is available to download on both the Apple App Store and Google Play, or by scanning the relevant QR code below.

Apple App Store



GooglePlay



Notice of Annual General Meeting continued

4. Any power of attorney or other authority under which the proxy is submitted must be returned to the Company's Registrars, Link Group, PXS1, Central Square, 29 Wellington Street, Leeds, LS1 4DL. If a paper form of proxy is requested from the registrar, it should be completed and returned to Link Group, PXS1, Central Square, 29 Wellington Street, Leeds, LS1 4DL to be received not less than 48 hours before the time of the meeting.
5. In order to revoke a proxy appointment, a member must sign and date a notice clearly stating his or her intention to revoke his or her proxy appointment and deposit it at the office of the Company's Registrars, Link Group at PXS1, Central Square, 29 Wellington Street, Leeds LS1 4DL by 11am 19 July 2024.
6. 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 registrars, Link Group (whose CREST Participation ID is RA10) at PXS 1, Central Square, 29 Wellington Street, Leeds LS1 4DL by the latest time for receipt of proxy appointments specified in note 2 above. 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 in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
7. Proxymity Voting – if you are an institutional investor you may also be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the Company and approved by the Registrar. For further information regarding Proxymity, please go to www.proxymity.io. Your proxy must be lodged by 11am 19 July 2024 in order to be considered valid or, if the meeting is adjourned, by the time which is 48 hours before the time of the adjourned meeting. Before you can appoint a proxy via this process you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they will govern the electronic appointment of your proxy. An electronic proxy appointment via the Proxymity platform may be revoked completely by sending an authenticated message via the platform instructing the removal of your proxy vote.
8. Unless otherwise indicated on the Form of Proxy, CREST, Proxymity or any other electronic voting instruction, the proxy will vote as they think fit or, at their discretion, withhold from voting.
9. If you need help with voting online, or require a paper proxy form, please contact our Registrar, Link Group by email at shareholderenquiries@linkgroup.co.uk, or you may call on 0371 664 0391. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales.
10. 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. A certified copy of the board resolution of the corporation appointing the relevant person as the representative of that corporation in connection with the meeting must be deposited at the office of the Company's Registrars before the commencement of the meeting.
11. 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 6pm on 19 July 2024 shall be entitled to attend and vote for 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.

Company Information and Advisers

Website	www.surfacettransforms.com
Registered Number	03769702
Directors	David George Bundred (<i>Non-executive Chairman</i>) Dr Kevin Johnson (<i>Chief Executive</i>) Matthew Taylor (<i>NED and Senior Independent Director</i>) Julia Woodhouse (<i>Non-executive Director</i>) Ian Cleminson (<i>Non-executive Director</i>) Isabelle Maddock (<i>Chief Financial Officer</i>)
Company Secretary	Richard Hattersley
Address	Image Business Park Acornfield Road Liverpool L33 7UF Tel: 0151 356 2141
Nominated Adviser and Joint Broker	Zeus Capital Ltd 125 Old Broad Street London EC2N 3AR
Joint Broker	Cavendish Capital Markets Limited 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 2nd Floor, 1 Spinningfields Sq Manchester M3 3AP
Registrars	Link Group Central Square 29 Wellington Street Leeds LS1 4DL

For your Notes



Surface Transforms Plc

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Liverpool L33 7UF
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