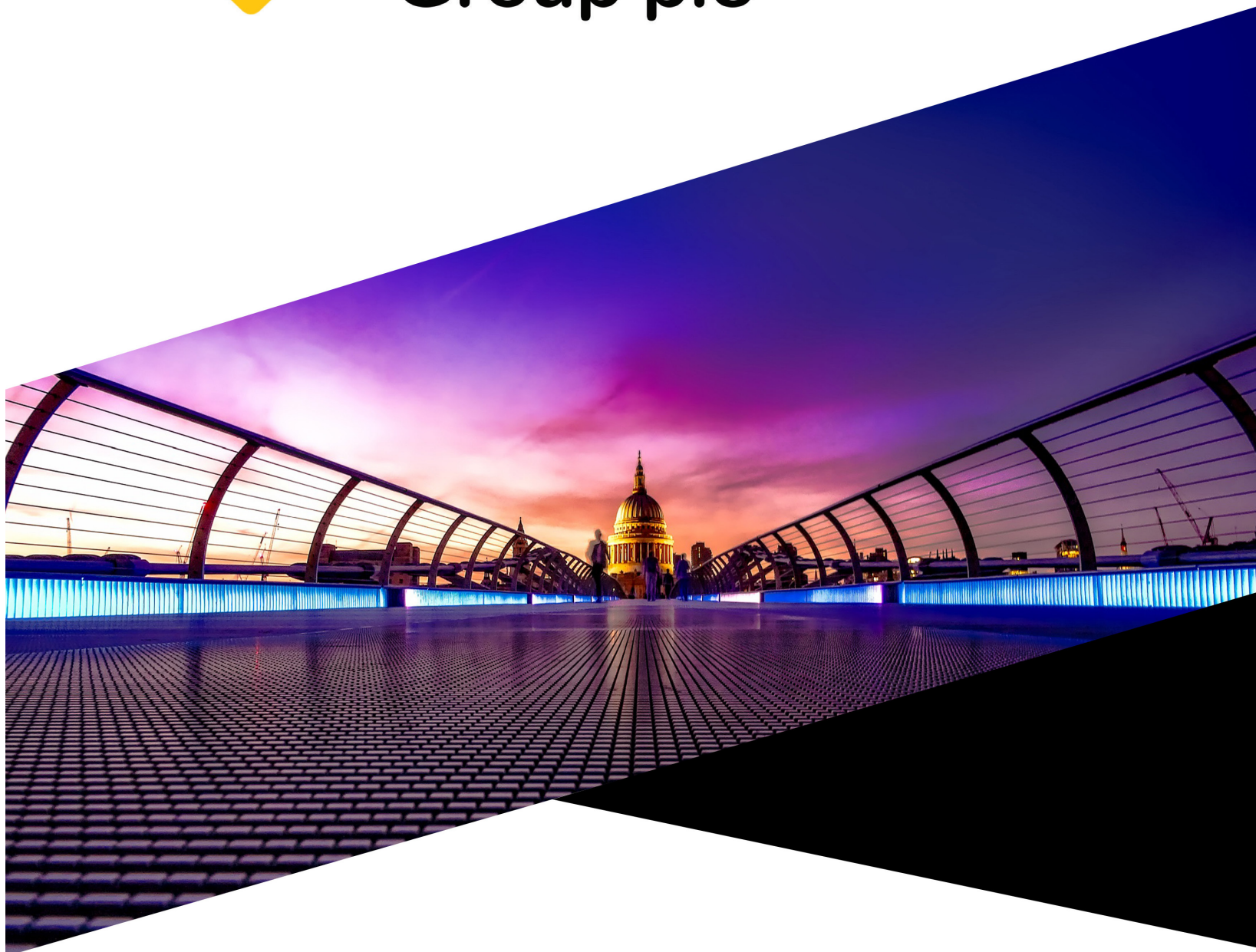




# Shearwater Group plc



## **Annual Report and Financial Statements 31 March 2020**

For more information contact Shearwater Group plc  
t: +44 (0) 20 3985 8467 [www.shearwatergroup.com](http://www.shearwatergroup.com)

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About us

Shearwater Group plc is an award-winning organisational resilience group that provides cyber security, advisory and managed security services to help assure and secure businesses in the connected global economy

The Shearwater Group benefits from having two distinct divisions housing our operating companies. On one side we have our software division that designs and builds leading edge software to help our clients secure and make compliant their corporate environment and on the other, our services division which consist of our services companies who focus on delivering our own award winning technology as well as our strategic third party partners technical solutions

Our software division comprises:



SecurEnvoy, provides trusted identity and access management solutions to millions of users in real-time, while having the ability to deploy rapidly across any environment.



Geolang, delivers data discovery and data loss prevention solutions, services and technologies to discover, classify and protect sensitive data and information in the cloud and on premise.

Our services division comprises:



A Shearwater Group plc Company

Brookcourt Solutions, delivers cyber security, network monitoring technologies and managed security services to secure and protect organisation’s critical infrastructure.



Xcina Consulting, provides technology, operational and regulatory risk assurance and advisory services in support of resilience and risk management.



Pentest, provides next generation penetration testing, red team and offensive security consultancy services designed to uncover IT security vulnerabilities, support the customers remediation efforts and increase the digital resilience of the business.

Collectively the Group provides technology solutions and advisory services focused around the cyber, security and regulatory requirements of corporate clients. Through our in-house engineering and consulting teams we deliver our services that help our clients realise a greater potential from their technology investment and protection of their data assets.

Further details on core services can be found on our website under the following icons:





## Reasons to invest

### The market

The Cybersecurity market continues to grow with the increasing use of e-commerce platforms and the emergence of disruptive technologies such as Artificial Intelligence (AI), Blockchain, and streaming services increasingly forcing it up the priority list for organisations across the globe.

In the wake of COVID-19 and the recovery from the global pandemic, with large numbers of workers and teams being relocated to work from home, the requirement to protect digital assets has become ever more challenging. Cyber attackers have targeted the tens of millions of employees working from home resulting in an enlarged risk footprint. The 'New Normal' will see cybersecurity as crucial as the internet access itself.

The Group's 'Blue-chip' customer base is broad and covers multiple sectors, providing credibility and cross-sell opportunities. Many of the Group's customers gain confidence with the blend of differentiated organisational resilience offering best in breed technology solutions with market-leading advisory service. This has created long-term relationships with many of our customers.

### Market growth in numbers

*Enterprises are predicted to spend \$12.6B on cloud security tools by 2023, up from \$5.6B in 2018, according to Forrester.\**

*Enterprise spending on cloud security solutions is predicted to increase from \$636M in 2020 to \$1.63B in 2023, attaining a 26.5% CAGR.\**

*Spending on Infrastructure Protection is predicted to increase from \$18.3B in 2020 to \$24.6B in 2023, attaining a 7.68% CAGR.\**

*Endpoint security tools are 24% of all I.T. security spending, and by 2020 global I.T. security spending will reach \$128B according to Morgan Stanley Research.\**

*71% of UK-based business decision makers believe the shift to 100% remote working during the COVID-19 crisis has increased the likelihood of a cyber-breach according to research by Centrifly.\**

*70% of all breaches still originate at endpoints, despite increased I.T. spend on this threat surface, according to IDC.\**

### Mobile security threat

87% of enterprises are seeing mobile threats growing the fastest this year, outpacing other threat types. Mobile device security threats are growing quicker than others.\*

**"The global cyber security market value stood at USD 112.01 billion in 2019 and is projected to reach USD 281.74 billion by 2027."**

Fortune Business Insights

### Global client base

FTSE350, Fortune 500, government and SMEs

An award-winning organisational resilience Group, delivering cyber security, advisory and managed security services to assure and secure businesses in a connected global economy

A complimentary set of robust and adaptable products and services which support the needs of an ever growing market

A growing Group delivering strong cash generation

### Annual recurring revenues

from software sales and managed services

### Internal infrastructure capable of scaling

Notes:

\* Forbes, Cyber Security Review

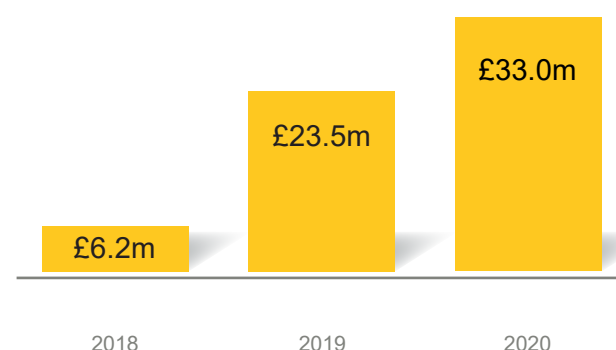
\*\* Fortune Business Insights

## Financial highlights

### Group Revenue

**£33.0m**

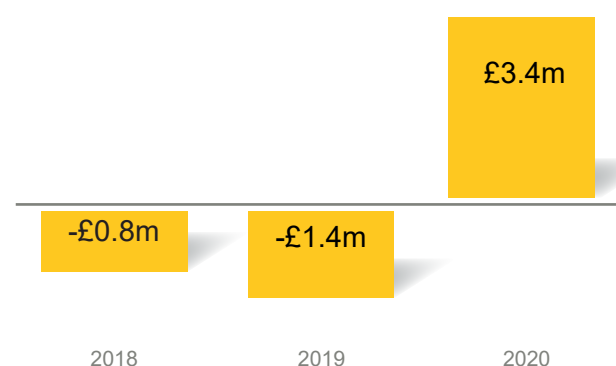
+41% year on year increase in reported revenue (2019: £23.5m, 2019 underlying\*: £37.3m)



### Underlying EBITDA

**£3.4m**

£4.8m year on year improvement (2019: £1.4m loss, 2019 underlying\* £1.1m loss)



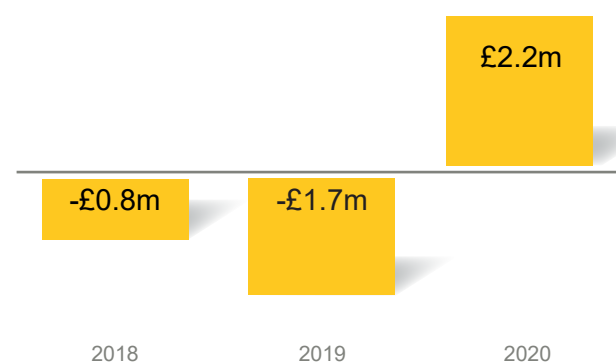
### Underlying EBITDA margin

10% (2019: -6%)

### Underlying profit/loss before tax

**£2.2m**

£3.9m year on year improvement (2019: £1.7m loss, underlying\* £1.5m loss)



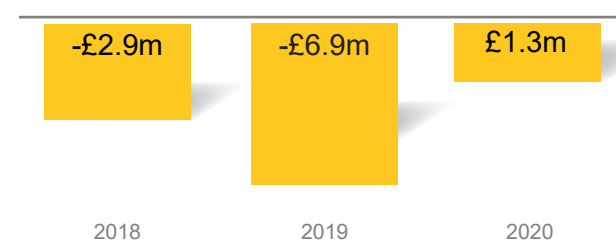
### Underlying profit/loss before tax margin

7% (2019: -7%)

### Loss before tax

**£(1.3)m**

(2019: £(6.9)m)



\*Underlying comparisons incorporate a full year's trading into the prior year (2018/19) for Brookcourt Solutions

Underlying EBITDA excludes exceptional items which are in their nature one off, share based payment costs, fair value adjustments for deferred consideration to be settled in shares, contingent consideration and impairment of legacy mining assets which is not reflective of the underlying performance of the Group. Underlying profit/loss before tax excludes acquisition amortisation in addition to the adjusting items detailed above to calculate underlying EBITDA.



## Segmental Highlights

### Software

|                  | 2019/20<br>£ (000) | 2018/19<br>£ (000) | Variance<br>% |
|------------------|--------------------|--------------------|---------------|
| Revenue          | 5,460              | 3,880              | 41%           |
| Operating profit | 2,678              | 468                | 472%          |
| Margin %         | 49%                | 12%                |               |

|                                 |                                     |
|---------------------------------|-------------------------------------|
| % of Group revenue              | % of operating profit*              |
| <b>17%</b>                      | <b>54%</b>                          |
| % of Group revenue (prior year) | % of operating profit (prior year)* |
| <b>17%</b>                      | <b>64%</b>                          |

- Strong double-digit revenue growth from SecurEnvoy delivering improved year on year margin
- Continued upward progress of GeoLang with year on year revenue increases in excess of 100%

### Services

|                  | 2019/20<br>£ (000) | 2018/19<br>£ (000) | Variance<br>% |
|------------------|--------------------|--------------------|---------------|
| Revenue          | 27,544             | 19,572             | 41%**         |
| Operating profit | 2,262              | 266                | 750%**        |
| Margin %         | 8%                 | 1%                 |               |

|                                 |                                     |
|---------------------------------|-------------------------------------|
| % of Group revenue              | % of operating profit*              |
| <b>83%</b>                      | <b>46%</b>                          |
| % of Group revenue (prior year) | % of operating profit (prior year)* |
| <b>83%</b>                      | <b>36%</b>                          |

- Incorporates a full years contribution from Brookcourt which has delivered improved profit margins
- New acquisition 'Pentest' (acquired 9 April 2019) has been integrated into the Group

\* Operating profit % incorporates trading profits before central group costs.

\*\* 2019/20 includes a full year of revenue and profits from Brookcourt which was acquired in October 2018.

Please see note 3 in the consolidated financial statements for a reconciliation of segmental performance shown above to statutory measures.



## Our strategy

Shearwater aims to acquire and develop information security, cyber security, advisory and risk management companies with a leading product, solution or service capability the full potential of which can be unlocked through active management and capital investment. The Group deploys a 'buy, focus, grow' strategy to deliver enhanced value to acquired businesses, helping them solve the core scaling issues faced by SMEs operating within information security and cyber security sectors.

We will continue to drive greater efficiencies across the Group, developing internal saleable services to help drive greater ROI. We have a strong team capable of delivering solid organic growth coupled with a new additional incentivisation plan that rewards the member of staff based upon the resulting business they bring to the Group. We will push forward in our evaluation of market trends and identify companies that complement our company's growth through acquisition.

Our Acquisition Strategy is simple and governed by the following principles:

Targets desired fundamentals:

- Accretive, cash generative, profitable or near-term profitable companies
- Key management to stay with the organisation

Our areas of interest:

- Opportunities for market consolidation building size and client base
- Specialist feature rich software or services to either add to our existing software or services companies or to stand alongside

## Our stakeholders

**“Building strong relationships to help enable the UK to be a safer place online”**

### Section 172 statement

As a Board we recognise collectively and individually our obligations under the Companies Act and in particular, our duties as Directors.

Each Director is fully aware of their duty to promote the success of the Company for the benefit of all of its members and in doing so each Director has (amongst other matters) to consider:

- the likely consequences of any decision in the long term,
- the interests of the Company's employees,
- the need to foster the Company's business relationships with customers, suppliers and others,
- the impact of the Company's operations on the community and the environment,
- the desirability of the Company to maintain a reputation for high standards of business conduct, and;
- the need to act fairly as between members of the Company.

Fairness amongst members of the Board is an extremely important and relevant consideration for us due to David Williams and Phil Higgins being both Directors and significant shareholders. We are keen to ensure that decisions are taken with all stakeholders in mind.

Key stakeholders include



For each stakeholder group, the below table takes into consideration the key issues they face, how we engage with them and provide examples of Board decisions that have been made that support the Directors duties set out above.



## Our stakeholders

| Our stakeholders                       | Issues they faced                                                                                                                                                                                                                                            | How we engaged                                                                                                                                                                                                                                                                                                                           | Impact of board decisions                                                                                                                                                                                                                                                                                                                           |
|----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Communities and the environment</b> | Local people want to see tangible benefits from Shearwater Groups' presence in their communities.                                                                                                                                                            | The Group has looked to see how it impacts local communities for each of its businesses and has been listening and working with our businesses to implement a number of initiatives that will support local communities.                                                                                                                 | The Board is fully supportive of the recent announcement of the Group's sustainability program which launched during the past fiscal year.                                                                                                                                                                                                          |
| <b>Customers</b>                       | Customer demands evolve owing to the ever-increasing threat landscape within the market the Group operates in. Our customers require a partner that can deliver in line with their needs and expectations.                                                   | The Group look to foster long term relationships with its customers, in order to achieve this we take time to work with customers to understand the challenges they face. This allows us to develop effective solutions to fit our customers needs.                                                                                      | The Board understand and supports the Groups approach to invest time in developing long-term partnerships with its customers.                                                                                                                                                                                                                       |
| <b>Employees</b>                       | Employees look for a happy working environment where there are opportunities to gain experience that will support future career development. It is important that employees feel that their contribution is valued and that they are rewarded appropriately. | The Group invests in our people providing training opportunities to employees to develop which will enhance the individuals opportunities for career progression within the Group as opportunities arise. The Group values its employees and has recently implemented additional benefits including private healthcare to all employees. | Our employees are key and the Board has played an active role in ensuring that key positions are recruited and the correct organisation structure is put in place. The Board actively promotes back filling of vacancies where existing employees step up into roles where it is possible.                                                          |
| <b>Shareholders</b>                    | They want to see the Group growing and enhancing our financial position.                                                                                                                                                                                     | Our Chairman, CEO and CFO maintain regular contact with our institutional investors and our AGM provides an opportunity to meet individual investors. The Group has an active M&A pipeline and is actively looking for additional strategic acquisitions.                                                                                | The Board has worked closely with our NOMAD Cenkos to ensure the view of shareholders is represented in key decisions taken by the Board. During the year the Board proposed a share consolidation which was approved by shareholders at the AGM in order to try and improve market liquidity and reduce volatility and spread in trading activity. |
| <b>Suppliers</b>                       | Margin pressures from the end customer require us to work with suppliers to ensure that we are able to source at competitive prices whilst maintaining the Groups position on ethical sourcing.                                                              | The Group actively looks to create long-term collaborative relationships with key suppliers.                                                                                                                                                                                                                                             | As part of the Groups aim to explore opportunities to leverage the Groups growing position the Board is supportive of managements' current review of the Groups' preferred supplier list.                                                                                                                                                           |

## Social responsibility

Through our products and services we aim to help create a safer environment for our staff, our clients and their end users clients when on line connected to the global economy. We will continuously develop our offerings that help protect users from the adversaries who prey on the vulnerable no matter their location and we with the very minimum environmental impact wherever possible. We are witnessing more of our solutions becoming subscription or cloud based meaning we naturally see a reduction in the importation of physical goods which contributes to a lesser carbon footprint helping us along the route in becoming a better balanced business. With our new charity based initiatives coming on line we will be able to proactively look for ways where we can make a difference both nationally and locally from within our local communities. This activity will help strengthen our teams whilst benefitting those in need. Supported by the executive board and to help keep these programs moving forward we have appointed a staff member to monitor and report on our achievements and for these to be highlighted on our Group company website.

### Values

Our values are incorporated in all our operating procedures and define our management approach and Group culture. We are also very aware of the changing social environment and fully supportive in having a better, fairer, greener, more tolerant and kinder society. We will play our part in supporting new initiatives and look for improvement in the way we manage our business and maintain the respect for our work and colleagues. We will stay professional inside and outside the company, and the drive to achieve both excellence and integrity that are essential to our continued success delivering increased value to customers, portfolio businesses and shareholders alike.

### Equality and Diversity

Promoting and supporting diversity within the Group is an important aspect of good people management. We believe it's about valuing everyone within the organisation as an individual, and in order to reap the benefits of a diverse workforce it's imperative to have an inclusive environment where everyone feels able to participate and achieve their full potential. The Shearwater Group strives to build an enriched multi-cultural working community where everyone is encouraged to succeed in the information technology industry no matter their age, race, sex or background.

The Group aligns its policies with UK legislation covering; age, disability, race, religion, gender and sexual orientation among others going beyond just legal compliance but also seeking to add value to the Group as a whole. Shearwater has a modern and progressive 'diversity and equal opportunities policy' and will continue to develop this policy as the Group grows in line with the employment landscape of the 21st century.

Our  
responsibility

# Social responsibility

## Employee wellbeing and mindfulness

The Group employees are our greatest asset; therefore, we continue our journey to work towards enhancing the working environment across all our sites and help support them during times of trouble. We operate an Employee Assistance Programme (“EAP”) aimed at minimising workplace risks and improving our employees’ health and wellbeing. An EAP is an employee support system designed to help our organisation deal with issues that could be affecting our employees’ home or work life, health and general wellbeing.

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

## Environmental

Zero Carbon Initiative - The Shearwater Group plc are committed to a sustainable future and to improving the social, economic and environmental wellbeing of the community. We encourage all parts of the business to look to reduce our impact on the environment and look to continually improve each year through the development of new environmentally friendly products and better processes that reduce our carbon footprint.

In March 2020 Shearwater Group plc announced that its portfolio companies; GeoLang, Brookcourt Solutions, Pentest, SecurEnvoy, Xcina IS and Xcina Consulting have implemented a zero-carbon programme and the Group would now carry the ‘Make It Wild’ mark. The Shearwater Group plc companies are contributing in this initiative by way of offsetting their carbon footprint through planting trees within the UK. The number of trees planted is calculated through how many tons of carbon dioxide the Group’s activities generate annually and how many trees it would take to offset those emissions.

We will continue to look at new initiatives that we can deploy that positively contributes to the reduction in our carbon footprint and our impact on the planet.

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



## Charity

Employee Volunteering and Charitable Giving Scheme - In the coming financial year, the Group have advanced plans to launch the ‘Employee Volunteering and Charitable Giving Scheme’. Group wide the scheme will provide an opportunity for both employees and employer to be united in giving back to the community and supporting charitable organisations.

Support may take the form of employees obtaining sponsorships or employees volunteering to support or take part in events throughout the year. The Group employee’s will be asked to nominate local or less known charities of which they would like to be considered and have greater impact. Every full-time employee will receive eight hours of paid time off each year to volunteer with non-profit or community organisations. We will supplement employees’ personal donations to non-profit organisations and charities with an additional company donation.





## Chairman's statement



“Looking ahead we are very confident in the future of the business. It is in a sector which is growing, is generating good cash and we continue to see a strong pipeline of acquisition opportunities. We have set our sights on improving the marketability of your company by buying businesses that fit our strict criteria.”

### Introduction

We are very pleased to have recorded our first full year's underlying profit as a Group, following a reorganisation of the business led by Phil Higgins in his first full year as CEO. This reorganisation has resulted in a clearly defined growth strategy, a cohesive Group structure, increased cross-sale activity and a reduced cost base. We took the necessary time to ensure it was completed thoroughly and to a high standard, and as is clear to see from these results, early progress has been encouraging. We are ready to progress our plans to see Shearwater become a stronger, scaled company with increased capabilities and a broader reach within the organisational resilience sector.

### Acquisitive growth strategy

Our sector is one of constant innovation and this provides both opportunities and challenges, with a wealth of potential acquisition opportunities to assess. In the past we have been successful in both smaller acquisitions, such as GeoLang which was pre-revenue at the point of purchase, but with an exciting software product and industry-renowned team, and those of a larger scale, such as Brookcourt, an established, profitable business with an extensive customer base.

Our focus moving forward will be on the larger scale of opportunity, bringing additional customers, industry expertise, revenue and profits into the Group. We will also remain alert to opportunistic, bolt-on technology acquisitions. Ideally these will be acquisitions where the existing management wish to remain within the Group, thus strengthening our team, and where vendors take a significant portion of the consideration in shares, as was the case with our acquisition of Brookcourt, aligning management teams' interest with those of our shareholders. Target acquisitions will be earnings enhancing and increase our skill-sets and offerings.

### Our team

For a company of our size we are fortunate to enjoy the support of a highly experienced board and advisory team. Not only do they have a great working knowledge of our sector, but their contacts are second to none. This contact base not only provides us with interesting acquisition opportunities, it allows us to make important introductions for our Group businesses. This is a key benefit of being part of the Shearwater Group.

For example, earlier this year we held a networking event for all our subsidiary directors, non-executive directors and advisory team which proved to be highly successful. Our non-executives and advisory team are very active on our behalf and provide significant value to us as a Group.

### Corporate Governance

We remain committed as a Board to the highest levels of Corporate Governance and stakeholder engagement. More details of the latter are covered within the section 172 statement in the annual report.

### Looking Ahead

Looking ahead we are very confident in the future of the business. It is in a sector which is growing, is generating good cash and we continue to see a strong pipeline of acquisition opportunities.

Funds from our recent placing of new ordinary shares, coupled with our existing financial resources, give us fire power moving forward so that we are in a much stronger position than at this time last year. Both myself and Phil Higgins purchased shares in the recent placing, demonstrating confidence in our prospects and I am optimistic that, despite the challenges of COVID-19, we are in great shape to see Shearwater prosper and grow in the years ahead.

David Williams  
Chairman  
28 July 2020

## Chief executives review



“I am delighted to announce that both divisions (Software & Services) have performed exceptionally well during the financial year to 31 March 2020.”

### Overview

With my first year as Group CEO complete, my views regarding the exciting opportunity for Shearwater have not changed. The technology markets are continuously evolving and cyber, security and advisory services are taking an ever-more prominent position.

Over the past year our focus has been on creating a balanced Group structure that can take advantage of this constantly expanding market whilst extracting greater value from within our own business and providing a platform for future acquisitions. As a result of the changes we have made we have delivered greater staff benefits, stronger Group cohesion, better client offerings and, most importantly, enhanced our competitive edge allowing us to win new business. Together this has led to the delivery of a 41% increase in revenue and our first annual Group underlying profit.

I wish to thank the entire Shearwater Group team for their continued support, determination, and drive to succeed, which has resulted in the FY20 performance announced today and in the Group being strongly positioned for future growth.

### Successful reorganisation of the Group complete

- Introduction of Shearwater Shared Services
- Realisation of over £3m of annualised cost savings
- Introduction of a cross-selling programme for Group businesses

We began the year with the implementation of significant change, moving rapidly to implement a restructuring plan with the aim to bring the Group into profit.

One key aspect of this was the immediate creation of Shearwater Shared Services (SSS), a function sitting within the centre of our organisation providing centralised shared services such as finance, legal, HR, marketing, compliance and core IT systems, assisted by Xcina IS. Where we had duplicate services, resulting from the acquisition of Brookcourt six months earlier, we chose the service that we felt was best equipped to evolve as the Group grows.

### Shared service

Our shared services enable us to leverage negotiations with suppliers and offer additional staff benefits centrally, as well as reducing our administrative overheads. This platform has delivered tangible synergy savings Group wide and, coupled with some office consolidation plus cost savings from the reorganisation, we were able to realise annualised savings of over £3m. Moving forward the Shearwater Shared Services function provides a standard model that will allow us to quickly and efficiently realise cost savings when onboarding new acquisitions.

Alongside this a cross-selling program was introduced across our service companies to extract untapped accretive value from within the Group. This program provides a mechanism for client introductions to be made on behalf of other Group companies, reducing the cost of sale and broadening the pool of potential new business leads. The program resulted in a material number of additional opportunities in the first three months.

Building upon this success we have devised incentive programs for the coming year that financially reward full-time equivalent staff for business introductions that result in new wins for any of the Group constituents. Initially this program will be made available to all full time staff excluding company directors, incentivising staff to drive further organic growth.

### Review of operations

Alongside the Group reorganisation, the Group has delivered significant operational achievement throughout the year. This includes the completion of an acquisition, the launch of a number of innovative new solutions, and the signing of a multitude of new logo contracts with blue-chip clients.

Continuing our run of awards success, Shearwater companies were also presented with five industry awards across the year; Contribution to Cybersecurity, Cloud delivery, Security Provider, Security Reseller and Security Company of the year.

### Software

Innovative new solutions launched, providing entrance to new markets Innovation and the launch of new products is an integral part of the Shearwater Group

growth strategy, and we are very proud of our nine current patents and the five we have pending. Over the year we saw a number of new solutions launched, expanding our end-to-end organisational resilience capability and increasing the size of our addressable market.

SecurEnvoy launched its Identity & Access Management (IAM) module, an important additional component adding to the SecureIdentity platform which was launched in 2019. This release continues to expand the breadth of SecurEnvoy offering, moving from a pure play Multi-Factor Authentication provider to offer a full Access Management solution suite. The expanded capability provides access to a market which analysts forecast will grow to \$24.12b by 2025 (reference from Grand View Research).

Our GeoLang team have further developed their Data Loss Prevention and Sensitive Data Discovery and Extraction platform. In addition, they innovated to create a new Atlassian Confluence platform connector to capitalise on this opportunity, receiving the first order in the year. Atlassian's Confluence is a wiki most used by developers and invariably contains an organisation's most sensitive development and security data, from code to intellectual property to security policies. With over 170,000 companies reportedly using Atlassian technologies worldwide, including an estimated 83% of the Fortune 500, the Atlassian market represents a significant opportunity for GeoLang technologies with very few competitors.

### Services

#### Strong performance of our newest acquisition: Pentest

The acquisition of technology companies with a leading product, solution or service capability remains central to our growth strategy, and as such we were delighted to acquire certain assets of Secarma in April 2019, subsequently renamed Pentest Ltd.

The Pentest team has brought a wealth of advanced skills in penetration testing and red teaming to the Group. Both these skills are highly sought-after and a must have requirement in today's security and governance conscious corporations. Based in Altrincham, Pentest delivers its services both domestically and internationally, boasting world class



## Chief executives review

corporate clients that contribute to the Pentest annual balance sheet as well as providing introductions to the rest of the Group companies.

In line with our 'buy, focus, grow' strategy I am pleased to report Pentest increased its net client list by 35 since acquisition.

### Developments at Xcina Consulting resulting in reduced losses

During the second half Rob Treacey and George Grey were promoted to take over as joint Managing Directors of Xcina Consulting. Both Rob and George have an abundance of experience in risk assurance and advisory roles, which has been gained from many years in senior positions within tier one banks and big four accounting firms.

Leveraging their experience, they formulated a strategy focused on structure, sustainability, accountability and ownership. Their decision making has seen Xcina Consulting halve its second half losses in comparison to the same period in the prior year. Meaningful partnerships with well-established organisations have been established, which are beginning to bear fruit, and will ensure the consultancy provides a compelling service offering to a broader client base.

Xcina Consulting has also been assisting in the creation of new Group-wide service offerings that we will be launching later this year including a Security Operations Centre, E-Learning material and additional Operational Resilience Consulting Services for the financial services sector. These offerings build upon Xcina's existing consulting services that have already been generating substantial opportunities for Brookcourt.

During the year Brookcourt continued its winning streak by adding a number of key critical infrastructure project wins along with a number of new clients mainly from the financial and telecommunications sectors. These project deliverables either help protect a corporate client from cyber attack or provide security monitoring services on key infrastructure. Furthermore we witnessed a shifting market place with clients reducing their appliance based computing purchases in favour of software, cloud or subscription based computing. This shift lowered our top line revenue but greatly enhanced our profitability.

We do expect this shift to continue and it demonstrates our agility to continuously evolve along with industry trends taking advantage by winning business away from the less equipped slower competitors.

### Share consolidation

On 25 September 2019 our shareholders approved a 100-for-1 consolidation of the issued ordinary shares in the Company, reducing the number of shares in issue by a factor of 100.

The rationale behind the share consolidation was to seek to improve market liquidity of the Company's ordinary shares, reduce share price volatility and to narrow the bid/offer spread in an effort to make the Company's ordinary shares more attractive to a broader range of institutional investors and other members of the investing public, both in the UK and overseas.

### COVID-19

Quarter four is typically heavily weighted due to client budget spend cycles. This year we, alongside all businesses, had to navigate the global COVID-19 pandemic during this time.

Having tested our business continuity two weeks ahead of UK Government announcements as to 'lockdown' restrictions, we were well positioned to move to remote working, and quickly adjusted to this new way of operating. Being a company that provides services and solutions to help deliver organisational resilience we have not needed to make redundancies, or to use the government furlough scheme.

Whilst the pandemic, and associated restrictions put in place by the Government, effected parts of our business that relied upon 'face to face' consultation other parts of our business benefited with an upsurge in new orders for remote workers and remote security solutions noted shortly after working from home was encouraged. The impact on our clients has varied according to their end sector, with industries such as leisure and travel worst impacted with sectors such as infrastructure showing resilience.

### Outlook

Going forward, we will continue to capitalise on the cross-selling opportunities within the Group to drive new contract wins. This cross-sell opportunity is substantial,

and in addition to driving revenues for the Group it also allows us to improve our customers' overall service experience, helping to solve all their security needs and keeping their data and information assets safe and secure, whilst enhancing their ability to do business.

We are committed to building Shearwater into an established and respected provider of innovative organisational resilience solutions. Our end-to-end offering is attractive, and whilst the Group has noted a certain amount of delayed decision making brought about by the increased economic uncertainty, we are confident the business has an excellent opportunity to grow organically in the mid to long term, capturing substantial market share.

In addition, we also see the effects of COVID-19 having an impact on potential service sector targets for the Company, and whilst vendors of stronger companies will inevitably want to wait until the current environment improves and performance returns to a more normalised level before considering an exit, this does present potential inorganic opportunities for the Group where Shearwater's strategy and ability to onboard targets through our shared services model, quickly enables synergy savings to be realised and the support of our senior management teams and advisors. to add value. We feel these opportunities could potentially deliver greater benefit to our Group.

Following our restructuring, and having reached profitability, we are well-placed to embark on a strategic, targeted acquisition program. The organisational resilience market remains fragmented, and we have identified a pipeline of businesses for potential acquisition. We will focus on companies with a leading product, solution, service or consulting capability with further growth potential to be unlocked. We will continue to evaluate selective M&A opportunities which are profitable, organically fit with existing Group companies and provide tangible synergies as we look to propel Shearwater to becoming a leading UK Security, cyber solutions and advisory company.

We have a clear strategic direction and are excited to capitalise on our growth opportunity over the year ahead.

Phil Higgins  
Chief Executive Officer  
28 July 2020

## Financial review



### Alternative performance measures

The Group use alternative performance measures alongside statutory measures to manage the performance of the business. In the opinion of the Directors alternative measures can provide additional relevant information on past and future performance to the reader in assessing the underlying performance of the business.

Underlying EBITDA excludes exceptional items which are in their nature one off, share based payment costs, fair value adjustments for deferred consideration to be settled in shares and contingent consideration which is not reflective of the underlying performance of the Group.

Underlying profit before tax excludes amortisation of acquired intangible assets in addition to the adjusting items detailed in underlying EBITDA. Please see note 2 of the consolidated financial statements for a reconciliation of underlying EBITDA and underlying profit before tax to statutory measures.

|                                                       | 31 March 2020<br>£m | 31 March 2019<br>£m | % change |
|-------------------------------------------------------|---------------------|---------------------|----------|
| Revenue                                               | 33.0                | 23.5                | 41%      |
| Gross profit                                          | 10.2                | 6.8                 | 50%      |
| Overheads (underlying)                                | 6.8                 | 8.2                 | 17%      |
| Underlying EBITDA                                     | 3.4                 | (1.4)               |          |
| Underlying EBITDA margin                              | 10%                 | (6%)                |          |
| Finance charge                                        | 0.6                 | 0.2                 |          |
| Depreciation                                          | 0.3                 | 0.1                 |          |
| Amortisation of intangible assets - computer software | 0.3                 | 0.1                 |          |
| Underlying profit before tax                          | 2.2                 | (1.8)               |          |
| Amortisation of acquired intangible assets            | 2.1                 | 1.2                 |          |
| Exceptional items                                     | 0.7                 | 2.7                 |          |
| Share based payments                                  | 0.3                 | 0.3                 |          |
| Impairment of legacy assets                           | -                   | 1.0                 |          |
| Fair value adjustment for deferred consideration*     | 0.1                 | (0.1)               |          |
| Contingent consideration                              | 0.3                 | -                   |          |
| Loss before tax                                       | (1.3)               | (6.9)               |          |
| Taxation charge/(credit)                              | 0.2                 | (1.0)               |          |
| Loss after tax                                        | (1.5)               | (5.9)               |          |

\* To be settled by issue of ordinary shares to the ex-vendors of GeoLang Holdings Limited.

### Revenue

For the twelve months ended 31 March 2020 revenue increased 41% (£9.5m) to £33.0m (2018/19: £23.5m) which incorporates £1.7m revenues from Pentest Limited which was acquired on 9 April 2019. On an underlying like-for-like basis which reflects a full year of Brookcourt's prior year performance into 2018/19, revenue is 16% behind prior year, which is partially due to a change in revenue mix within Brookcourt whereby we have witnessed a move from high revenue, low margin hardware sales to low revenue, higher margin software sales. In addition, Xcina Consulting has experienced reductions in revenues of £2.1m following the strong performance in the prior year off the back of the introduction of GDPR.

### Underlying EBITDA

A year on year improvement in Underlying EBITDA of £4.8m to a £3.4m profit (2018/19: Loss £1.4m) incorporates the uplift in revenue detailed above which has generated an improved gross profit margin of 31% (2018/19: 29%).

The improvement in profitability is due to a number of factors which include a change in revenue mix within our Services division whereby low margin hardware sales are being replaced with higher margin software sales. In addition to this profitability within our software division has improved year on year as a result of a minor re-structure in SecurEnvoy which has resulted in a more efficient sales function. An additional £1.4m of overhead savings were recognised in the year following the re-organisation of the Group in the first half the year.

### Finance charges

Finance charges of £0.6m includes £0.4m interest on deferred completion cash for the acquisition of Brookcourt, £0.1m interest for other loans taken when acquiring Pentest and £0.1m interest for an invoice discounting facility which the Group utilised during the last financial year.

### Depreciation

Depreciation of £0.3m (2018/19: £0.1m) incorporates £0.2m depreciation of Right of use assets which have been added for the first time in the year.

### Amortisation of intangible assets – computer software

Amortisation of computer software has increased by £0.2m year on year owing mainly to internal software development in SecurEnvoy that went live in the year.

### Underlying profit before tax

A year on year improvement of £3.9m includes the £4.8m year on year improvement in underlying EBITDA less an additional £0.4m finance costs, £0.2m depreciation and £0.2m amortisation of computer software which are detailed in the relevant headings above.

### Acquisition of acquired intangibles

A year on year increase of £0.8m in amortisation of acquired intangibles to £2.1m (2018/19: £1.3m) incorporates a full year's charge for Brookcourt Solutions which was acquired in October 2018 in addition to amortisation for Pentest which was acquired in April 2019.

### Exceptional items

Exceptional items of £0.7m include £0.3m of one off costs incurred as part of the re-organisation of the Group implemented by the incoming CEO in April 2019 which included the costs associated with discontinuation of a few smaller business areas which had not achieved the required return on investment. £0.3m costs relate to the acquisition of Pentest and the remaining £0.1m is for legacy one off legal costs. Exceptional items are significantly reduced from the reported £2.7m posted in the prior year. These included £1.7m costs relating to the acquisition of Brookcourt and GeoLang plus £1.0m one off legal costs.

### Impairment of legacy assets

A prior year impairment recognises the full write off of the remaining mining exploration assets held by Group which date back to when the Group was known as Aurum Mining plc.

### Fair value adjustment for deferred consideration

The fair value adjustment of deferred consideration relates to deferred share consideration owed to the previous owners of GeoLang Holdings Limited. Deferred consideration is measured at fair value and the additional cost recognised in the year represent an increase in the Group's share price over the past twelve months to 31 March 2020.



## Financial review

### Contingent consideration

Contingent consideration of £0.3m represents the issue of 14,388,567 ordinary shares (pre-share consolidation) of the Group to the GeoLang sellers. These additional consideration shares were issued pursuant to the acquisition of GeoLang Holdings Limited announced on 4 April 2018, under which certain provisions were triggered by the share price performance criteria set out in the sale and purchase agreement which were considered unlikely at the point of acquisition and as such were not recognised on acquisition.

### Taxation

Taxation charges of £0.2m include a charge for the current year of £0.3m less £0.1m in relation to an adjustment for the prior-year.

### Earnings/(loss) per share

Adjusted Basic and Diluted Earnings per Share of £0.08 (2018/19: Adjusted loss per share £-0.10) and Reported Basic and Diluted Loss per Share of £0.07 (2018/19: loss £0.42) represents a significant year on year improvement. All comparisons have been restated for the share consolidation.

### Statement of financial position

#### Intangible assets

Intangible assets increased by £4.4m to £56.8m (2019: £52.4m) with £5.1m arising from acquisitions in the period, computer software additions of £1.4m relating to the capitalisation of internal development costs and £0.3m for additional consideration relating to historical acquisitions. This is offset by £2.4m amortisation in the year.

#### Property, plant and equipment

Property, plant and equipment increased by £0.5m to £0.7m (2019: £0.2m) in the period which incorporates for the first time, the addition of £0.7m of right to use assets (1 April 2019). Other additions were under £0.1m in the period. This is offset by £0.3m depreciation in the year.

#### Trade and other receivables

Trade and other receivables have decreased by £4.7m from £15.2m to £10.5m. The acquisition of Pentest has added £0.2m however the changes to the timing of some projects plus strong cash collection in March 2020

has resulted in the reduction of total trade and other receivables at year-end.

The prior year includes a restatement of £1.0m which reduces trade receivables with the corresponding entry being a reduction to deferred income which is due to amounts that had been invoiced but not yet due and where the performance obligation had not been completed at the reporting date. There is no impact on to the statement of comprehensive income.

#### Trade and other payables

Trade and other payable have decreased by £1.8m from £16.4m to £14.6m despite the acquisition of Pentest adding £0.1m. This is primarily due to a reduction in trade payables at year-end of £1.4m which is as a result of cost savings realised from the re-organisation of the Group early in the financial year. In addition to this loan liabilities have reduced by £0.4m following the settlement of the invoice financing facility used by the Group in the prior year.

The prior year includes a restatement to deferred income of £1m which is detailed in the trade and other receivables note above.

#### Creditors: amount falling due after more than 1 year

Creditor amounts falling due after more than 1 year have increased by £1.0m to £4.4m as a result of the addition of £0.7m loan liabilities in the period relating to the Pentest acquisition which are repayable in April 2022, £0.3m lease liabilities arising for the first time following the introduction of IFRS 16, £0.2m increase in deferred tax liability (of which £0.4m is as a result of the Pentest acquisition with the balance related to movements on existing balances) less £0.2m reduction in deferred share consideration for GeoLang Holding which has moved to a current liability.

#### Share capital

During the year pre-share consolidation, 292.3m ordinary shares of £0.01 were issued to Secarma as share consideration for the acquisition of Pentest. A further 14.4m ordinary shares of £0.01 were issued to the previous owners of GeoLang Holdings for additional consideration for hold back shares as detailed in the sale and purchase agreement. These additions increased share capital by £2.9m and £0.2m respectively.

### Statement of cash flows

#### Operating cash flows

The Group has achieved strong operating cash flows in the year of £5.2m (2018/19: £(3.5)m) owing to significantly improved year on year trading performance from both software and services businesses. In addition to this, cost savings made from the reorganisation of the Group in the first part of the year and improved cash collection have contributed to the much improved position at 31 March 2020.

#### Investing activities

A net outflow in investing activities of £1.4m in the year is significantly reduced from the previous years' outflow of £15.0m of which £14.3m represented cash used to acquire businesses including Brookcourt and GeoLang. No cash outflows were recognised for the acquisition of Pentest as this was funded via share consideration and third party loans which are detailed in the note 9 of the consolidated financial statements. Software spend has increased by £0.8m to £1.4m which incorporates capitalisation of internal development costs within our software division (2018/19: £0.6m).

#### Financing activities

A net cash outflow from financing activities is significantly reduced from the prior year inflow of £16.5m which included proceeds from an equity fundraise completed to fund the acquisition of Brookcourt in October 2018. Outflows in the year include £1.3m for the repayment of the invoice discounting facility the Group used during the year which was closed in March 2020 and £0.2m repayments on lease liabilities. Cash inflows in the year include a £0.5m loan taken to support the working capital requirements of Pentest following its acquisition.

#### Key performance indicators

The Board believe that revenue and underlying EBITDA are key metrics to monitor the performance of the Group, as they provide a good basis to judge underlying performance and are recognised by the Group's shareholders. These are presented within the Financial Highlights on page 8.

Underlying EBITDA is defined as profit before tax, before one off exceptional items, impairment of intangible assets, share based payment charges, finance charges, fair value adjustments to deferred

consideration, depreciation and amortisation, and a reconciliation from underlying EBITDA to loss before tax is detailed in note 2 of the consolidated financial statements.

**Paul McFadden**  
Chief Financial Officer  
28 July 2020

## Case studies

### Park Now selects Xcina Consulting

Park Now, owned by the BMW & Daimler Group, specialises in electronic and digital parking solutions and is the largest provider of mobile parking services in North America, serving over 22 million customers in more than 1000 towns and cities throughout the world. In the UK it operates in over 400 towns and cities and processes in excess of 80 million card payments per annum.

### Xcina Consulting

Xcina Consulting provides an annual, qualified security assessment of Park Now's UK and Netherlands card data environment to ensure it is compliant with the Payment Card Industry Data Security Standard (PCI DSS). The engagement not only ensures that all card data related controls are in place and operating effectively but also ensures that Park Now staff understand their roles and responsibilities around protecting card data.

Pete O'Driscoll, UK Managing Director, commented:

"Xcina Consulting has been engaged by the Park Now European group to perform the annual assessment for our UK and Dutch businesses for the last 2 years. Throughout this period Xcina Consulting has worked with us to revisit our security standards and put in place a robust control, review and audit process. As part of our contractual arrangement we have twice yearly check in points to ensure that we are up to date with best practice. I have no hesitation in referring Xcina Consulting to another business".

### Wates Group selects SecurEnvoy

When unexpected weather hits, forest fires rapidly spread across a country or a global health pandemic occurs, businesses require secure, remote access to their networks and applications. The current outbreak of Covid-19 has resulted in a rising need for remote working, globally. In the current times of change and uncertainty, companies are needing to prepare and adapt in order to collaborate with their employees and continue to work as normally as possible.

This has been the case with Wates Group, a leading construction company based in the UK. To help reduce the spread of the virus and the impact on its employees, Wates Group needed to quickly enable an increase in the number of their employees who could work from home. Ensuring secure, remote access for them and a more flexible remote working solution during a rapidly developing situation has been a priority.

SecureIdentity MFA licenses were purchased for a short period, to accompany the existing installed base of remote users to accommodate the increased number of employees working from home during the Covid-19 outbreak.

**xcina**  
Consulting  
A Shearwater Group plc  
Company

**PARKMOBILE** ✓

**SecurEnvoy**  
A Shearwater Group plc Company

**Wates**

Matt Mann, Group Head of IT Operations states,

"The MFA licenses provided by SecurEnvoy enable our office-based employees to securely access our applications and networks allowing them to carry on working in the same way as if they were in the office. At such a challenging time, businesses like Wates are looking for flexibility from trusted suppliers to allow us to keep working as effectively as possible. SecurEnvoy has recognised the impact the Covid-19 pandemic is having for people and companies alike and I have been impressed with how well they have responded".

The National Bank of Kuwait (also known as 'NBK') supports UK and continental European corporate entities' business flow with Kuwait and the wider MENA region, as well as inward investments to Europe and the UK.

Xcina Consulting planned, facilitated and executed against a programme of work to ensure the National Bank of Kuwait (International) established an effective Business Continuity Management System, aligned to the ISO22301 international standard, and to provide it with a strategic roadmap to enable it to align with the Operational Resilience requirements of the Bank of England, Financial Conduct Authority and Prudential Regulation Authority.

### The engagement included: -

- Execution of the Business Impact Analysis process across all business functions
- Documenting the Business Continuity Policy and Strategy
- Updating relevant Business Continuity Plans and IT Disaster Recovery Plan; and
- Defining the longer term business continuity roadmap.

Paul Gospage, UK Chief Operating Officer, commented:

"We, at NBKI, engaged with Xcina Consulting to deliver this important programme of work to ensure we implemented and established improvements and practices to align ourselves to the ISO22301 international standard. We have engaged with Xcina Consulting on a number of assignments and we have always found them to be professional SME's in their field and practitioners in the delivery of a programme of work on time and within budget parameters.

We would particularly like to mention Mr. Rob Treacey whose experience and knowledge was invaluable in ensuring the phased elements were delivered on time and to the standard we would expect from Xcina Consulting".

**الوطني  
NBK**

**xcina**  
Consulting  
A Shearwater Group plc  
Company



## Principal risks and uncertainties

### Identifying and responding to risks

The Board is responsible for ensuring that the Group has systems in place to ensure that the Groups' principal risks and uncertainties are identified, assessed and mitigating actions implemented in effective and timely manner.

### Risk appetite

The Group works to minimise its exposure to operational, financial and other risks however in pursuit of achieving its growth strategy there will always be an element of risk that needs to be considered. The Group takes a zero tolerance to risks that relate to non-adherence to laws and regulations which it considers to be an unacceptable risk.

### Risk approach

The table below details the roles and responsibilities for managing its principal risk and uncertainties;

|                         |                                                                                                                                                                                                                  |
|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Board</b>            | Responsible for setting the Groups policy on risk management and its appetite to risk.                                                                                                                           |
| <b>Audit committee</b>  | Responsible for advising the Board on risk exposure and review of internal controls that are in place to mitigate risk.                                                                                          |
| <b>Executive</b>        | Responsible for maintaining an effective system to identify and manage key risks to the Group, understanding the materiality of each risk and potential mitigations that can be put in place to reduce exposure. |
| <b>Local businesses</b> | Responsibility for maintaining an effective system to identify and manage risk at a local level, implementing mitigating measures where possible.                                                                |

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

| Risk                          | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Mitigation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Change since 2019 |
|-------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| <b>Cyber security attacks</b> | <p>The Group is a high-profile target for third parties wishing to gain unauthorised access to the Group's networks, or to bypass or breach its products.</p> <p>Any breach of the Group's networks or products, whether through a deliberate hack or unintentional event, may cause significant business disruption to the Group or its customers and result in the Group incurring the costs of remedying any breach. Furthermore, the Group's reputation may be damaged, leading to a loss of customer, industry and investor confidence.</p> | <p>The Group has established a secure network infrastructure, supported by its own in house team of information security and cyber security specialists, who are able to monitor, identify and respond to any incident, and if required, recover any data or information.</p> <p>With regards to the Group's owned software products, each is subjected to third party testing as part of the ongoing development process both prior to launch and also whilst the product is being used by the Group's customers. Where new threats emerge, product updates are made available and communicated to the Group's customers so that they are able to maintain continuity of protection.</p>                                                                                                                                                        | Increased         |
| <b>Intellectual property</b>  | <p>The Group owns a number of software assets that it has created and continuously developed over a number of years. These form the products that are sold within the software segment of our business.</p>                                                                                                                                                                                                                                                                                                                                      | <p>The Group maintain robust security around its internally developed technology and patents are filed where possible. Employment contracts provide some protection around the release of information relating to its know-how.</p> <p>Whilst the Company seeks to protect its intellectual property through the filing of patent applications where permissible, as well as entering into confidentiality obligations within employment contracts to protect the Company from the release of information relating to its know-how and other measures to protect the confidentiality of its know-how and trade secrets, this does not provide any assurances that a third party will not infringe upon the Company's intellectual property, release confidential information about it or claim technology which is registered to the Company</p> | No change         |

## Principal risks and uncertainties

| Risk                                              | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Mitigation                                                                                                                                                                                                                                                                                                                                                                                                                                   | Change since 2019 |
|---------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| <b>Technology</b>                                 | The markets in which the Company operates (and plans to operate) are characterised by rapid technological development, changes in customer requirements and preferences, frequent new product and service launches incorporating new technologies, and the emergence of new industry standards and practices that could render the Company's existing technology and products obsolete. If the Company is unable to anticipate and respond to technological changes and customer preferences in a timely and cost-effective manner, it is possible that existing customers and prospective customers may turn to competitor offerings.                                                                                                          | In addressing this risk, the Group has a number of Chief Technical Officers across its group companies, whom are able to work together to continue to improve the Group's products and to develop and market new products that keep pace with technological change and the threats that the Group's customers face. In the previous financial year Dr. Debbie Garside was appointed to the role of Chief Innovation Scientist for the Group. | No change         |
| <b>Key contracts</b>                              | In line with other industry participants, the Group relies on certain key customers for a material proportion of its revenue. Whilst the Group benefits from high customer retention levels, there can be no guarantees that all or any customers will continue their relationship with the Group beyond the existing contractual period currently in place. Certain customers have the right to terminate their contractual arrangements with the Group or discontinue using the Group's services without notice or on short notice. If the Group was to lose one or more of its major customer contracts, the resultant loss of sales could adversely affect the Enlarged Group's business, financial condition, results or future operations | The Group looks to build strong, long-term relations with its customers by taking the time to understand our customers' needs fully. Key to achieving long term relationships with customer is ensuring that as a minimum we always deliver in line with customer expectations.<br><br>The Group is actively looking to grow and diversify its' customer base and has added some notable new customers in the past year.                     | No change         |
| <b>Recruitment and retention of key personnel</b> | The Group's success depends upon its ability to attract and recruit, retain and incentivise highly skilled employees across all areas of the business. If the Group is unable to retain or successfully attract and recruit key employees across all and any areas of the business, it could delay or prevent the implementation of its strategy.                                                                                                                                                                                                                                                                                                                                                                                               | The Board recognises this risk and as a result have a Group-wide people strategy which encompasses among other things, culture, training and development, capability and competence assessments, succession planning and reward and recognition structures, to help attract and appropriately incentivise key personnel.                                                                                                                     | No change         |

| Risk                                     | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Mitigation                                                                                                                                                                                                                                                                                                                                                                                                         | Change since 2019 |
|------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| <b>Regulation</b>                        | In response to the increased frequency and severity of data breaches, new industry regulation and government legislation has been introduced in order to compel companies to enhance their information and cyber security measures. As a result of the continued and evolving cyber threats faced by companies, industry regulation, and in turn legislation may be amended, adapted and enhanced at relatively short notice, which will create a new set of data protection requirements for companies, which information and cyber security product and service vendors will need to address with their products. If the Group is unable to provide products or services to its customers which enable them to meet the changing regulatory or legislative requirements laid down by industry or government, then its current or prospective customers may turn to competitor offerings | The Groups' Data Protection Officer is responsible for ensuring the Group's continued compliance with the new data protection requirements which have most recently come into force. Furthermore, based upon the collective experience of the Board and the Group's Advisory Panel, the Group is well placed to monitor and process industry or legislative developments which can impact its portfolio companies. | No change         |
| <b>Economic uncertainty and Covid 19</b> | Economic uncertainty can create challenges which could impact some of the Group's key stakeholders. This could result in the loss of customers and additional pressures on the Group's supply chain. The recent Covid 19 global pandemic has brought with it additional challenges to the trading environment and businesses which includes restrictions on movement and our stakeholders are having to adapt to this accordingly.                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Owing to non-discretionary nature of many of the Group's products, the Group is in a robust position however the Group works closely with its key stakeholders addressing challenges as they arise. To date the Group has responded well to the additional challenges brought by Covid 19 however it acknowledges the enhanced level of challenges faced by a number of our stakeholders.                          | Increased         |
| <b>Acquisition</b>                       | Failure to identify suitable potential acquisitions or failing to properly integrate an acquisitions will impact our strategy for growth.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | The Board actively monitors the market for opportunities and maintain a very active M&A pipeline. Once a potentially suitable target is identified it is vital that a thorough due diligence assessment is undertaken.                                                                                                                                                                                             | No change         |



# GOVERNANCE

## Board of Directors

The following is a list of the full names and positions of the current members of the Board:  
*The business address of each Director is 22 Great James Street, London, WC1N 3ES.*



### David Williams

#### Chairman

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



### Philip Higgins

#### Chief Executive Officer

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



### Paul McFadden

#### Chief Financial Officer

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



### Robin Southwell OBE

#### Non-Executive Director

Robin has over 35 years' experience of working in the aerospace and defence industry, including roles as chief executive officer of Airbus UK and Airtanker Ltd, as well as senior positions at BAE Systems, which included running their operations in Australasia and establishing the company's asset management organisation. Robin is Chairman of Linley Furniture, a Fellow of the Royal Aeronautical Society, an Ambassador of the RAF Museums, has been appointed as a DTI Business Ambassador by the UK Government and received his OBE in 1997 for services to exports. Robin serves as a member of the Remuneration Committee.

## Board of Directors



**Stephen Ball**  
Non-Executive Director

Stephen has over 35 years' experience of working in senior roles in the technology, defence, information security and communications industries. Stephen was formerly chief executive officer of Lockheed Martin UK until his retirement in 2016. Prior to this, he was managing director of the company's operations in Ampthill, Bedfordshire. Before joining Lockheed Martin, Stephen spent 21 years with HM Government Communications Centre (HMGCC), latterly as chief executive officer, working on specialist development and the manufacture of security and communications equipment. Stephen serves as a member of the Nomination and Audit Committees.



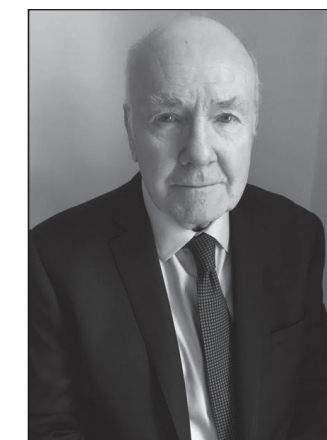
**Giles Willits**  
Non-Executive Director

Giles has over twenty years' experience in senior leadership and financial roles and is currently the chief financial officer of IG Design Group plc (AIM: IGR). Prior to this, Giles was also chief financial officer of FTSE 250 listed Entertainment One Ltd. (LSE: ETO), having worked with Entertainment One Ltd. initially as non-executive director, before assuming the chief financial officer role in 2007. During his time at Entertainment One Ltd. the market capitalisation grew to in excess of £1 billion. Giles was formerly director of group finance of J Sainsbury plc and Woolworths Group plc, and currently serves as the Chairman of the Company's Audit Committee.

## Advisory Panel

### Advisory Panel

The Group's Advisory Panel is chaired by Rt Hon. the Lord Reid of Cardowan. The purpose of the Advisory Panel is to track developments in the digital resilience sector as well as supporting the Group in accessing growth opportunities via the network of contacts of each member of the Advisory Panel. The Advisory Panel will meet at least four times a year, with additional ad hoc meetings held with various Directors as required.



**Rt Hon Lord Reid of Cardowan**  
Advisory Panel Chairman

Lord Reid joined the Group as Chairman of its Advisory Panel in January 2017. Lord Reid has had an illustrious career in UK Government, serving in numerous UK cabinet positions, including Home Secretary and Secretary of State for Defence. He now sits in the House of Lords and is Executive Chairman of the Institute for Strategy, Resilience and Security at University College London.



**Marcus Willett CB OBE**  
Advisory Panel

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



## Corporate Governance report

For the year ended 31 March 2020

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

Below is a brief description of the role of the Board and its committees, including a statement regarding the Company’s system of internal financial control.

### The Board of Directors

Details of all members of the Board are set out on page 33.

The business address of each Director is 22 Great James Street, London, WC1N 3ES.

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

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

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

### Internal Financial Control

The Board is responsible for establishing and maintaining the Company’s system of internal financial controls. Internal financial control systems are designed to meet the particular needs of the Company and the risk to which it is exposed, and by its very nature can provide reasonable, but not absolute, assurance against material misstatement or loss. During the period, the Group commenced implementation of a Group wide purchase to pay system which will consolidate the Groups purchasing as well as enhance the internal control environment.

The Directors continue to review the Group’s systems of internal financial control as it grows to ensure that they are appropriate to the size of business. The Directors have reviewed the effectiveness of the procedures presently in place and consider that they are appropriate to the nature and scale of the operations of the Company. The Directors will continue to reassess internal financial controls as the Company expands further.

### Board Committees

#### Audit Committee

The Audit Committee’s principal functions include ensuring that the appropriate accounting systems and financial controls are in place, monitoring the integrity of the financial statements of the Company, reviewing the effectiveness of the Company’s accounting and internal control systems, reviewing reports from the Group’s auditors relating to the Company’s accounting and internal controls, and reviewing the interim and annual results and reports to Shareholders, in all cases having due regard to the interests of Shareholders. The Audit Committee meets at least two times a year, with regard to the reporting and audit cycle. Giles Willits has recent and relevant financial experience through his role as CFO of other UK listed companies and acts as Chairman. David Williams and Stephen Ball are the other members of the Audit Committee.

#### Remuneration Committee

The Remuneration Committee is responsible for determining and agreeing with the Board the framework for the remuneration packages for Directors. The Remuneration Committee considers all aspects of the Executive Directors’ remuneration, including pensions, bonus arrangements, benefits, incentive payments and share option awards, and the policy for, and scope of any termination payments. The remuneration of the Non-Executive Directors is a matter for the Board. The Remuneration Committee meets at least twice a year and at such other times as may be deemed necessary. No Director may be involved in discussions relating to their own remuneration. David Williams acts as Chairman of the Remuneration Committee and Robin Southwell is the other member of the Remuneration Committee.

#### Nomination Committee

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board based upon the skills, knowledge and experience required to ensure the Board operates effectively. The Nomination Committee is expected to meet when necessary to do so. The Nomination Committee also identifies and nominates suitable candidates to join the Board when vacancies arise and makes recommendations to the Board for the re-appointment of any Non-Executive Directors. David Williams acts as Chairman of the Nomination Committee with Stephen Ball as the other member of the Nomination Committee.

The Board are in the process of introducing a formal internal evaluation of its own members and each of its subcommittees. The Board have noted that its’ diversity does not reflect the position across the Group and will continue to look to address this. Succession planning has been informally discussed by the Board however no formal plans have been drawn up as yet owing to the relatively short length of tenure of both existing executives. The Board, through the nomination committee will look to complete a formal succession plan in the next twelve months.

The Directors promote a healthy corporate culture of which further details can be found in the Social Responsibility section on page 13.

## Audit Committee report

### Dear Shareholder

On behalf of the Board I am pleased to present the Audit Committee report for the year ending 31 March 2020.

### Roles and responsibilities

The role of the audit committee is to assist the Board in fulfilling its corporate governance responsibilities with regards to the Group's financial reporting, internal controls and risk management systems. The committee monitors the integrity of the interim and annual financial statements and advises the Board as to whether as a whole they are fair, balanced and understandable and provide the shareholder with the necessary information to assess the Group's strategy, position and performance.

The audit committee is also responsible:

- for providing oversight and challenge to the financial reporting;
- for providing the Board with its' opinion as to the Group's assessment of any new accounting standards;
- for agreeing the remuneration for the audit and reporting to the Board the performance of external auditors;
- for making recommendations to the Board regarding the appointment and removal of external auditors;
- for assessing the requirement of an internal audit function within the Group;
- for ensuring that the Group has suitable policies and controls in place to prevent fraud, bribery and other compliance concerns;

### Committee members

The committee consists of myself as chair, my fellow non-executive director Stephen Ball and the Group's chairman David Williams.

The committee meet twice during the year. The meetings are attended by committee members and by invitation, the Chief Financial Officer, other senior management and external auditors. The table below details committee members attendance over the past twelve months.

|                          | Committee<br>meetings attended | Committee meetings eligible<br>to attend |
|--------------------------|--------------------------------|------------------------------------------|
| Giles Willits (Chairman) | 2                              | 2                                        |
| David Williams           | 2                              | 2                                        |
| Stephen Ball             | 2                              | 2                                        |

### Key activities and actions over the past year

#### Financial statements

The audit committee reviewed and approved the unaudited interim financial statements for the period ending 30 September 2019 and the full year audited financial statements for the period ending 31 March 2020 and reported to the Board that in its view the statements were fair, balanced and understandable.

### Significant areas

The significant reporting matters and judgements considered by the committee during the year included:

#### 1. Acquisition accounting (IFRS 3 Business combinations) of Pentest acquisition

The audit committee reviewed the accounting regarding the acquisition of Pentest Limited in the year and was satisfied there were no issues arising.

#### 2. The application of IFRS 16

The audit committee considered the modified retrospective application of IFRS16 (Leases) from 1 April 2019 including reviewing judgements made and the presentation of the impacts which are set out in note 1 of the consolidated financial statements.

#### 3. Use of alternative performance measures

The audit committee has considered the use of alternative performance measures included in the Annual report to present underlying EBITDA and underlying profit alongside the statutory counterparts and believes that these additional measures provide the reader with a more balanced view of the underlying performance of the Group. Please see note 2 of the consolidated financial statements which provides a reconciliation of the underlying measures to statutory counterparts.

#### 4. Going concern

The audit committee has considered the Group's sensitised forward looking forecasts and believes it has adequate resources to support the Group as a Going concern.

#### 5. Impairment of intangible assets

The audit committee has reviewed reports concerning the carrying value of specific goodwill and intangible assets. The committee concluded that the assumptions and judgements applied by management were appropriate and no impairments were required.

### External Audit

The Audit Committee monitors the Group's relationship with the external auditor, BDO LLP, to ensure that external independence and objectivity has been maintained. As part of its review the Committee reviews the provision of any non-audit services by the external auditor. During the year no non-audit work was completed by BDO. BDO have provided audit services to the Group since incorporation in 2005. It has however only served the Group in it's current state as a digital and operational resilience business since March 2017. Performance has been reviewed annually and audit partner rotation requirements have been observed.

### Internal Audit

There is currently no formal internal audit function in place which the audit committee deem appropriate given the size and complexity of the business and the mitigating controls in place. The committee will continue to review the need for Group to introduce this function on an annual basis.

### COVID-19

The audit committee has and continues to assess the ongoing challenges brought by the Covid-19 global pandemic and has considered the potential impact on the Group's financial position, cash flows and liquidity. The committee has reviewed and challenged an extreme scenario of reverse stress test in order to support its assessment that the financial statements should be prepared on a going concern basis. Please see page 47 and 61 for additional details on the Group's going concern assessment. The committee has also reviewed and challenged the Covid 19 related risks included within the principal risks and uncertainties section on page 31.

Approved on behalf of the Audit Committee by:

**Giles Willits**

Chairman of the Audit Committee

28 July 2020



## Directors remuneration report

### Dear Shareholder

On behalf of the Board I am pleased to present the Remuneration Committee report for the year ending 31 March 2020.

### Roles and responsibilities

The role of the remuneration committee is to review and agree with the Board the framework for remuneration packages for Directors. The committee consider all aspects of the Executive Directors' remuneration, including pensions, bonus arrangements, benefits, incentive payments and share option awards.

The remuneration committee is also responsible:

- for agreeing the policy and scope of any termination payments

### Committee members

The committee consists of myself as chair and my fellow non-executive director Robin Southwell.

The committee met twice during the year. The meetings are attended by committee members and by invitation other Directors. The table below details committee members attendance over the past twelve months.

|                           | Committee meetings attended | Committee meetings eligible to attend |
|---------------------------|-----------------------------|---------------------------------------|
| David Williams (Chairman) | 2                           | 2                                     |
| Robin Southwell           | 2                           | 2                                     |

### Review of the financial year ended 31 March 2020

#### Company Performance

As detailed within the strategic report section the Group has taken significant steps forward over the past twelve months delivering a much-improved set of results for the period. The key financial objective of generating the Group's first underlying EBITDA profit since the inception was achieved with the Group delivering strong cash generation for the period.

The Group uses adjusted measures to review the underlying performance of the Group and the Remuneration Committee also use adjusted measures to determine the Executive Directors' annual bonus along with long term share options.

#### Key activities and actions over the past year

#### Executive Directors salary reviews

The Remuneration Committee decided that in light of the challenges the Group faced at the start of the year no salary reviews were made.

### Annual bonus

The bonus opportunity for Executive Directors during the year was based on the achievement of an underlying EBITDA target.

The Remuneration committee approves annual bonuses for executive Directors and retains a level of discretion over the level of pay-out based upon the quality of financial performance in achieving the results

### Share options

No additional share options were granted in the period.

Approved on behalf of the Remuneration Committee by:

David Williams  
Chairman of the Remuneration Committee  
28 July 2020

## Annual report of remuneration

### Introduction

The Remuneration Committee has established a remuneration policy for both Executive and Non-Executive

Directors which aims to:

- align remuneration with performance of the Group and the interests of shareholders. The policy looks to reward, retain and incentivise Directors to perform to the high levels.
- apportion an element of Executive Directors remuneration to annual and longer-term performance targets.

### Directors remuneration

A summary of Directors' remuneration is as follows:

|                       | Aggregate of all Directors |                    | Highest paid Director |                    |
|-----------------------|----------------------------|--------------------|-----------------------|--------------------|
|                       | 2019/20<br>£ (000)         | 2018/19<br>£ (000) | 2019/20<br>£ (000)    | 2018/19<br>£ (000) |
| Wages and salaries    | 540                        | 486                | 170                   | 231                |
| Social security costs | 67                         | 60                 | 23                    | 32                 |
| Pension costs         | 12                         | 6                  | -                     | 1                  |
| Share based payments  | 179                        | 180                | 92                    | 92                 |
| Total remuneration    | 798                        | 732                | 285                   | 356                |

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

|                                     | Total salary<br>and fees<br>£ (000) | Bonus<br>£ (000) | Benefits<br>£ (000) | Sub-total<br>£ (000) | Pension<br>£ (000) | Total<br>£ (000) |
|-------------------------------------|-------------------------------------|------------------|---------------------|----------------------|--------------------|------------------|
| Year ended 31 March 2020            |                                     |                  |                     |                      |                    |                  |
| <b>Executive Directors</b>          |                                     |                  |                     |                      |                    |                  |
| M Stevens (resigned 12 April 2019)* | 83                                  | -                | -                   | 83                   | -                  | 83               |
| P Higgins                           | 110                                 | 60               | -                   | 170                  | -                  | 170              |
| P McFadden                          | 119                                 | 38               | 1                   | 158                  | 12                 | 170              |
| <b>Non-Executive Directors</b>      |                                     |                  |                     |                      |                    |                  |
| D Williams                          | 51                                  | -                | -                   | 51                   | -                  | 51               |
| S Ball                              | 26                                  | -                | -                   | 26                   | -                  | 26               |
| R Southwell                         | 26                                  | -                | -                   | 26                   | -                  | 26               |
| G Willits                           | 26                                  | -                | -                   | 26                   | -                  | 26               |
|                                     | 441                                 | 98               | 1                   | 540                  | 12                 | 552              |

\* Figures include £76k for payment in lieu of notice.

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

Directors' interests in shares and share options are disclosed in the Directors' report. In 2020 and 2019, key management personnel are considered to comprise of Directors.





## Nomination Committee report

### Dear Shareholder

On behalf of the Board I am pleased to present the Nomination Committee report for the year ending 31 March 2020.

### Roles and responsibilities

The role of the nomination committee is to review and ensure that the make-up of the Board comprises a diverse and knowledgeable skillset from its members which as a whole create a balanced and appropriate Board function.

The nomination committee is also responsible:

- for considering succession planning for Directors and other key senior management positions across the Group;
- for assisting when required with the recruitment process for other senior management vacancies;
- for reviewing the time commitment required for Non-Executive Directors;
- for when required, identifying and nominating candidates to fill Board vacancies; and
- or making recommendation for the Board to consider regarding membership of the Audit and Remuneration Committees.

### Committee members

The committee consists of myself as chair and my fellow non-executive director Stephen Ball.

The committee met twice during the year. The meetings are attended by committee members and by invitation other Directors. The table below details committee members attendance over the past twelve months.

|                           | Committee meetings attended | Committee meetings eligible to attend |
|---------------------------|-----------------------------|---------------------------------------|
| David Williams (Chairman) | 2                           | 2                                     |
| Stephen Ball              | 2                           | 2                                     |

### Key activities and actions over the past year

#### Appointment of a new Chief Executive

Following Michael Stevens' departure as Chief Executive on 12 April 2019 the Nomination Committee met to consider his replacement. Following review with the Board it was decided that another Executive Director Phil Higgins should assume the role as Chief Executive of the Group. Following his acceptance of the role Phil Higgins took the position from 12 April 2019.

#### Succession planning

The Nomination Committee acknowledges the need to review the succession plans for both Executive and Non-Executive Directors as well as other key senior management positions across the Group. Whilst both Executive Directors have only been in post for the past 18 months the committee acknowledges strong management below the executive.

#### Other senior management representation

The Nomination Committee provided input into the recruitment of the new dual Managing Director position for the Xcina Consulting business following a re-organisation of the business.

Approved on behalf of the Nomination Committee by:

David Williams  
Chairman of the Nomination Committee  
28th June 2020

## Directors report

### For the year ending 31st March 2020

The Directors present their annual report together with the audited financial statements for the year ended 31 March 2020.

### Results and Dividends

Results of the year and financial position are detailed on pages 57 to 102. The Directors do not recommend the payment of a dividend for the year (2018/19: £nil).

### Strategic report

A review of the business, future developments and the principal risks and uncertainties facing the Company are included within the Strategic and Business Review of Activities on pages 4 to 32.

### Share consolidation

On 25 September 2019, at the Group's AGM, shareholders approved the capital reorganisation to consolidate the Company's ordinary shares by a factor of 100.

The consolidation comprised of two elements:

- Consolidation, whereby every 100 shares were consolidated into one ordinary share of £1 (a "consolidated share")
- Sub-division – immediately following the consolidation, each consolidated share was sub-divided into one ordinary share of 10 pence (a "new ordinary share") and one deferred share of 90 pence (a "deferred share").

Deferred shares for all practical purposes are valueless and it is the Boards intention to repurchase, cancel or seek to the surrender these deferred shares using lawful means as the Board may at such time in the future.

Following the capital reorganisation 22,106,460 new ordinary shares of 10 pence each were admitted to trading on AIM at 8am on 26 September 2019.

Details of the share consolidation are provided in the table below:

|                                                | Number of ordinary issued shares | Number of issued deferred shares | Aggregate nominal value of shares in the company (£) |
|------------------------------------------------|----------------------------------|----------------------------------|------------------------------------------------------|
| Immediately prior to AGM                       | 2,210,646,000                    | -                                | 22,106,460                                           |
| Following close of business on the date of AGM | 22,106,460                       | 22,106,460                       | 22,106,460                                           |

## Directors report

### Directors

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

| Name of Director |                                     |
|------------------|-------------------------------------|
| D Williams       | Chairman                            |
| P Higgins        | Director;                           |
| P McFadden       | Director;                           |
| M Stevens        | Director; Resigned on 12 April 2019 |
| R Southwell      | Non-Executive Director              |
| S Ball           | Non-Executive Director              |
| G Willits        | Non-Executive Director              |

### Directors' interests in shares and share options

The Directors' who held office during the year had the following interests, including family interests, in the ordinary shares of the Company as follows:

|             | Number of shares held at<br>31 March 2020 | Number of shares held at<br>31 March 2019* |
|-------------|-------------------------------------------|--------------------------------------------|
| P Higgins   | 2,251,667                                 | 2,129,167                                  |
| D Williams  | 1,381,674                                 | 1,306,674                                  |
| R Southwell | 155,000                                   | 112,500                                    |
| S Ball      | 119,444                                   | 119,444                                    |
| G Willits   | 67,717                                    | 67,717                                     |
| P McFadden  | 1,715                                     | 1,715                                      |

\* Further to the share consolidation detailed above the prior year figures have been restated to provide a like for like comparison.

The Directors' interests in the share options of the Company as at 31 March 2020 were as follows:

|            | Number of<br>options at<br>31 March 2020 | Exercise<br>price | Date of grant | First date of<br>exercise | Final date of<br>exercise |
|------------|------------------------------------------|-------------------|---------------|---------------------------|---------------------------|
| P McFadden | 7,875*                                   | £4.00             | 07/05/18      | 07/05/19                  | 30/09/23                  |

As a result of the share consolidation the number of share options have been divided by 100 and the exercise price multiplied by 100. The remuneration of Directors during the year is disclosed in the Directors remuneration report on page 42.

### Share capital and substantial shareholders

Details of the issued share capital, together with details of the movements during the year are detailed in note 18 of the consolidated financial statements.

Details of share-based payments are detailed in note 19 of the consolidated financial statements and the Directors remuneration report. No person has control over the Company's share capital and issued shares are fully paid.

At 31 March 2020, the Company had been notified of the following substantial shareholders comprising 3% or more of the issued share capital of the Company:

|                        | % of issued share capital |
|------------------------|---------------------------|
| Secarma                | 13.22%                    |
| Mr P Higgins           | 10.18%                    |
| Schroders plc          | 9.56%                     |
| Mr D Stacey            | 9.52%                     |
| Mr D Williams          | 6.25%                     |
| Killik & Co LLP        | 4.81%                     |
| Mr S Watts             | 4.04%                     |
| Fidelity International | 3.10%                     |

### Directors' indemnities

The Company currently has in place, and had for the year ended 31 March 2020, Directors and Officers liability insurance for the benefit of all Directors of the Company.

### Going concern

The Financial Statements have been prepared on the going concern basis, following the Directors' review of the Company's operations, current financial position, cash flow forecasts and future financing requirements which have included a review of forecast cashflows to March 2022 which incorporate a sensitised reverse stress test (worst-case scenario). In addition to this the Group's financing facility has increased following the completion of a three-year revolving credit facility which adds additional financing capacity to the Group.

The Directors are satisfied that sufficient cash resources are available to meet financial commitments as they arise and for at least twelve months from the date of signing the Financial Statements. Further disclosure is provided in note 1 of the consolidated financial statements.

### Events after the reporting date

On 24 April 2020 the Group completed an equity fundraise to support future acquisitions raising £3.75m. In addition to this on 22 June 2020 the Group, via its subsidiary Brookcourt signed a three-year, £4 million revolving credit facility to support future organic growth. Further details of these events are included in note 22 of the consolidated financial statements.

### Research and development activities

Due to the everchanging competitive market the Group operates within, it actively supports the continued research and development of our software (SaaS) services to ensure that the Group remains at the forefront of the markets we serve. Where specific internal development cost meets the required criteria under IAS 38 these amounts have been capitalised at the cost incurred.

### Political donations

No political donations were made during the financial year (2018/19: nil).

### Employees

The Directors recognise the importance of ensuring effective communication to the Groups' employees, ensuring that they are updated on various factors including updates on the performance of the Group. The executive team hold employee briefings at least twice a year with local management briefing their teams more regularly. The Group conforms to current employment laws on the employment of disabled persons and, where we are informed of any employee disability, management make all reasonable efforts to accommodate that employee's requirements.



## Directors report

### Financial instruments

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

### Statement as to disclosure of information to auditors

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

### Auditor

BDO LLP have provided audit services to the Group for over 5 years. During the financial year the Group undertook an exercise to benchmark the cost of external audit work to ensure the Group was getting the best service and value for money. Following completion of this exercise the Directors are satisfied that the Group is receiving an effective audit in terms of service and value for money.

### Annual General Meeting

The Company proposes to convene the Annual General Meeting for 11a.m on 24 September 2020. Notice of the Annual General Meeting will be circulated shortly to Shareholders.

### Covid-19

The Group has demonstrated its resilience during the first wave of the Covid 19 global pandemic having implemented effective remote working practices across the Group. That said the Board continue to monitor the everchanging landscape of the Covid 19 pandemic and challenges that this presents. Each of the Groups businesses has worked closely with its customers to understand the challenges they face, not just in the short term but also understanding the potentially changing landscape going forward. This has allowed each of our businesses to review their service offering to ensure that it continues to meet the needs of the customer. To ensure that we are able to meet the needs of our customers we have maintained regular contact with key suppliers, ensuring that we understand in advance any potential challenges to the supply chain such as travel restrictions. Throughout the current lockdown management have maintained regular contact with employees, ensuring that our staff are kept up to date with events.

### On behalf of the Board

David Williams, Chairman,  
28 July 2020



## Statement of Directors responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. The Parent Company financial statements have been prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for the year ended 31 March 2020. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

### Website publication

The Directors are responsible for ensuring the Annual Report and the Financial Statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

The Group's Financial Statements can be accessed using the following link;  
[www.shearwatergroup.com/results-and-presentations/](http://www.shearwatergroup.com/results-and-presentations/)



# FINANCIAL STATEMENTS

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

### Opinion

We have audited the financial statements of Shearwater Group Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2020 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the company statement of financial position, the consolidated statement of changes in equity, the company statement of changes in equity, the consolidated cash flow statement and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

### In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

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

### Conclusions relating to going concern

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

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

### Key audit matters

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

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

| Key Audit Matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | How we addressed the key audit matter in our audit                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Revenue Recognition</b></p> <p>The Group's revenue recognition policy can be found in note 1 "Revenue" to the financial statements.</p> <p>Several revenue streams exist across the Group involving different timings and recognition entailing a degree of complexity as detailed in note 1. Therefore, revenue recognition related to each deliverable requires judgement over the assessment of the separate contract deliverables.</p> <p>We consider a significant risk of material misstatement to arise from the recognition of revenue throughout the year.</p> | <p><b>A summary of procedures performed to address the risk include:</b></p> <ul style="list-style-type: none"> <li>• A review of the revenue recognition policy for the Group in light of the requirements of IFRS 15.</li> <li>• Tested a sample of transactions from the revenue listing by allocating transaction price to each performance obligation and checked whether the revenue was recognised appropriately at a point in time or over time.</li> <li>• Tested a sample of sales invoices raised before and after year end to check that these were accounted for in the correct period and accrued for, or deferred, appropriately by agreeing to supporting evidence such as delivery of license keys and statement of work performed etc.</li> <li>• Tested completeness of deferred revenue and existence of accrued revenue by agreeing the sales invoices to cash receipts, contracts with customers and checking that revenue was appropriately recognised during the year by agreeing to supporting evidence such as delivery of license keys and statement of work performed etc.</li> <li>• For all samples tested our testing included inspection of the contracts, proof of payments and checking that revenue was recognised in accordance with the accounting policy. We confirmed that the appropriate trigger event i.e. performance obligation had been satisfied in order to ensure that the revenue recognition criteria had been met. This was done by testing the corroborative evidence such as delivery of license keys and statement of work performed etc.</li> <li>• We also considered the adequacy of the Group's disclosures relating to revenue recognition in note 1.</li> </ul> <p><b>Key observations</b></p> <p>Based on procedures performed, we found management judgements were appropriate and were supported by the corroborative evidence.</p> |

| Key Audit Matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | How we addressed the key audit matter in our audit                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Accounting for business combinations</b></p> <p>The accounting policies are detailed in notes 1 and 9.</p> <p>The Group completed its acquisition of Pentest on 09 April 2019. In line with the accounting standards, acquired assets and liabilities are required to be measured at their fair value at the date of acquisition. Acquired intangible assets are required to be identified and measured at fair value irrespective of whether the asset had been recognised prior to acquisition in the accounts of the acquiree.</p> <p>Given the level of judgement involved in assessing the fair value of the assets and liabilities acquired, we have identified the acquisition accounting surrounding this transaction as one of the matters of most significance in the audit of the financial statements of the current period.</p> | <p>Our audit procedures involved assessing the appropriateness of the accounting treatment adopted and challenging the directors' assessment of the fair value of the assets acquired and liabilities assumed with reference to a Purchase price allocation ("PPA") provided by management.</p> <p>We used our own valuation specialists to evaluate and conclude on the results of management's procedures and to determine the fair value of the intangible assets acquired. We performed the following procedures:</p> <ul style="list-style-type: none"> <li>• evaluating the completeness and existence of intangible assets recognised by agreeing to purchase agreement, purchase consideration to compare against the assets and liabilities acquired;</li> <li>• assessment of the valuation methodologies applied by consulting with BDO valuation specialists team;</li> <li>• assessment of the key assumptions made by management, such as discount rates and growth rates compared to our independently calculated range;</li> <li>• performing a sensitivity analysis to understand the extent to which changes in key assumptions i.e. discount rate and growth rates etc. may give rise to a materially different valuation for the intangible asset; and</li> <li>• assessing the appropriateness of the disclosures relating to the acquisition taking into account the requirements of the accounting standards and testing the completeness and accuracy of the disclosures.</li> </ul> <p><b>Key observations</b></p> <p>We found that the judgements and estimates made by management in respect of business combinations were reasonable, and disclosures were appropriate and in line with the requirements of the accounting standards.</p> |



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

| Key Audit Matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | How we addressed the key audit matter in our audit                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Going concern assessment</b></p> <p>The financial statements explain in note 1 how the Directors have formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group financial statements.</p> <p>The Group's ability to continue as a going concern has been subject to increased audit scrutiny in line with the anticipated financial impact of COVID-19 and its potential impact on the markets as a whole and the Group specifically. The Directors have considered the impact of COVID-19 and have sensitised their forecasts accordingly.</p> <p>As the full economic effect on the Group and the overall economic environment are still uncertain there is a significant level of judgement involved in anticipating results. Due to the high level of judgement involved in these assessments there exists a risk, that inappropriate assumptions might be utilised in the determination of the Group's ability to continue as a going concern.</p> | <p><b>Our audit procedures involved:</b></p> <ul style="list-style-type: none"> <li>Discussing with management their assessment of the Group's ability to continue as a going concern.</li> <li>Critically evaluating the revenue and cost projections underlying the model with reference to market information as well as past performance of the Group.</li> <li>Assessing the reasonableness of projected cash flow and working capital assumptions by comparing against the Group's past performance, any known post balance sheet events etc.</li> <li>Assessing the impact of COVID-19 on the cash-flow projections as well as the assumptions and sensitivities relating to this.</li> <li>Performing analysis of changes in key assumptions including a reasonable possible (but not unrealistic) reduction in forecast revenue to understand the sensitivity in the cash flow forecasts.</li> <li>A review of the appropriateness directors' statement in note 1 of the financial statements as to whether it discloses all the relevant events and assumptions made to adopt the going concern basis of accounting in preparation of the financial statements.</li> </ul> <p><b>Key observations</b></p> <p>See the conclusions relating to going concern in the section above.</p> |

### Our application of materiality

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

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

We agreed with the audit committee that we would report to them all individual audit differences identified during the course of our Group audit in excess of £24,700 (2019: £18,590). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

|                                                            |                                                                                                                                                       |
|------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| Group Overall Materiality                                  | £494,000 (2019: £371,800)                                                                                                                             |
| Group Performance Materiality (75% of Overall materiality) | £370,500 (2019: £278,850)                                                                                                                             |
| Basis for Determining (Group and Parent)                   | <b>Group</b> – 1.5% of Group revenue (2019: 5.4% of Group loss before tax)<br><b>Parent</b> – 1.5% of total assets (2019: 1.75% of total expenditure) |

|                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|-----------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Rationale for benchmark applied (Group and Parent)</b> | <p><b>Group</b> – The loss before tax has reduced significantly from prior year and the group has generated significant revenues in the current and prior year. Revenue was determined to be the most appropriate benchmark and a key performance indicator in measuring performance against the strategy set by the Group. Revenue has therefore been used as the basis for materiality.</p> <p><b>Parent</b> – The Company is not generating any revenues and acts mainly as a holding company for its investments. As a result, total assets is a more appropriate benchmark for the parent.</p> |
| Parent Company Overall Materiality                        | £122,800 (2019: £90,000)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Parent Company Performance Materiality                    | £92,100 (2019: £67,500)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |

Performance materiality was set at 75% (2019 – 75%) of the above materiality figures. 75% is based on our risk assessment, together with our assessment of the Group's overall control environment.

### Component Materiality

Each significant component of the Group was audited to a lower level of materiality which is used to determine financial statement areas that are included within the scope of our audit and the extent of sample sizes used during the audit. We determined component materiality for three significant components to be £115,000, £213,000 and £370,500. The range of component materiality is as follows:

|                                |                                 |
|--------------------------------|---------------------------------|
| Range of component materiality | 23% to 75% of Group materiality |
|--------------------------------|---------------------------------|

### An overview of the scope of our audit

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

In determining the scope of our audit we considered the level of work to be performed at each component in order to ensure sufficient assurance was gained to allow us to express an opinion on the financial statements of the Group as a whole. We tailored the extent of the work to be performed by us at each component based on our assessment of the risk of material misstatement at each component. We identified nine centrally controlled components, of which three were deemed to be significant and subject to a full scope statutory audit. For the remaining six components not considered significant, we performed full scope statutory audits on three and performed review procedures over the remaining three components. All audit work was carried out by the Group auditor.

### Other information

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

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

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

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

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

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

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

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report. We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

### Responsibilities of Directors

As explained more fully in the Statement of directors' responsibilities set out on page 49, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Use of our report

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

### Nicole Martin (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor, London, UK. 28 July 2020. BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

## Consolidated statement of comprehensive income

For the year ended 31 March 2020

|                                                                            | Note | 2019/20<br>£ (000) | 2018/19<br>£ (000) |
|----------------------------------------------------------------------------|------|--------------------|--------------------|
| <b>Revenue</b>                                                             | 3    | 33,004             | 23,452             |
| Cost of sales                                                              |      | (22,817)           | (16,617)           |
| <b>Gross profit</b>                                                        |      | <b>10,187</b>      | <b>6,835</b>       |
| Administrative expenses                                                    |      | (10,897)           | (13,551)           |
| <b>Operating loss</b>                                                      |      | <b>(710)</b>       | <b>(6,716)</b>     |
| Finance expenses                                                           |      | (560)              | (164)              |
| Finance income                                                             |      | 8                  | -                  |
| <b>Loss before tax</b>                                                     |      | <b>(1,262)</b>     | <b>(6,880)</b>     |
| Income tax (charge) / credit                                               | 7    | (242)              | 1,020              |
| <b>Loss for the year and attributable to equity holders of the Company</b> |      | <b>(1,504)</b>     | <b>(5,860)</b>     |

|                                                 |   |                |                |
|-------------------------------------------------|---|----------------|----------------|
| <b>Operating loss analysed as:</b>              |   |                |                |
| Underlying EBITDA                               | 2 | 3,409          | (1,394)        |
| Amortisation of acquired intangibles            | 4 | (2,418)        | (1,325)        |
| Depreciation of fixed assets                    | 4 | (316)          | (69)           |
| Share-based payments                            | 4 | (329)          | (331)          |
| Impairment of intangible assets                 | 4 | -              | (1,005)        |
| Exceptional items                               | 4 | (678)          | (2,729)        |
| Fair value adjustment to deferred consideration | 4 | (69)           | 137            |
| Contingent consideration                        | 4 | (309)          | -              |
| <b>Operating Loss</b>                           | 4 | <b>(710)</b>   | <b>(6,716)</b> |
| Finance cost                                    | 6 | (560)          | (164)          |
| Finance income                                  |   | 8              | -              |
| <b>Loss before tax</b>                          |   | <b>(1,262)</b> | <b>(6,880)</b> |

### Other comprehensive income

|                                                           |  |                |                |
|-----------------------------------------------------------|--|----------------|----------------|
| <b>Items that may be reclassified to profit and loss:</b> |  |                |                |
| Change in financial assets at fair value through OCI      |  | (4)            | (18)           |
| Exchange differences on translation of foreign operations |  | 7              | 20             |
| <b>Total comprehensive loss for the year</b>              |  | <b>(1,501)</b> | <b>(5,858)</b> |

### Loss per share £

|                                          |   |        |        |
|------------------------------------------|---|--------|--------|
| Basic and diluted (£ per share)          | 8 | (0.07) | (0.42) |
| Adjusted basic and diluted (£ per share) | 8 | (0.08) | (0.10) |

The results above are derived from continuing operations.

The notes on pages 61 to 93 are an integral part of these consolidated financial statements.

## Consolidated statement of financial position

As at 31 March 2020

|                                                         | Note | 2020<br>£ (000) | 2019<br>(restated)<br>£ (000) |
|---------------------------------------------------------|------|-----------------|-------------------------------|
| <b>Assets</b>                                           |      |                 |                               |
| <b>Non-current assets</b>                               |      |                 |                               |
| Intangible assets                                       | 10   | 56,767          | 52,389                        |
| Financial assets at fair value through OCI              | 11   | -               | 33                            |
| Property, plant and equipment                           | 12   | 692             | 248                           |
| Deferred tax asset                                      | 16   | 186             | 665                           |
| <b>Total non-current assets</b>                         |      | <b>57,645</b>   | <b>53,335</b>                 |
| <b>Current Assets</b>                                   |      |                 |                               |
| Trade and other receivables                             | 13   | 10,505          | 15,211                        |
| Cash and cash equivalents                               |      | 3,343           | 597                           |
| <b>Total current assets</b>                             |      | <b>13,848</b>   | <b>15,808</b>                 |
| <b>Total assets</b>                                     |      | <b>71,493</b>   | <b>69,143</b>                 |
| <b>Liabilities</b>                                      |      |                 |                               |
| <b>Current liabilities</b>                              |      |                 |                               |
| Trade and other payables                                | 14   | 14,586          | 16,380                        |
| <b>Total current liabilities</b>                        |      | <b>14,586</b>   | <b>16,380</b>                 |
| <b>Non-current liabilities</b>                          |      |                 |                               |
| Creditors: amounts falling due after more than one year | 15   | 4,393           | 3,409                         |
| <b>Total non-current liabilities</b>                    |      | <b>4,393</b>    | <b>3,409</b>                  |
| <b>Total liabilities</b>                                |      | <b>18,979</b>   | <b>19,789</b>                 |
| <b>Net assets</b>                                       |      | <b>52,514</b>   | <b>49,354</b>                 |
| <b>Capital and reserves</b>                             |      |                 |                               |
| Share capital                                           |      | 22,107          | 19,040                        |
| Share premium                                           |      | 34,581          | 34,578                        |
| FVTOCI reserve                                          | 18   | 14              | 18                            |
| Other reserves                                          |      | 20,714          | 19,123                        |
| Translation reserve                                     |      | 27              | 20                            |
| Accumulated losses                                      |      | (24,929)        | (23,425)                      |
| <b>Equity attributable to owners of the Company</b>     |      | <b>52,514</b>   | <b>49,354</b>                 |
| <b>Total equity and liabilities</b>                     |      | <b>71,493</b>   | <b>69,143</b>                 |

The notes on pages 61 to 93 are an integral part of these consolidated financial statements. The financial statements on page 57 to 93 were approved and authorised for issue by the Board and signed on their behalf on 28 July 2020.

P Higgins, Chief Executive Officer  
28th July 2020



## Consolidated statement of changes in equity

For the year ended 31 March 2020

| Group                                               | Share capital<br>(Note 18)<br>£ (000) | Share premium<br>£ (000) | FVTOCI<br>£ (000) | Other reserve<br>(£ (000)) | Translation reserve<br>£ (000) | Accumulated losses<br>£ (000) | Total Equity<br>£ (000) |
|-----------------------------------------------------|---------------------------------------|--------------------------|-------------------|----------------------------|--------------------------------|-------------------------------|-------------------------|
| <b>At 1 April 2018</b>                              | 9,644                                 | 22,446                   | 36                | 7,127                      | -                              | (17,110)                      | 22,143                  |
| Loss for the year                                   | -                                     | -                        | -                 | -                          | -                              | (5,860)                       | (5,860)                 |
| Other comprehensive loss for the year               | -                                     | -                        | (18)              | -                          | 20                             | -                             | 2                       |
| <b>Total comprehensive loss for the year</b>        | -                                     | -                        | (18)              | -                          | 20                             | (5,860)                       | (5,858)                 |
| <b>Contributions by and distributions to owners</b> |                                       |                          |                   |                            |                                |                               |                         |
| Issue of share capital                              | 9,396                                 | 12,658                   | -                 | -                          | -                              | -                             | 22,054                  |
| Merger relief reserve                               | -                                     | -                        | -                 | 11,665                     | -                              | -                             | 11,665                  |
| Share issue costs                                   | -                                     | (526)                    | -                 | -                          | -                              | (455)                         | (981)                   |
| Share based payments                                | -                                     | -                        | -                 | 331                        | -                              | -                             | 331                     |
| <b>At 31 March 2019</b>                             | <b>19,040</b>                         | <b>34,578</b>            | <b>18</b>         | <b>19,123</b>              | <b>20</b>                      | <b>(23,425)</b>               | <b>49,354</b>           |
| Loss for the year                                   | -                                     | -                        | -                 | -                          | -                              | (1,504)                       | (1,504)                 |
| Other comprehensive loss for the year               | -                                     | -                        | (4)               | -                          | 7                              | -                             | 3                       |
| <b>Total comprehensive loss for the year</b>        | -                                     | -                        | (4)               | -                          | 7                              | (1,504)                       | (1,501)                 |
| <b>Contributions by and distributions to owners</b> |                                       |                          |                   |                            |                                |                               |                         |
| Issue of share capital                              | 3,067                                 | 3                        | -                 | -                          | -                              | -                             | 3,070                   |
| Merger relief reserve                               | -                                     | -                        | -                 | 1,262                      | -                              | -                             | 1,262                   |
| Share based payments                                | -                                     | -                        | -                 | 329                        | -                              | -                             | 329                     |
| <b>At 31 March 2020</b>                             | <b>22,107</b>                         | <b>34,581</b>            | <b>14</b>         | <b>20,714</b>              | <b>27</b>                      | <b>(24,929)</b>               | <b>52,514</b>           |

The notes on pages 61 to 93 are an integral part of these consolidated financial statements.





## Consolidated cashflow statement

For the year ended 31 March 2020

|                                                                       | Note | 2019/20<br>£ ('000) | 2018/19<br>(restated)<br>£ ('000) |
|-----------------------------------------------------------------------|------|---------------------|-----------------------------------|
| <b>Cash flows from operating activities</b>                           |      |                     |                                   |
| Loss for the year                                                     |      | (1,504)             | (5,860)                           |
| Adjustments for:                                                      |      |                     |                                   |
| Amortisation of acquired intangible assets                            | 4    | 2,418               | 1,325                             |
| Depreciation of property, plant and equipment                         | 4    | 316                 | 69                                |
| Share-based payment charge                                            | 4    | 329                 | 331                               |
| Impairment of intangible assets                                       | 4    | -                   | 1,005                             |
| Fair value adjustment of deferred consideration                       | 4    | 69                  | (137)                             |
| Contingent consideration                                              | 4    | 309                 | -                                 |
| Finance income                                                        |      | (8)                 | -                                 |
| Finance cost                                                          |      | 560                 | 164                               |
| Gain/loss on sale of asset                                            |      | (1)                 | -                                 |
| Income tax                                                            |      | 242                 | (1,020)                           |
| Cash flow from operating activities before changes in working capital |      | 2,730               | (4,123)                           |
| Decrease/(Increase) in trade and other receivables                    |      | 4,384               | (3,387)                           |
| (Decrease)/Increase in trade and other payables                       |      | (2,239)             | 4,110                             |
| Cash generated from/(used in) operations                              |      | 4,875               | (3,400)                           |
| Net foreign exchange movements                                        |      | 8                   | 1                                 |
| Finance cost (paid)/received                                          |      | (62)                | (10)                              |
| Tax paid                                                              |      | 399                 | (52)                              |
| <b>Net cash generating from/(used in) operating activities</b>        |      | <b>5,220</b>        | <b>(3,461)</b>                    |
| <b>Investing activities</b>                                           |      |                     |                                   |
| Acquisition of subsidiaries, net of cash acquired                     |      | -                   | (14,264)                          |
| Purchase of property, plant and equipment                             | 12   | (20)                | (81)                              |
| Purchase of software                                                  | 10   | (1,409)             | (619)                             |
| Proceeds from disposal of held for sale assets                        | 11   | 27                  | -                                 |
| Proceeds from disposal of tangible assets                             |      | 1                   | -                                 |
| Gold exploration payments                                             |      |                     | (19)                              |
| <b>Net cash used in investing activities</b>                          |      | <b>(1,401)</b>      | <b>(14,983)</b>                   |
| <b>Financing activities</b>                                           |      |                     |                                   |
| Proceeds from issue of share capital                                  |      | 2                   | 17,527                            |
| Proceeds from issue of loans                                          | 22   | 500                 | -                                 |
| Repayment of loan liabilities                                         | 22   | (1,341)             | -                                 |
| Expenses paid in connection with share issues                         |      | -                   | (981)                             |
| Repayment of lease liabilities                                        | 22   | (236)               | -                                 |
| <b>Net cash generated by financing activities</b>                     |      | <b>(1,075)</b>      | <b>16,546</b>                     |
| <b>Net increase/(decrease) in cash and cash equivalents</b>           |      | <b>2,744</b>        | <b>(1,898)</b>                    |
| Foreign exchange movement on cash and cash equivalents                |      | 2                   | 2                                 |
| Cash and cash equivalents at the beginning of the period              |      | 597                 | 2,493                             |
| <b>Cash and cash equivalents at the end of the period</b>             |      | <b>3,343</b>        | <b>597</b>                        |

The notes on pages 61 to 93 are an integral part of these consolidated financial statements.

## Notes to the consolidated financial statements

### General Information

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

The Group is listed on the Alternative Investment Market ('AIM') on the London Stock Exchange. The Group provides digital resilience solutions to a range of end user markets.

### 1. Statement of accounting policies

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

#### Basis of preparation

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

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

#### Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least twelve months from the date of signing these financial statements. Accordingly, they continue to adopt the going concern basis in preparing these consolidated financial statements.

The Directors have reviewed the Group's going concern position taking account of its current business activities, budgeted performance and the factors likely to affect its future development which are set out in this Annual Report, and include the Groups strategy, principal risks and uncertainties, its exposure to credit and liquidity risks and the impact of the Covid 19 global pandemic.

The Group has recorded its first underlying profits in the year to 31 March 2020 and has posted positive operating cashflows. As at 31 March 2020, the Group had cash and cash equivalents of £3.3m (2019: £0.6m) and net assets of £52.6m (2019: £49.4m). In the year the Group generated net cash from operating activities of £5.0m (2019: cash outflow £3.5m) realising a significantly reduced operating loss of £0.6m (2019: Loss: £6.7m). Subsequently the Directors are pleased to announce that they have secured the following additional funding for the business:

- On 24 April 2020 the Group completed a fundraise raising £3.75m which it intends to use to fund acquisitions.
- On 22 June 2020 the Group signed via it's subsidiary Brookcourt Solutions Limited a £4.0 million three-year revolving credit facility with Barclays Bank plc which provides additional robustness towards the Group's short-term funding requirements.

The Directors' have reviewed detailed budget cash flow forecasts for the period to at least 31 March 2022 and have challenged the assumptions used to create these budgets. The budget figures are carefully monitored against actual outcomes each month and variances are highlighted and discussed at Board level on a quarterly basis as a minimum. The end of the fiscal year to 31 March 2020 has seen the Covid 19 global pandemic which has created additional risks and uncertainties which the Board have considered. To date the Group has been able to adapt and meet the challenges arising from Covid 19 and as a result there has so far been limited impact on the Group's operational capacity.

## Notes to the consolidated financial statements

### 1. Statement of accounting policies *continued*

The Board has reviewed current trading to 30 June 2020 and are pleased to report that trading is tracking in line with budget for the first quarter and the current view is that the Group is in a good place to meet its full year budget targets.

In response to the additional challenges created by Covid 19 the Board have reviewed and challenged what it believes to be an extreme scenario reverse stress test on the Group up to March 2022. The purpose of the reverse stress test for the Group is to test at what point the cash facilities would be fully utilised if the assumptions in the budget are altered.

The reverse stress test assumes significant adjustments to the Group's budget which include the removal of all new business revenue across both software and services divisions, reduction of renewal rates in our software division to 50%, scaling back of revenues in our Services division leaving just critical managed services revenues and already contracted revenues. Costs have been scaled back sensitively in line with the reduction in revenues.

In the event that the performance of the Group is not in line with the projections, action will be taken by management to address any potential cash shortfall for the foreseeable future. The actions that could be taken by the Directors include both a review and restructuring of employment related costs. Additionally, the Directors could also negotiate to access other sources of finance from our lenders.

Overall, the sensitised cash flow forecast demonstrates that the Group will be able to pay its debts as they fall due for the period to at least 31 March 2022 and therefore the Directors are satisfied there are no material uncertainties to disclose regarding going concern. The Directors are, therefore satisfied that the financial statements should be prepared on the going concern basis.

#### Critical accounting judgements estimates and assumptions

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

#### Business Combinations

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

#### Impairment of goodwill, intangible assets and investment in subsidiaries

Management make judgements, estimates and assumptions in supporting the fair value of goodwill, intangible assets and investments in subsidiaries. The Group carry out annual impairment reviews to support the fair value of these assets. In doing so management will estimate future growth rates, weighted average cost of capital and terminal values. Further information can be found on note 10.

#### Leases

Management make judgements, estimates and assumptions regarding the life of leases. At present management are assessing all existing leases which all relate to office space as we look to reduce the number of offices across the Group. For this reason management have assumed that the life of leases does not extend past the current contracted expiry date. A judgement has been taken with regards to the incremental borrowing rate based upon the rate at which the Group can borrow money.

#### Basis of consolidation

The Group's consolidated financial statements incorporate the results and net assets of Shearwater Group plc and all its subsidiary undertakings made up to 31 March each year. Subsidiaries are all entities over which the Group has control (see note 2 of the company financial statements). The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All inter-group transactions, balances, income and expenses are eliminated on consolidation.

#### Business combinations and goodwill

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

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

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

#### Revenue

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

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

#### Software

- Software licences whereby the customer buys a software that it sets up and maintains on its premises is recognised fully at the point the licence key / access has been granted to the client. The Group sells the majority of its services through channels and distributors who are responsible for providing 1st and 2nd line support to the client.
- Software licences for the new 'Authentication as a Services' product whereby the customer accesses the product via a cloud environment maintained by the Company is recognised in two parts whereby 85% of the subscription is recognised at the point that the licence key is provided to the customer with the remaining 15% recognised evenly over the length of the contract.

## Notes to the consolidated financial statements

### 1. Statement of accounting policies *continued*

#### Services

- Sale of third-party hardware, software and warranties:
  - a) Where the contract entails only one performance obligation to provide software or hardware, revenue is recognised in full at a point in time upon delivery of the product to the end client. This delivery will either be in the form of the physical delivery of a product or the e-mailing of access codes to the client for them to access third party software or warranties; and
  - b) Where a contract to supply external hardware, software and/or warranties also include an element of ongoing internal support, multiple performance obligations are identified and an allocation of the total contract value is allocated to each performance obligation based on the standalone costs of each performance obligation. The respective costs of each performance obligations are traceable to supplier invoice and applying the fixed margins, standalone selling prices are determined. Internal support is recognised equally over the period of time detailed in the contract.
- Sale of consultancy services are usually based on a number of consultancy days that make up the contracted consideration. Consultancy days generally comprise of field work and (where required) report writing and delivery which are considered to be of equal value to the client. Revenue is recognised over time based on the number of consultancy days provided within the period compared to the total in the contract.

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

#### Segmental reporting

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

The directors consider that the acquisition of Pentest meets the aggregation criteria under IFRS 8 as they share similar economic characteristics in terms of the nature of the products and services provided. Pentest is reported within the Group's services division.

#### Exceptional items

The Group's statement of comprehensive income separately identifies exceptional items. Such items are those that in the Directors' judgement are one-off in nature and need to be disclosed separately by virtue of their size and incidence. In determining whether an item or transaction should be classified as an exceptional item, the Directors' consider quantitative as well as qualitative factors such as the frequency, predictability of occurrence and significance. This is consistent with the way that financial performance is measured by management and reported to the Board. Exceptional items may not be comparable to similarly titled measures used by other companies. Disclosing adjusted items separately provides additional understanding of the performance of the Group. Please see note 4 for further details.

#### Current and deferred income tax

The charge for taxation is based on the profit or loss for the year and takes into account deferred tax. Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax based in the computation of taxable profit or loss and is accounted for using the balance sheet method.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries operate and generate taxable income.

Management periodically evaluate positions taken in tax returns with respect to situations where applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

Deferred income tax assets and liabilities are measured at the rates that are expected to apply when the related asset is realised, or liability settled, based on tax rates and laws enacted or substantively enacted at the reporting date.

#### Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired as part of a business combination are recognised outside goodwill if the assets are separable or arises from contractual or other legal rights and their fair value can be measured reliably. Material expenditure on internally developed intangible assets is taken to the consolidated statement of financial position if it satisfies the 6 step criteria required under IAS 38.

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

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

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

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

#### Property, plant and equipment

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

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

|                     |                                                   |
|---------------------|---------------------------------------------------|
| Plant and machinery | 20-33 per cent per annum                          |
| Office equipment    | 25 per cent per annum                             |
| Right of use assets | Shorter of useful life of the asset or Lease term |

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



## Notes to the consolidated financial statements

### 1. Statement of accounting policies *continued*

#### Financial instruments

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

#### Financial assets

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

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

#### Impairment of financial assets

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

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

Expected credit losses are calculated with reference to average loss rates incurred in the three most recent reporting periods then adjusted taking into account forward looking information that may either increase or decreases the current rate. The Group's average combined loss rate is 0.3% (2019: 0.1%). This percentage rate is then applied to current receivable balances using a probability risk spread as follows:

- 80% of debt not yet due (i.e. the Group's average combined loss rate of 0.3% is discounted by 20%, meaning a 0.24% provision would be made to debt not yet due);
- 85% of debt that is <30 days overdue;
- 90% of debt that is 30-60 days overdue;
- 95% of debt that is 60-90 days overdue; and
- 100% of debt that is >90 days overdue

Management have performed the calculation to ascertain the expected credit loss which works out to £26,377 (2019: £4,880). To date the Group has a record of minimal bad debts with less than £0.01 million being written off in the past 3 years.

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

#### Financial liabilities

#### Trade and other payables

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

Loans are initially recognised at fair value, which is the amount stated in the loan agreement. Subsequently loan balances are restated to include any interest that has become payable.

The Group utilised an invoice discounting facility in the current year. Advances under this facility have been initially recognised at fair value, which is the amount advanced. Subsequently accrued interest has been recognised as per the terms of the facility. The invoice discounting facility was closed on 20 March 2020 following the settlement of all outstanding advances.

Lease liabilities have been recognised at fair value in line with the requirements of IFRS16. Please see additional lease disclosure for further details.

Deferred consideration which relates to the future issue of ordinary shares has been initially recognised at fair value based on the closing share price at the reporting date. Deferred consideration is revalued and recognised at fair value based on the closing share price for all future reporting dates. Movements in fair value between periods are reported in the statement of comprehensive income.

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

#### Share-based payments

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

The cost of equity-settled transactions with employees, and transactions with suppliers where fair value cannot be estimated reliably, is measured with reference to the fair value of the equity instrument. The fair value of equity-settled instrument is determined at the date of grant, taking into account market-based vesting conditions. The fair value is determined using an option pricing model.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will likely vest, or in the case of an instrument subject to market condition, be treated as vesting as described above. The movement in cumulative expense since the previous reporting date is recognised in the statement of comprehensive income, with the corresponding entry in equity.

#### Pensions

The Group operates a defined contribution personal pension scheme. The assets of this scheme are held separately from those of the Company in an independently administered fund. The pension charge represents contributions payable by the Company to the fund.

## Notes to the consolidated financial statements

### 1. Statement of accounting policies *continued*

#### New standards and interpretations applied

##### Leases

Further to the introduction of IFRS 16 'Leases' which supersedes IAS 17 'Leases' and IFRIC 4 'Determining whether an arrangement contains a lease' for accounting periods beginning on or after 1 January 2019 the Group has adopted the new standard from 1 April 2019 applying a modified retrospective approach. Under this approach the Group has not restated prior year comparative information.

When applying the modified retrospective approach the Group has recognised right to use assets and equal lease liability in the statement of financial position from the initial application date (1 April 2019). As a result there is no impact on equity at the initial date of application.

The initial lease liability has been calculated based on the remaining payments discounted at the incremental borrowing rate at the date of application. The discount rate under the modified retrospective approach is always the incremental borrowing rate as at the date of initial application even if the rate in the lease is readily determinable.

#### Initial identification, assessment and measurement

##### Right of use assets

In order to identify all potential leases across the Group, management spoke with each local business to get their input and separately a review of regular monthly payments across all bank accounts was completed as a secondary sense check to ensure no potential leases were missed. Following this exercise management assessed all agreements that in its view may have been or contained a lease. In determining if a lease existed management considered if a contract conveyed the right to control the use of an identified asset for a period of time in return for a consideration. When assessing whether a contract states a right to control the use of an identified asset management considered:

- If a contract involved the use of an identified asset, this could be specified explicitly or implicitly and should be physically distinct.
- If the Group obtained the right to gain substantially all of the economic benefit from the use of the asset throughout the period of use.
- If the Group had the right to direct the use of the asset.

Identified 'Right of use assets' have been valued at the date of inception (1 April 2019) on the discounted lease liability.

Right of use assets have been depreciated on a straight-line basis from the commencement date (1 April 2019) to the earlier of the end of useful life of the right of use asset or the end of the lease term. The right of use asset may be subject to impairment following certain remeasurement of lease liabilities.

Details of the Group's right of use assets are detailed in note 12 of the consolidated financial statements.

##### Lease liability

Lease liabilities have been valued at the present value of remaining lease payments at the initial date of application (1 April 2019) discounted at the determined incremental borrowing rate.

The lease liability is measured at the amortised cost using the effective interest method. Should there be a change in expected future lease payments arising from a lease modification or if the Group changes its assessment of whether it will exercise an extension or termination option the lease liability would be remeasured.

Remeasurement of a lease liability will give rise to a corresponding adjustment being made to the carrying value of the right to use asset.

Lease liabilities are detailed in notes 14 and 15 of the consolidated financial statements.

#### Practical expedients

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Group have applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leasing under IAS 17:

- Applied a single discount rate to all leases with similar characteristics;
- Applied the exemption not to recognise right of use assets and liabilities for leases with less than 12 months of the lease term remaining as at the date of initial application
- Applied the exemption for low value assets whereby leases with a value under £5,000 (usually IT equipment) have been classed as short term leases and not recognised on the statement of financial position even if the initial term of the lease from the lease commencement date may be more than twelve months.

#### Incremental borrowing rate

IFRS 16 states that all components of a lease liability are required to be discounted to reflect the present value of the payments. Where a lease (or Group of leases) does not state an implicit rate an incremental borrowing rate should be used.

The incremental borrowing rate should represent what the lessee would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the right of use asset in a similar economic environment.

The Group applied an incremental borrowing rate of 3.5% which it used to discount all identified leases across the Group. The rate is in line with the Group's three-year revolving credit facility which it entered into post the financial year-end. All leases held have a remaining term of between one to three years which is within the current term of the Group's revolving credit facility.

#### Effect of IFRS 16 on the consolidated statement of financial position

Right of use assets are included within property, plant and equipment on the statement of financial position and balances at 31 March 2020 are detailed in the table below:

| Property, plant and equipment                        | Total<br>£ ('000) |
|------------------------------------------------------|-------------------|
| Office equipment                                     | 174               |
| Right of use assets                                  | 518               |
| <b>Total property, plant and equipment (note 12)</b> | <b>692</b>        |

## Notes to the consolidated financial statements

### 1. Statement of accounting policies *continued*

All of the Groups leases related to office property which has previously been classed as an operating lease. The table below details the recognition of these leases as right of use assets in the year:

|                                        | Total<br>£ (000) |
|----------------------------------------|------------------|
| Balance as at 1 April 2019             | 508              |
| Additions                              | 232              |
| Depreciation charge for the year       | (222)            |
| <b>NBV balance as at 31 March 2020</b> | <b>518</b>       |

There are no leases with a term of more than 5 years.

A reconciliation of lease commitments to lease liability as at 1 April 2019 is detailed below:

|                                                                         | Total<br>£ (000) |
|-------------------------------------------------------------------------|------------------|
| Operating lease commitments as at 1 April 2019                          | 705              |
| Impact of discounting                                                   | (34)             |
| Operating leases with less than 12 months remaining (short-term leases) | (164)            |
| <b>Lease liabilities at 1 April 2019</b>                                | <b>508</b>       |

An analysis of future lease liabilities is detailed below:

| <b>Lease liability (contractual undiscounted cash flows)</b>                            | Total<br>£ (000) |
|-----------------------------------------------------------------------------------------|------------------|
| Less than one year                                                                      | 304              |
| One to five years                                                                       | 278              |
| <b>Total undiscounted lease liabilities as at 31 March 2020</b>                         | <b>583</b>       |
| <b>Lease liability included in the statement of financial position at 31 March 2020</b> | <b>524</b>       |
| Current                                                                                 | 280              |
| Non-Current                                                                             | 244              |

#### Effect of IFRS 16 on the consolidated statement of comprehensive income

Amounts recognised in the consolidate statement of comprehensive income for the twelve months ended 31 March 2020 are detailed below:

| <b>Amounts recognised in the statement of comprehensive income</b> | Total<br>£ (000) |
|--------------------------------------------------------------------|------------------|
| Interest on lease liabilities                                      | 20               |
| Expenses related to short term leases                              | 164              |
| Depreciation - right of use assets (note 12)                       | 222              |

#### Effect of IFRS 16 on the consolidated statement of cash flows

| <b>Amounts recognised in the statement of cash flows</b> | Total<br>£ (000) |
|----------------------------------------------------------|------------------|
| Repayment of lease liabilities                           | 236              |
| Interest paid on to lease creditors                      | 20               |

#### Uncertainty over income tax treatments

IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation requires:

- The Group to determine whether uncertain tax treatments should be considered separately, or together as a Group, based on which approach provides better predictions of the resolution;
- The Group to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. This measurement is required to be based on the assumption that each of the tax authorities will examine amounts they have a right to examine and have full knowledge of all related information when making those examinations.

The Group elected to apply IFRIC 23 retrospectively with the cumulative effect recorded in retained earnings as at the date of initial application, 1 April 2019. The adoption of IFRIC 23 has had no impact on retained earnings or on corporate tax liabilities.

#### New standards and interpretations not applied

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

| <b>International Financial Reporting Standard (IFRS/IAS)</b>                                                                                                | <b>Effective date</b> | <b>To be adopted by the Group</b> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------------------|
| IAS 1 'Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment - Definition of Material)' | 1 January 2020        | 1 April 2020                      |
| IFRS 3 'Business Combinations (Amendment - Definition of Business)'                                                                                         | 1 January 2020        | 1 April 2020                      |
| Revised Conceptual Framework for Financial Reporting                                                                                                        | 1 January 2020        | 1 April 2020                      |

The Group has reviewed the impact of these new accounting standards and amendments and believes the impact is not material to the Group's financial statements.



## Notes to the consolidated financial statements

### 2. Measure of profit

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

#### Underlying profit / loss before tax

- Amortisation of acquired intangibles
- Share-based payments
- Impairment of intangible assets
- Exceptional items (please see note 4 for further details)
- Fair value adjustment to deferred consideration
- Contingent consideration

#### Underlying EBITDA

In addition to the adjusting items highlighted above in the Underlying profit / loss before tax;

- Finance costs
- Finance income
- Depreciation
- Amortisation of intangible assets – computer software

Underlying EBITDA and Underlying profit / loss before tax reconciles to loss before tax as follows:

|                                                       | 2019/20<br>£ (000) | 2018/19<br>£ (000) |
|-------------------------------------------------------|--------------------|--------------------|
| Loss before tax                                       | (1,262)            | (6,880)            |
| Amortisation of acquired intangibles                  | 2,095              | 1,256              |
| Share-based payments                                  | 329                | 331                |
| Impairment of intangible assets                       | -                  | 1,005              |
| Exceptional items                                     | 678                | 2,729              |
| Fair value adjustment to deferred consideration       | 69                 | (137)              |
| Contingent consideration                              | 309                | -                  |
| <b>Underlying profit / loss before tax</b>            | <b>2,128</b>       | <b>(1,696)</b>     |
| Finance costs                                         | 560                | 164                |
| Finance income                                        | (8)                | -                  |
| Depreciation                                          | 316                | 69                 |
| Amortisation of intangible assets – computer software | 323                | 69                 |
| <b>Underlying EBITDA</b>                              | <b>3,409</b>       | <b>(1,394)</b>     |

### 3. Segmental information

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

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

Segment information for the 12 months ended 31 March 2020 is presented below and excludes intersegment revenue as they are not material, and assets as the Directors do not review assets and liabilities on a segmental basis.

|                                                 | Revenue<br>Year ended<br>31 March<br>2020<br>£ (000) | Profit<br>Year ended<br>31 March 2020<br>£ (000) | Revenue<br>Year ended<br>31 March 2019<br>£ (000) | Profit<br>Year ended<br>31 March 2019<br>£ (000) |
|-------------------------------------------------|------------------------------------------------------|--------------------------------------------------|---------------------------------------------------|--------------------------------------------------|
| Services                                        | 27,544                                               | 2,262                                            | 19,572                                            | 266                                              |
| Software                                        | 5,460                                                | 2,678                                            | 3,880                                             | 468                                              |
| <b>Group total</b>                              | <b>33,004</b>                                        | <b>4,940</b>                                     | <b>23,452</b>                                     | <b>734</b>                                       |
| Group costs                                     |                                                      | (1,531)                                          |                                                   | (2,128)                                          |
| <b>Underlying EBITDA</b>                        |                                                      | <b>3,409</b>                                     |                                                   | <b>(1,394)</b>                                   |
| Amortisation of acquired intangibles            |                                                      | (2,418)                                          |                                                   | (1,325)                                          |
| Depreciation                                    |                                                      | (316)                                            |                                                   | (69)                                             |
| Share-based payments                            |                                                      | (329)                                            |                                                   | (331)                                            |
| Impairment of intangible assets                 |                                                      | -                                                |                                                   | (1,005)                                          |
| Exceptional items                               |                                                      | (678)                                            |                                                   | (2,729)                                          |
| Fair value adjustment to deferred consideration |                                                      | (69)                                             |                                                   | 137                                              |
| Contingent consideration                        |                                                      | (309)                                            |                                                   | -                                                |
| Finance income                                  |                                                      | 8                                                |                                                   | -                                                |
| Finance cost                                    |                                                      | (560)                                            |                                                   | (164)                                            |
| <b>Loss before tax</b>                          |                                                      | <b>(1,262)</b>                                   |                                                   | <b>(6,880)</b>                                   |

#### Segmental information by geography

The Group is domiciled in the United Kingdom and currently the majority of its revenues come from external customers in the United Kingdom. The geographical analysis of revenue detailed below is on the basis of country of origin in which the master agreement is held with the customer.

|                           | 2019/20<br>£ (000) | 2018/19<br>£ (000) |
|---------------------------|--------------------|--------------------|
| United Kingdom            | 21,443             | 20,872             |
| Europe (excluding the UK) | 8,841              | 1,642              |
| North America             | 1,359              | 704                |
| Rest of the world         | 1,361              | 234                |
|                           | <b>33,004</b>      | <b>23,452</b>      |

## Notes to the consolidated financial statements

### 3. Segmental information *continued*

The majority of the Group's non-current assets are held within the United Kingdom with the exception of £3,013 and £1,722 held in North America and Europe respectively.

Three customers within the Group each make up more than 10% of the Group's revenue. These three customers contribute £9.2m, £4.3m and £4.0m respectively to the Group's Services division. In the prior year two customers made up more than 10% of the Group's revenue contributing £8.2m and £3.2m respectively to the Group's Services division.

### 4. Expenses and auditor's remuneration

|                                                                            | 2019/20<br>£ (000) | 2018/19<br>£(000) |
|----------------------------------------------------------------------------|--------------------|-------------------|
| Operating loss is stated after charging:                                   |                    |                   |
| Depreciation of fixed assets                                               | 316                | 69                |
| Amortisation of acquired intangibles                                       | 2,418              | 1,325             |
| Operating lease expense                                                    | -                  | 519               |
| External auditors' remuneration:                                           |                    |                   |
| - Audit fee for annual audit of the Group and Company financial statements | 53                 | 41                |
| - Audit fee for annual audit of the Subsidiary financial statements        | 109                | 95                |
| Share based payments                                                       | 329                | 331               |
| Impairment of intangible assets                                            | -                  | 1,005             |
| Exceptional items                                                          | 678                | 2,729             |
| Fair value adjustment of deferred consideration                            | 69                 | (137)             |
| Contingent consideration                                                   | 309                | -                 |

Exceptional items relate to the internal re-organisation that took place early during the year (£0.3m), acquisition costs for Pentest Limited (£0.3m) and additional one-off legal costs (£0.1m). Re-organisation costs include £0.2m of exit costs relating to discontinued operations. In the previous year exceptional items of £2.7m included £1.7m of acquisition costs relating to the acquisitions of Brookcourt and GeoLang plus £1m of one-off legal costs. No further disclosure has been provided in either year for discontinued operations as due to the quantum this falls outside the scope of IFRS 5.

### 5. Staff costs

Total staff cost within the Group comprise of all Directors and employee costs for the financial year. The Group totals below include 12 months of staff costs for Pentest Limited (acquired April 2019).

|                       | 2019/20<br>£ (000) | 2018/19<br>£(000) |
|-----------------------|--------------------|-------------------|
| Wages and salaries    | 6,952              | 6,155             |
| Social security costs | 834                | 733               |
| Pension costs         | 341                | 283               |
| Share-based payments  | 329                | 331               |
|                       | 8,456              | 7,502             |

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

|                     | 2019/20<br>£ (000) | 2018/19<br>£(000) |
|---------------------|--------------------|-------------------|
| Administration      | 20                 | 20                |
| Production          | 50                 | 40                |
| Sales and marketing | 35                 | 42                |
|                     | 105                | 102               |

### 6. Interest costs

|                                              | 2019/20<br>£ (000) | 2018/19<br>£(000) |
|----------------------------------------------|--------------------|-------------------|
| Interest payable on loan balances            | 470                | 136               |
| Interest payable on invoice finance facility | 70                 | 28                |
| Interest payable on lease liabilities        | 20                 | -                 |
|                                              | 560                | 164               |

### 7. Taxation

|                                                                                       | 2019/20<br>£ (000) | 2018/19<br>£ (000) |
|---------------------------------------------------------------------------------------|--------------------|--------------------|
| <b>Current tax:</b>                                                                   |                    |                    |
| UK corporation tax at current rates on UK profit/loss for the year                    | 351                | (1,159)            |
| Adjustments for previous periods                                                      | (74)               | -                  |
|                                                                                       | 277                | (1,159)            |
| Foreign tax                                                                           | 7                  | 18                 |
| <b>Total current tax (credit)</b>                                                     | 284                | (1,141)            |
| Deferred tax movement in the period                                                   | (42)               | 121                |
| <b>Income tax (credit) / charge</b>                                                   | 242                | (1,020)            |
| Reconciliation of taxation:                                                           |                    |                    |
| <b>Loss before tax</b>                                                                | (1,262)            | (6,880)            |
| Loss multiplied by the average rate of corporation tax in the year of 19% (2019: 19%) | 240                | (1,307)            |
| <b>Tax effects of:</b>                                                                |                    |                    |
| Deferred tax not recognised                                                           | 4                  | (73)               |
| Expenses not deductible for tax purposes                                              | 666                | 385                |
| Foreign tax rate differences                                                          | 2                  | 1                  |
| Enhanced R&D relief                                                                   | (129)              | -                  |
| Fair value adjustment to deferred consideration                                       | 13                 | (26)               |
| Adjustments for previous periods                                                      | (74)               | -                  |
| <b>Income tax (credit) / charge</b>                                                   | 242                | (1,020)            |

The Group has gross tax losses and temporary timing differences of £1.3 million (2018/19: £1.6 million) of which a deferred tax asset of £0.2 million (2018/19: £0.7million) has been recognised based on expected utilisation in the next twelve months.

## Notes to the company financial statements

### 8. Earnings per share

Adjusted earnings per share has been calculated using adjusted earnings calculated as profit after taxation but before:

- Amortisation of acquired intangibles after tax
- Share-based payments
- Impairment of intangible assets
- Exceptional items after tax
- Fair value adjustment to deferred consideration
- Contingent consideration

Basic loss per share is calculated by dividing the loss attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

For diluted loss per share, the weighted average number of shares in issue is not adjusted to assume conversion of all the potential dilutive ordinary shares. The potential dilutive shares are anti-dilutive for the twelve months ended 31 March 2020 and the twelve months ended 31 March 2019 as the Group is loss making. Adjusted earnings per share is potentially dilutive in the year to 31 March 2020. Please see note 18 and 19 of the consolidated financial statements for more details.

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

|                                                                                                       | 2019/20<br>£ (000) | 2018/19<br>£(000) |
|-------------------------------------------------------------------------------------------------------|--------------------|-------------------|
| <b>Net loss from total operations</b>                                                                 |                    |                   |
| Loss for the purposes of basic and diluted loss per share being net loss attributable to Shareholders | (1,504)            | (5,860)           |
| Add/(remove):                                                                                         |                    |                   |
| Amortisation of acquired intangibles                                                                  | 1873               | 1,018             |
| Share-based payments                                                                                  | 329                | 331               |
| Impairment of intangible assets                                                                       | -                  | 1,005             |
| Exceptional items                                                                                     | 609                | 2,210             |
| Fair value adjustment to deferred consideration                                                       | 69                 | (137)             |
| Contingent consideration                                                                              | 309                | -                 |
| <b>Underlying earnings for the purposes of adjusted earnings per share</b>                            | <b>1,685</b>       | <b>(1,433)</b>    |

|                                                                                                                       | No.        | No.         |
|-----------------------------------------------------------------------------------------------------------------------|------------|-------------|
| <b>Number of shares</b>                                                                                               |            |             |
| Weighted average number of ordinary shares for the purpose of basic and diluted and adjusted basic earnings per share | 22,005,719 | 14,074,839* |
| Weighted average number of ordinary shares for the purpose of adjusted diluted earnings per share.                    | 22,158,427 | 14,120,632* |

|                                                      | £      | £      |
|------------------------------------------------------|--------|--------|
| Basic and diluted loss per share                     | (0.07) | (0.42) |
| Adjusted basic and diluted earnings/(loss) per share | 0.08   | (0.10) |

\* prior year weighted average per share has been restated provide comparability following the share consolidation in September 2019. Further details can be found on note 18.

Post year end the Group issued of an additional 1,562,500 ordinary shares as part of a fundraise. Further details can be found in note 23 of the consolidated financial statements.

### 9. Acquisitions

#### Acquisitions in the current period

##### Pentest Newco Limited

On 9 April 2019, the Group acquired the entire issued share capital of Pentest Newco Limited ("Pentest"), a newly incorporated company which contained certain intangible assets of Secarma Limited ("Secarma"), one of the UK's leading cyber security testing companies. The acquisition brings an additional service that complements existing businesses within the Group. Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are follows:

|                                        | Book value<br>£ (000) | Adjustment<br>£ (000) | Fair value<br>£ (000) |
|----------------------------------------|-----------------------|-----------------------|-----------------------|
| Non-contractual customer relationships | -                     | 2,294                 | 2,294                 |
| Deferred tax liabilities               | -                     | (390)                 | (390)                 |
| <b>Total net assets</b>                | <b>-</b>              | <b>1,904</b>          | <b>1,904</b>          |

|                                          |                |
|------------------------------------------|----------------|
| <b>Fair value of consideration paid:</b> | <b>£ (000)</b> |
| Unsecured loan note                      | 677            |
| Shares in Shearwater Group plc*          | 4,019          |
| <b>Total consideration</b>               | <b>4,696</b>   |

|                           |              |
|---------------------------|--------------|
| <b>Goodwill (note 10)</b> | <b>2,792</b> |
|---------------------------|--------------|

\* Share consideration has been valued at the 8 April 2019 closing market price of 1.375 pence.

Adjustments in the table above include £2.3 million for non-contractual customer relationships. The acquisition has been recognised under IFRS 3 as a business combination which includes the addition of staff and customer relationships.

The share consideration was made up of the issuance of 292,292,565 ordinary shares of the Group at an issue price of 2.3 pence to the Secarma shareholders (representing £6.7 million of consideration). The share consideration has been recognised at a fair value of 1.375 pence per share being the closing price of shares on the 8 April 2019.

The unsecured loan note of £0.7 million is to be repaid to the seller in tranches on the first and third anniversary of completion of the acquisition. The unsecured loan note attracts an interest of 6 per cent. per annum.

The goodwill recognised will not be deductible for tax purposes.

Acquisition costs of £0.3 million arose as a result of the transaction and has been recognised as part of administration expenses in the statement of comprehensive income for the twelve-month period to 31 March 2020 within exceptional items.

Pentest Newco Limited was incorporated on the 4 April 2019 and acquired by Shearwater Group plc on 9 April 2019. The business generated revenues of £1.7 million in the current year and achieved an EBTDA loss of £0.5 million. There are no pre acquisition financials.



## Notes to the company financial statements

### 9. Acquisitions *continued*

#### Acquisitions in the prior year

##### Brookcourt Solutions Limited

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

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

|                                          | Book value<br>£ (000) | Adjustment<br>£ (000) | Fair value<br>£ (000) |
|------------------------------------------|-----------------------|-----------------------|-----------------------|
| Property, plant and equipment            | 160                   | -                     | 160                   |
| Tradenname                               | -                     | 6,826                 | 6,826                 |
| Non-contractual customer relationships   | -                     | 4,282                 | 4,282                 |
| Inventories                              | 190                   | (190)                 | -                     |
| Trade and other receivables              | 10,184                | 1,120                 | 11,304                |
| Cash and cash equivalents                | 4,417                 | (1,095)               | 3,322                 |
| Trade and other payables                 | (7,347)               | (577)                 | (7,924)               |
| Deferred tax liabilities                 | (27)                  | (2,000)               | (2,027)               |
| <b>Total net assets</b>                  | <b>7,577</b>          | <b>8,366</b>          | <b>15,943</b>         |
| <b>Fair value of consideration paid:</b> |                       |                       | <b>£ (000)</b>        |
| Cash                                     |                       |                       | 18,485                |
| Shares in Shearwater Group plc           |                       |                       | 15,360                |
| Deferred cash consideration              |                       |                       | 3,000                 |
| <b>Total consideration</b>               |                       |                       | <b>36,845</b>         |
| <b>Goodwill (note 10)</b>                |                       |                       | <b>20,902</b>         |

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

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

The goodwill recognised will not be deductible for tax purposes.

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

The business generated revenues of £23.9 million (2019: £15.2 million) in the current year and achieved an EBITDA of £3.4 million (2019: £2.8 million).

Goodwill has increased by £0.3m which incorporates an adjustment to the true up of net current assets statement which was finalised in the current year.

#### GeoLang Holdings Limited

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

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

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

Adjustments in the table above include; £1.2 million for the creation of intangible assets for computer software. Cash and cash equivalents of £0.3 million represents funds transferred into the company on acquisition to settle remaining indebtedness.

Trade and other payables include £0.1 million which was related to indebtedness settled at the date of acquisition. The goodwill recognised will not be deductible for tax purposes. All indebtedness was settled in full in the previous financial year.

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

The business generated revenues of £0.2 million (2019: £0.1 million) in the current year and achieved an EBITDA loss of £0.3 million (2019: loss of £0.5 million).

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

On the 13 June 2019, the Group issued 14,388,567 ordinary shares of the Group to the GeoLang sellers. These additional consideration shares were issued pursuant to the acquisition of GeoLang Holdings Limited announced on 4 April 2018, under which certain provisions were triggered by the share price performance criteria set out in the sale and purchase agreement which were considered unlikely at the point of acquisition and as such were not recognised on acquisition. This has resulted in a £0.3 million charge to the statement of comprehensive income.

## Notes to the company financial statements

### 10. Intangible assets

|                                 | Goodwill<br>£ (000) | Customer<br>relationships<br>£ (000) | Software<br>£ (000) | Tradenames<br>£ (000) | Gold<br>ex-ploration<br>£ (000) | Total<br>£ (000) |
|---------------------------------|---------------------|--------------------------------------|---------------------|-----------------------|---------------------------------|------------------|
| <b>Cost</b>                     |                     |                                      |                     |                       |                                 |                  |
| At 1 April 2018                 | 12,449              | 4,260                                | 3,621               | -                     | 986                             | 21,316           |
| Recognised on acquisition       | 21,117              | 4,284                                | 1,220               | 6,826                 | -                               | 33,447           |
| Additions                       | -                   | -                                    | 584                 | -                     | 19                              | 603              |
| <b>At 31 March 2019</b>         | <b>33,566</b>       | <b>8,544</b>                         | <b>5,425</b>        | <b>6,826</b>          | <b>1,005</b>                    | <b>55,366</b>    |
| Recognised on acquisition       | 2,792               | 2,294                                | -                   | -                     | -                               | 5,086            |
| Additions                       | 302                 | -                                    | 1,409               | -                     | -                               | 1,711            |
| <b>At 31 March 2020</b>         | <b>36,660</b>       | <b>10,838</b>                        | <b>6,834</b>        | <b>6,826</b>          | <b>1,005</b>                    | <b>62,163</b>    |
| <b>Accumulated amortisation</b> |                     |                                      |                     |                       |                                 |                  |
| At 1 April 2018                 | -                   | 324                                  | 323                 | -                     | -                               | 647              |
| Amortisation for the year       | -                   | 493                                  | 513                 | 319                   | -                               | 1,325            |
| Impairments                     | -                   | -                                    | -                   | -                     | 1,005                           | 1,005            |
| <b>At 31 March 2019</b>         | <b>-</b>            | <b>817</b>                           | <b>836</b>          | <b>319</b>            | <b>1,005</b>                    | <b>2,977</b>     |
| Amortisation for the year       | -                   | 930                                  | 806                 | 683                   | -                               | 2,419            |
| <b>At 31 March 2020</b>         | <b>-</b>            | <b>1,747</b>                         | <b>1,642</b>        | <b>1,002</b>          | <b>1,005</b>                    | <b>5,396</b>     |
| <b>Net book amount</b>          |                     |                                      |                     |                       |                                 |                  |
| <b>At 31 March 2020</b>         | <b>36,660</b>       | <b>9,091</b>                         | <b>5,192</b>        | <b>5,824</b>          | <b>-</b>                        | <b>56,767</b>    |
| <b>At 31 March 2019</b>         | <b>33,566</b>       | <b>7,727</b>                         | <b>4,589</b>        | <b>6,507</b>          | <b>-</b>                        | <b>52,389</b>    |
| <b>At 31 March 2018</b>         | <b>12,449</b>       | <b>3,936</b>                         | <b>3,298</b>        | <b>-</b>              | <b>986</b>                      | <b>20,669</b>    |

The Group tests goodwill annually for impairment. The recoverable amount of goodwill is determined as the higher of the value in use calculation or fair value less cost of disposal for each cash generating unit ('CGU'). The value in use calculations use pre-tax cash flow projections based on financial budgets and forecasts approved by the Board covering a three-year period. These pre-tax cash flows beyond the three-year period are extrapolated using estimated long-term growth rates. Following the acquisitions of Pentest, the Group has five separate cash generating units ('CGU'). For all five cash generating units a weighted average cost of capital of 15% and a terminal value, based on a long-term growth rate of 2 to 2.5% calculated on year 5 cashflow has been used when testing goodwill.

Goodwill arising from the acquisition of Pentest consists largely of the future revenue opportunities of the service offerings not yet realised, expertise within the acquired workforces as well as intra-group synergies and economies of scale as a result of utilisation of the Group's shared services function.

None of the goodwill is expected to be deductible for income tax purposes.

Goodwill additions in the year include £0.3 million for the net current asset true up for Brookcourt.

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

### 11. Financial assets at fair value through OCI

|                         | Total<br>£ (000) |
|-------------------------|------------------|
| <b>Cost</b>             |                  |
| At 1 April 2018         | 51               |
| Fair value loss         | (18)             |
| <b>At 31 March 2019</b> | <b>33</b>        |
| Revaluation             | (2)              |
| Fair value loss         | (4)              |
| Disposal proceeds       | (27)             |
| <b>At 31 March 2020</b> | <b>-</b>         |

On 4 October 2019 the Group sold all of its' 715,000 ordinary shares in Plymouth Minerals Limited (ASX: INF previously PLH) listed on the Australian Securities Exchange.

### 12. Property, plant and equipment

|                                        | Right of use<br>assets<br>£ (000) | Office<br>equipment<br>£ (000) | Total<br>£ (000) |
|----------------------------------------|-----------------------------------|--------------------------------|------------------|
| <b>Cost</b>                            |                                   |                                |                  |
| At 1 April 2018                        | -                                 | 90                             | 90               |
| Recognised on acquisition              | -                                 | 160                            | 160              |
| Additions                              | -                                 | 81                             | 81               |
| <b>At 31 March 2019</b>                | <b>-</b>                          | <b>331</b>                     | <b>331</b>       |
| Additions following Adoption of IFRS16 | 740                               | -                              | 740              |
| Additions                              | -                                 | 20                             | 20               |
| <b>At 31 March 2020</b>                | <b>740</b>                        | <b>351</b>                     | <b>1,091</b>     |
| <b>Accumulated depreciation</b>        |                                   |                                |                  |
| At 1 April 2018                        | -                                 | 14                             | 14               |
| Charge for the period                  | -                                 | 69                             | 69               |
| <b>At 31 March 2019</b>                | <b>-</b>                          | <b>83</b>                      | <b>83</b>        |
| Charge for the period                  | 222                               | 94                             | 316              |
| <b>At 31 March 2020</b>                | <b>222</b>                        | <b>177</b>                     | <b>399</b>       |
| <b>Net book amount</b>                 |                                   |                                |                  |
| <b>At 31 March 2020</b>                | <b>518</b>                        | <b>174</b>                     | <b>692</b>       |
| <b>At 31 March 2019</b>                | <b>-</b>                          | <b>248</b>                     | <b>248</b>       |
| <b>At 31 March 2018</b>                | <b>-</b>                          | <b>76</b>                      | <b>76</b>        |

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

## Notes to the company financial statements

### 13. Trade and other receivables

|                                   | 2020<br>£ (000) | 2019<br>(restated)<br>£ (000) |
|-----------------------------------|-----------------|-------------------------------|
| Trade receivables (restated)      | 8,575           | 12,195                        |
| Prepayments and other receivables | 1,458           | 2,017                         |
| Accrued income                    | 472             | 300                           |
| VAT recoverable                   | -               | 379                           |
| Corporation tax                   | -               | 320                           |
|                                   | <b>10,505</b>   | <b>15,211</b>                 |

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

A prior year restatement of £1,009,000 is accounted for to remove trade receivables and deferred income in relation to amounts invoiced but not yet due at 31 March 2019 where the performance obligation had not yet commenced at that date. This restatement does not impact statement of comprehensive income for the Group and Company only financial statements.

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

|                                            | 2020<br>£ (000) | 2019<br>£ (000) |
|--------------------------------------------|-----------------|-----------------|
| At 1 April                                 | -               | -               |
| Movement in expected credit loss provision | 26              | -               |
| <b>At 31 March 2020</b>                    | <b>26</b>       | <b>-</b>        |

### 14. Trade and other payables

|                                    | 2020<br>£ (000) | 2019<br>(restated)<br>£ (000) |
|------------------------------------|-----------------|-------------------------------|
| Trade payables                     | 6,093           | 7,451                         |
| Loans                              | 4,054           | 4,407                         |
| Accruals and other payables        | 2,603           | 2,933                         |
| Deferred income (restated)         | 425             | 137                           |
| Other taxation and social security | 844             | 1,452                         |
| Lease liabilities                  | 280             | -                             |
| Deferred consideration             | 275             | -                             |
| Corporation tax                    | 12              | -                             |
|                                    | <b>14,586</b>   | <b>16,380</b>                 |

Loan balances include £3.0 million of delayed completion cash which is repayable on 17 April 2020 to the previous shareholders of Brookcourt Solutions Limited. Interest has accrued on this loan at a rate of 10% per annum to 17 October 2019 rising to 15% after this date. At year end £0.5m accrued interest is included to leave a liability of £3.5 million. The repayment date of the delayed completion cash has been further extended and will be settled in full in August 2020.

Deferred consideration of £0.3 million represents deferred share consideration owed to the previous owners of GeoLang Holdings Limited. Under the terms of the sale and purchase agreement, following no warrantee claims arising from the date of acquisition to the second anniversary of the acquisition an additional 129,601 ordinary shares will be issued to the ex-vendors of GeoLang Holdings Limited.

A prior year restatement of £1,009,000 is accounted for to remove trade receivables and deferred income in relation to amounts invoiced but not yet due at 31 March 2019 where the performance obligation had not yet commenced at that date. This restatement does not impact statement of comprehensive income for the Group and Company only financial statements.

### 15. Creditors: amounts falling due after more than one year

|                        | 2020<br>£ (000) | 2019<br>£ (000) |
|------------------------|-----------------|-----------------|
| Deferred tax           | 3,422           | 3,203           |
| Loans                  | 728             | -               |
| Lease liabilities      | 243             | -               |
| Deferred consideration | -               | 206             |
|                        | <b>4,393</b>    | <b>3,409</b>    |

Loan balances include £0.5m loan to Secarma for the acquisition of Pentest Limited which is repayable on 9 April 2022. The remaining £0.2 million represents a working capital loan to support the initial working capital requirements of Pentest Limited. This balance is repayable on 9 April 2022.

### 16. Deferred tax

|                                                                         | 2020<br>£ (000) | 2019<br>£ (000) |
|-------------------------------------------------------------------------|-----------------|-----------------|
| <b>Non-current liabilities</b>                                          |                 |                 |
| Liability at 1 April                                                    | 3,203           | 1,340           |
| Deferred tax (credit) / charge in the statement of comprehensive income | (171)           | (373)           |
| Acquisition of subsidiaries                                             | 390             | 2,236           |
| <b>Total deferred tax</b>                                               | <b>3,422</b>    | <b>3,203</b>    |

Deferred tax arising on acquisition includes £0.4 million for Pentest Limited which has arisen as part of the PPA exercise to identify intangible assets (acquisitions of Brookcourt Solutions and GeoLang Holdings generated the £2.2 million balance in the comparative year).

|                                    | 2020<br>£ (000) | 2019<br>£ (000) |
|------------------------------------|-----------------|-----------------|
| <b>Non-current assets</b>          |                 |                 |
| At 1 April                         | 665             | -               |
| Deferred tax asset created in year | -               | 665             |
| Utilisation of deferred tax asset  | (479)           | -               |
| <b>Total deferred tax asset</b>    | <b>186</b>      | <b>665</b>      |

In the prior year deferred tax was classified as current assets. This has been reclassified to non-current assets in accordance with IAS 1. It has a nil impact on the statement of financial position.

As detailed in last year's financial statements the Group has generated it's first taxable profits in the current year and has utilised £0.5 million of the deferred tax asset that was created in the previous financial year. The Group is forecasting to deliver taxable profits in the year to 31 March 2021 and expects to fully utilise the remaining deferred tax asset.





## Notes to the company financial statements

### 17. Deferred consideration

|                                                 | 2020<br>£ (000) | 2019<br>£ (000) |
|-------------------------------------------------|-----------------|-----------------|
| Liability at 1 April                            | 206             | -               |
| Holdback consideration shares                   | -               | 206             |
| Fair value adjustment to deferred consideration | 69              | -               |
|                                                 | <b>275</b>      | <b>206</b>      |

The above balance represents deferred share consideration owed to the previous owners of GeoLang Holdings Limited. Under the terms of the sale and purchase agreement, following no warrantee claims arising from the date of acquisition to the second anniversary of the acquisition an additional 129,601 ordinary shares will be issued to the ex-vendors of GeoLang Holdings Limited.

### 18. Share capital

On 25 September 2019, at the Group's AGM, shareholders approved the capital reorganisation to consolidate the Company's ordinary shares by a factor of 100.

The consolidation comprised of two elements:

- Consolidation, whereby every 100 shares were consolidated into one ordinary share of £1 (a "consolidated share")
- Sub-division – immediately following the consolidation, each consolidated share was sub-divided into one ordinary share of 10 pence (a "new ordinary share") and one deferred share of 90 pence (a "deferred share").

Deferred shares for all practical purposes are valueless and it is the Boards intention to repurchase, cancel or seek to the surrender these deferred shares using lawful means as the Board may at such time in the future. Following the capital reorganisation 22,106,460 new ordinary shares of 10 pence each were admitted to trading on AIM at 8am on 26 September 2019.

Details of the share consolidation are provided in the table below:

|                                                   | Number of ordinary<br>issued shares | Number of issued<br>deferred shares | Aggregate nominal value of<br>shares in the company (£) |
|---------------------------------------------------|-------------------------------------|-------------------------------------|---------------------------------------------------------|
| Immediately prior to AGM                          | 2,210,646,000                       | -                                   | 22,106,460                                              |
| Following close of business on the<br>date of AGM | 22,106,460                          | 22,106,460                          | 22,106,460                                              |
|                                                   | -                                   | -                                   |                                                         |

The table below details movements within the year:

|                                                  | Ordinary shares |               |
|--------------------------------------------------|-----------------|---------------|
| In thousands of shares                           | 2020            | 2019*         |
| In issue at 1 April                              | 19,040          | 9,644         |
| Options exercised during the year                | 3               | 11            |
| Share issue as part of acquisition consideration | 2,923           | 4,510         |
| Share issue for deferred consideration           | 143             | 6             |
| Share placing and open offer                     | -               | 4,869         |
| <b>No of shares (pre share consolidation)</b>    | <b>22,109</b>   | <b>19,040</b> |

\* Prior year comparisons have been restated to provide a like-for-like comparison.

|                                                  | 2020<br>£ (000) | 2019<br>£ (000) |
|--------------------------------------------------|-----------------|-----------------|
| <b>Allotted, called up and fully paid</b>        |                 |                 |
| Ordinary shares of £0.10 each (2019: £0.01 each) | 22,107          | 19,040          |

The following issues of shares were undertaken in the twelve-month period ended 31 March 2020:

#### Pre share consolidation

On 9 April 2019 292,292,565 new ordinary shares of 1p were issued to the shareholders of Secarma at a price of £0.023 per share to satisfy the share consideration as part of the acquisition of Pentest Limited.

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

On 25 September 2019 as part of the approved share consolidation an additional 16 shares were admitted to trading which increased the issued number of shares to 2,210,646,000. Following the consolidation the Group had 22,106,460 shares in issue.

#### Post share consolidation

On 2 March 2020 a further 2,857 options were exercised by an advisor to the Group.

#### Other reserves included:

##### Share premium

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

##### FVTOCI reserves

This comprises of gains/losses arising on financial assets classified as available for sale. A fair value loss was recognised in the year relating to Plymouth Minerals (see note 11).

#### Other reserves

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

### 19. Share based payments

|                             | 2019/20<br>£ (000) | 2018/19<br>£ (000) |
|-----------------------------|--------------------|--------------------|
| Share options               | 129                | 131                |
| Subsidiary incentive scheme | 200                | 200                |
|                             | <b>329</b>         | <b>331</b>         |

Following the share consolidation completed in the current year, share options have been consolidated whereby the number of share options initially issued has been divided by 100 with the exercise price being multiplied by 100. There is no net impact to options holders. The values in the tables in this note are all restated on a post consolidation basis.

## Notes to the company financial statements

### 19. Share based payments *continued*

#### Share options

The following options over ordinary shares remained outstanding at 31 March 2020

|                                 | Options<br>at 1 April<br>2019 | Options<br>issued<br>during the<br>year | Options<br>lapsed<br>during<br>the year | Options<br>exercised<br>during<br>the year | Options<br>at 31<br>March<br>2020 | Exercise<br>price | Date of<br>grant | First<br>date of<br>exercise | Final<br>date of<br>exercise |
|---------------------------------|-------------------------------|-----------------------------------------|-----------------------------------------|--------------------------------------------|-----------------------------------|-------------------|------------------|------------------------------|------------------------------|
| <b>Options' -<br/>Directors</b> |                               |                                         |                                         |                                            |                                   |                   |                  |                              |                              |
| P McFadden                      | 8,750                         | -                                       | 875                                     | -                                          | 7,875                             | £4.0              | 07/05/2018       | 07/05/2019                   | 30/09/2023                   |
| <b>Employees:</b>               |                               |                                         |                                         |                                            |                                   |                   |                  |                              |                              |
| Employees                       | 55,033                        | -                                       | 2,100                                   | -                                          | 52,933                            | £4.0              | 09/05/2017       | 09/05/2018                   | 08/05/2022                   |
| Employees                       | 44,519                        | -                                       | 11,213                                  | -                                          | 33,306                            | £4.0              | 13/11/2017       | 13/11/2018                   | 12/11/2022                   |
| Employees                       | 1,063                         | -                                       | -                                       | -                                          | 1,063                             | £4.0              | 08/01/2018       | 08/01/2019                   | 07/01/2023                   |
| Employees                       | 15,536                        | -                                       | 10,656                                  | -                                          | 4,880                             | £4.0              | 01/03/2018       | 01/03/2019                   | 28/02/2023                   |
| Employees                       | 27,500                        | -                                       | 1,500                                   | -                                          | 26,000                            | £4.0              | 04/04/2018       | 04/04/2019                   | 03/04/2023                   |
| Employees                       | 82,778                        | -                                       | 12,778                                  | -                                          | 70,000                            | £3.6              | 17/10/2018       | 31/03/2019                   | 30/09/2021                   |
| Employees                       | 44,444                        | -                                       | 9,722                                   | -                                          | 34,722                            | £3.6              | 17/10/2018       | 31/03/2019                   | 30/04/2024                   |
| Employees                       | 12,500                        | -                                       | 9,846                                   | -                                          | 2,654                             | £1.6              | 01/03/2019       | 01/03/2020                   | 01/07/2024                   |
| Employees                       | -                             | 25,000                                  | -                                       | -                                          | 25,000                            | £2.0              | 09/04/2019       | 09/04/2020                   | 30/09/2021                   |
| Employees                       | -                             | 12,500                                  | -                                       | -                                          | 12,500                            | £2.0              | 24/04/2019       | 24/04/2020                   | 30/09/2021                   |
| Employees                       | -                             | 9,000                                   | -                                       | -                                          | 9,000                             | £4.0              | 01/06/2019       | 01/06/2020                   | 30/09/2023                   |
| Employees                       | -                             | 12,500                                  | -                                       | -                                          | 12,500                            | £2.0              | 01/10/2019       | 01/10/2020                   | 30/09/2023                   |
| <b>Non-employees</b>            |                               |                                         |                                         |                                            |                                   |                   |                  |                              |                              |
| Other                           | 20,000                        | -                                       | -                                       | -                                          | 20,000                            | £1.0              | 03/10/2016       | 03/10/2016                   | 03/10/2021                   |
| Other                           | 2,857                         | -                                       | -                                       | 2,857                                      | -                                 | £1.0              | 27/02/2017       | 27/02/2018                   | 31/03/2020                   |
| <b>Total</b>                    | <b>314,980</b>                | <b>59,000</b>                           | <b>58,690</b>                           | <b>2,857</b>                               | <b>312,433</b>                    |                   |                  |                              |                              |

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

|                                 | Options<br>at 1 April<br>2018 | Options<br>issued<br>during<br>the year | Options<br>lapsed<br>during<br>the year | Options<br>exercised<br>during<br>the year | Options<br>at 31<br>March<br>2019 | Exercise<br>price | Date of<br>grant | First<br>date of<br>exercise | Final<br>date of<br>exercise |
|---------------------------------|-------------------------------|-----------------------------------------|-----------------------------------------|--------------------------------------------|-----------------------------------|-------------------|------------------|------------------------------|------------------------------|
| <b>Options' -<br/>Directors</b> |                               |                                         |                                         |                                            |                                   |                   |                  |                              |                              |
| G Willits                       | 5,217                         | -                                       | -                                       | 5,217                                      | -                                 | £1.0              | 09/12/2016       | 09/12/2017                   | 30/06/2018                   |
| P McFadden                      | -                             | 8,750                                   | -                                       | -                                          | 8,750                             | £4.0              | 07/05/2018       | 07/05/2019                   | 30/09/2023                   |
| <b>Employees:</b>               |                               |                                         |                                         |                                            |                                   |                   |                  |                              |                              |
| Employees                       | 69,500                        | -                                       | 14,467                                  | -                                          | 55,033                            | £4.0              | 09/05/2017       | 09/05/2018                   | 08/05/2022                   |
| Employees                       | 15,000                        | -                                       | 15,000                                  | -                                          | -                                 | £4.0              | 28/09/2017       | 28/09/2018                   | 27/09/2022                   |
| Employees                       | 45,577                        | -                                       | 1,058                                   | -                                          | 44,519                            | £4.0              | 13/11/2017       | 13/11/2018                   | 12/11/2022                   |
| Employees                       | 5,000                         | -                                       | 3,937                                   | -                                          | 1,063                             | £4.0              | 08/01/2018       | 08/01/2019                   | 07/01/2023                   |
| Employees                       | 19,286                        | -                                       | 3,750                                   | -                                          | 15,536                            | £4.0              | 01/03/2018       | 01/03/2019                   | 28/02/2023                   |
| Employees                       | -                             | 27,500                                  | -                                       | -                                          | 27,500                            | £4.0              | 04/04/2018       | 04/04/2019                   | 03/04/2023                   |
| Employees                       | -                             | 82,778                                  | -                                       | -                                          | 82,778                            | £3.6              | 17/10/2018       | 31/03/2019                   | 30/09/2021                   |
| Employees                       | -                             | 44,444                                  | -                                       | -                                          | 44,444                            | £3.6              | 17/10/2018       | 31/03/2019                   | 30/04/2024                   |
| Employees                       | -                             | 12,500                                  | -                                       | -                                          | 12,500                            | £1.6              | 01/03/2019       | 01/03/2020                   | 01/07/2024                   |
| <b>Non-employees</b>            |                               |                                         |                                         |                                            |                                   |                   |                  |                              |                              |
| Other                           | 20,000                        | -                                       | -                                       | -                                          | 20,000                            | £1.0              | 03/10/2016       | 03/10/2016                   | 03/10/2021                   |
| Other                           | 8,571                         | -                                       | -                                       | 5,714                                      | 2,857                             | £1.0              | 27/02/2017       | 27/02/2018                   | 31/03/2020                   |
| <b>Total</b>                    | <b>188,151</b>                | <b>175,972</b>                          | <b>38,212</b>                           | <b>10,931</b>                              | <b>314,980</b>                    |                   |                  |                              |                              |

\* The values in both tables above have been restated to provide a like-for-like comparison following the share consolidation which is detailed in note 18.

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

|                                          | 2019/20 |           | 2018/19 |           |
|------------------------------------------|---------|-----------|---------|-----------|
|                                          | Number  | WAEP<br>£ | Number  | WAEP<br>£ |
| Outstanding at the beginning of year     | 314,980 | 3.5       | 188,151 | 3.4       |
| Issued                                   | 59,000  | 2.3       | 175,972 | 3.5       |
| Lapsed during the year                   | 58,690  | 3.4       | 38,212  | 4.0       |
| Exercised during the year ended 31 March | 2,857   | 1.0       | 10,931  | 1.0       |
| Outstanding at 31 March                  | 312,433 | 3.3       | 314,980 | 3.5       |
| Exercisable at 31 March                  | 152,708 | 3.2       | 45,793  | 2.7       |

The weighted average share price of options exercised during the year was £2.33 (2018/19: £1.53).

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

|                             | 2019/20            | 2018/19            |
|-----------------------------|--------------------|--------------------|
| Share price at grant date   | £1.38 to £4.30     | £1.60 to £4.30     |
| Exercise price              | £1.00 to £4.00     | £1.00 to £4.00     |
| Expected option life (year) | 1 years to 6 years | 1 years to 6 years |
| Expected volatility (%)     | 10.6% to 40%       | 10.6% to 40.0%     |
| Expected dividends          | 0%                 | 0%                 |
| Risk-free interest rate (%) | 0.60% to 1.53%     | 0.79% to 1.53%     |
| Option fair value           | £0.0 to £2.9       | £0.0 to £2.9       |

The expense is recognised for share-based payments in respect of Employees, directors and consultant services received during the year ended 31 March 2020 was £129k (2018/19: £131k).

This represented £129k in respect of share options and £nil in respect of share-based compensation (2018/19: £131k in respect of share options and nil in respect of share-based compensation).

The expected volatility of the original share plan utilised a volatility rate of 80% to reflect the lack of established assets on the Group's balance sheet. As the Group has grown, new scheme options shares issued prior to April 2018 (bar those issued to the SecurEnvoy participants) have been issued utilising the 5-year volatility rate for the AIM all share index. All new scheme option shares issued from April 2018 onwards have been issued utilising a 40% volatility rate, which is in line with other market participants operating in the software and IT sectors.

## Notes to the company financial statements

### 19. Share based payments *continued*

Options held by Directors are disclosed in the Directors Report on page 46.

The market price of shares as at 31 March 2020 was £2.12 (31 March 2019: £1.59). The range during the financial year was £1.375 to £2.95. At the date of signing the financial statements the share price was 1.98p.

The weighted average remaining contractual life of options outstanding at the end of the year was 3 years 5 months (2018/19: 4 years and 8 months).

#### Subsidiary incentive scheme

On 29 September 2016, the Group established a share incentive scheme for certain Directors and consultants to the Group, via the Group's subsidiary, Shearwater Subco Limited (the "subsidiary"), in order to align the interests of the scheme participants directly with those of shareholders.

Pursuant to the subsidiary incentive scheme, the subsidiary issued 160,000 "B" ordinary shares of £0.000001 in the capital of the subsidiary ("incentive shares") on 18 January 2017 at a price of £0.032 per share. Subject to the growth and vesting conditions both being satisfied, participants may elect to sell their respective B shares to the Group and the Group shall acquire those B shares in consideration for cash or by the issue of new ordinary shares at the Group's discretion. The Group's intention is to settle these through the issue of new ordinary shares in the Group.

The value of the incentive shares is discussed below. Neither of the growth or vesting conditions were satisfied during the year. Following M Stevens resignation his shares were forfeited and following this a grant was made to P Higgins who has joined the scheme. The subsidiary incentive scheme is now closed and the Directors do not anticipate making any further grants under the scheme.

#### Growth conditions

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

#### Vesting conditions

The incentive shares are subject to a vesting period which ends on 29 September 2019 and can be extended to 29 September 2021 if the growth condition has not been met. The participants can exercise its right to require the Group to purchase its incentive shares at any time up to 29 September 2021. In line with the rules of the scheme the Directors have subsequently extended the vesting period to 29 September 2021.

#### Value

Subject to the provisions detailed above, the incentive shares can be sold to the Group for an aggregate value equivalent to 16% of the increase in market capitalisation of all ordinary shares of the Group issued up to the date of sale, allowing for any dividends and other capital movements.

#### Directors Incentive Shares

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

|            | Participation in increase in shareholder value | Issue price | Nominal value of incentive shares | Number of incentive shares 1 April 2019 | Number of incentive shares 31 March 2020 | Number of Shearwater Group plc shares issued | Share based payment charge |
|------------|------------------------------------------------|-------------|-----------------------------------|-----------------------------------------|------------------------------------------|----------------------------------------------|----------------------------|
| M Stevens  | 7.5%                                           | £0.032      | £0.000001                         | 75,000                                  | -                                        | -                                            | £2,759                     |
| D Williams | 3.0%                                           | £0.032      | £0.000001                         | 30,000                                  | 65,000                                   | -                                            | £83,291                    |
| P Higgins  | 7.5%                                           | £0.032      | £0.000001                         | -                                       | 75,000                                   | -                                            | £89,037                    |

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

### Valuation of incentive shares

The share-based payment charge for the incentive shares has been calculated using a binomial valuation model at the grant date. The fair value amounted to £937,623 which has been recognised over the period to 29 September 2021. In the current year £200,099 (2019: £199,560) has been recognised as an expense in the statement of comprehensive income in respect of incentive shares. All 160,000 incentive scheme shares were subscribed for by participants at unrestricted market value.

### 20. Financial instruments

The Group uses financial instruments, other than derivatives, comprising cash at bank and various items such as trade and other receivables and trade and other payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group's financial assets and liabilities at 31 March 2020, as defined under IFRS 9, are as follows. The fair values of financial assets and liabilities recorded at amortised costs are considered to approximate their book value.

|                               | Amortised cost<br>(loans and receivables) |                               | Fair value through other<br>comprehensive income<br>(available for sale) |                 |
|-------------------------------|-------------------------------------------|-------------------------------|--------------------------------------------------------------------------|-----------------|
|                               | 2020<br>£ (000)                           | 2019<br>(Restated)<br>£ (000) | 2020<br>£ (000)                                                          | 2019<br>£ (000) |
| <b>Financial assets</b>       |                                           |                               |                                                                          |                 |
| Cash and cash equivalents     | 3,343                                     | 597                           | -                                                                        | -               |
| Trade and other receivables   | 9,074                                     | 12,503                        | -                                                                        | -               |
| Equity investments            | -                                         | -                             | -                                                                        | 33              |
| <b>Total financial assets</b> | <b>12,417</b>                             | <b>13,100</b>                 | <b>-</b>                                                                 | <b>33</b>       |

|                                    | Amortised cost  |                 | Fair value through other<br>comprehensive income<br>(available for sale) |                 |
|------------------------------------|-----------------|-----------------|--------------------------------------------------------------------------|-----------------|
|                                    | 2020<br>£ (000) | 2019<br>£ (000) | 2020<br>£ (000)                                                          | 2019<br>£ (000) |
| <b>Financial assets</b>            |                 |                 |                                                                          |                 |
| Trade and other payables           | 8,928           | 10,384          | -                                                                        | -               |
| Loans and borrowings               | 4,782           | 4,407           | -                                                                        | -               |
| Lease liabilities                  | 524             | -               | -                                                                        | -               |
| Deferred consideration             | -               | -               | 275                                                                      | 343             |
| <b>Total financial liabilities</b> | <b>14,234</b>   | <b>14,791</b>   | <b>275</b>                                                               | <b>343</b>      |



## Notes to the company financial statements

### 20. Financial instruments *continued*

#### General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's Finance function. The Board receives monthly reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

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

The Group is exposed to financial risks in respect of:

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

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

#### Capital risk

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

The capital structure of the Group consists of cash and cash equivalents, borrowings, equity, comprising issued capital, reserves and accumulated losses as disclosed in the consolidated statement of changes in equity on page 59.

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

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

#### Market risk

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

#### Foreign currency risk

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

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

|                                                       | USD             |                 | EUR             |                 |
|-------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Net foreign currency financial assets / (liabilities) | 2020<br>£ (000) | 2019<br>£ (000) | 2020<br>£ (000) | 2019<br>£ (000) |
| Trade receivables                                     | 1,327           | 345             | 3,488           | 2,493           |
| Trade payables                                        | (5,163)         | (6,117)         | (19)            | (2)             |
| Cash and cash equivalents                             | 588             | 116             | 41              | 140             |
| <b>Total net exposure</b>                             | <b>(3,248)</b>  | <b>(5,656)</b>  | <b>3,510</b>    | <b>2,631</b>    |

The effect of a 10% strengthening of the US dollar (\$) against sterling (£) at the reporting date on the US dollar (\$) denominated trade receivables, payables and cash and cash equivalents carried at that date would, all other variables held constant, have resulted in an increase of the pre-tax loss in the year and a decrease in net assets of £0.3 million. A 10% weakening in the exchange rate would, on the same basis, have decreased the pre-tax loss in the year and increased net assets by £0.2 million.

The effect of a 10% strengthening of the euro (€) against sterling (£) at the reporting date on the euro (€) denominated trade receivables, payables and cash and cash equivalents carried at that date would, all other variables held constant, have resulted in a reduction of the pre-tax loss in the year and an increase in net assets of £0.4 million. A 10% weakening in the exchange rate would, on the same basis, have increased the pre-tax loss in the year and decreased net assets by £0.3 million.

#### Interest rate risk

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

#### Other market price risk

During the year the Group disposed of its equity investment in Plymouth Minerals Limited (ASX: INF) listed on the Australian Securities Exchange. Further details can be found in note 10 of the consolidated financial statements.

#### Liquidity risk

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

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

The Group has a £153,900 credit facility with its bank in the form of corporate credit cards. The balance outstanding is automatically paid off in full on a monthly basis. At year end only £13,979 was utilised.

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

## Notes to the company financial statements

### 20. Financial instruments *continued*

|                          | Up to 3 months<br>£ (000) | Between 3 and 12 months<br>£ (000) | Between 1 and 2 years<br>£ (000) | Between 2 and 5 years<br>£ (000) | Over 5 years<br>£ (000) |
|--------------------------|---------------------------|------------------------------------|----------------------------------|----------------------------------|-------------------------|
| As at 31 March 2020      |                           |                                    |                                  |                                  |                         |
| Trade and other payables | 8,192                     | 736                                | -                                | -                                | -                       |
| Loans and borrowings     | 2,587                     | 1,571                              | 20                               | 809                              | -                       |
| Lease liabilities        | 32                        | 248                                | 244                              | -                                | -                       |
| <b>Total</b>             | <b>10,811</b>             | <b>2,555</b>                       | <b>264</b>                       | <b>809</b>                       | <b>-</b>                |

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

#### Credit risk

The Group's principal financial assets are trade receivables and bank balances. The Group is consequently exposed to the risk that its customers cannot meet their obligations as they fall due. The Group policy is that the lines of business assess the creditworthiness and financial strength of customers at inception and on an ongoing basis. The Group also reviews the credit rating of its banks and financial institutions.

Ongoing review of the financial condition of trade and other receivables is performed. Further details are in note 13. The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk. Whilst the Group's exposure to credit risk has increased as the Group has grown however to date actual bad debt has remained very low owing to the type of clients it contracts with as well as effective due-diligence when issuing debt to its clients.

### 21. Related party transactions

The Directors of the Group and their immediate relatives have an interest of 18% (2019: 20%) of the voting shares of the Group. The shareholdings of Directors and changes during the year are shown on the Directors report on page 46. See the Directors remuneration report on page 42 for more details.

At 31 March 2020 £1,762,360 of deferred completion cash (including interest) relating to the acquisition of Brookcourt Solutions Limited was owed to Phil Higgins.

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

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

### 22. Notes to support cashflow

Cash and cash equivalents comprise:

|                                                           | 2020<br>£ (000) | 2019<br>£ (000) |
|-----------------------------------------------------------|-----------------|-----------------|
| Cash available on demand                                  | 3,343           | 597             |
| Net cash increase/(decrease) in cash and cash equivalents | 2,745           | (1,896)         |
| Cash and cash equivalents at the beginning of the year    | 597             | 2,493           |
| <b>Cash and cash equivalents at the end of the year</b>   | <b>3,343</b>    | <b>597</b>      |

Cash and cash equivalents are held in the following currencies:

|           | 2020<br>£ (000) | 2019<br>£ (000) |
|-----------|-----------------|-----------------|
| Sterling  | 2,820           | 389             |
| US dollar | 486             | 89              |
| Euro      | 37              | 120             |
|           | <b>3,343</b>    | <b>597</b>      |

Reconciliation of liabilities from financing activities:

|                                           |                |                            |                           | Non-cash changes           |                            |                                                 |                |
|-------------------------------------------|----------------|----------------------------|---------------------------|----------------------------|----------------------------|-------------------------------------------------|----------------|
|                                           | 2019<br>£(000) | Cash<br>outflows<br>£(000) | Cash<br>inflows<br>£(000) | Pentest<br>Loan*<br>£(000) | Loan<br>Interest<br>£(000) | Addition<br>of Right of<br>use assets<br>£(000) | 2020<br>£(000) |
| Other loans                               | 3,136          | -                          | 500                       | 677                        | 470                        | -                                               | 4,783          |
| Advance drawn on invoice discounting      | 1,271          | (1,341)                    | -                         | -                          | 70                         | -                                               | -              |
| Payment of principle on lease liabilities | -              | (236)                      | -                         | -                          | 20                         | 740                                             | 524            |
| <b>Total</b>                              | <b>4,407</b>   | <b>(1,577)</b>             | <b>500</b>                | <b>677</b>                 | <b>560</b>                 | <b>740</b>                                      | <b>5,307</b>   |

\* As part of the acquisition consideration of Pentest a loan of £0.7m was provided by the previous owners. Please see note 9 for further details:

### 23. Events after the reporting period

On 24 April 2020 the Group completed the fundraise which comprised of the placing of 1,562,500 ordinary shares of 10 pence each with existing and new institutional investors at a price of 240 pence per placing share to raise approximately £3.75 million (before expenses). As part of the placing Directors subscribed to 104,166 ordinary shares.

On 22 June 2020 the Group (through its subsidiary Brookcourt Solutions) signed a three-year, £4 million revolving credit facility with Barclays Bank plc. On publication of these results the Group intends to transfer this facility to Shearwater Group plc.

Following the year-end and further to discussions with the ex-vendors of Brookcourt, it was agreed that the outstanding balance which was due to be paid in full on 17 April 2020 would be extended with the final balance to be paid in full by 31 August 2020.

## Company statement of financial position

As at 31 March 2020

|                                                         | Note | 2020<br>£ (000) | 2019<br>£ (000) |
|---------------------------------------------------------|------|-----------------|-----------------|
| <b>Assets</b>                                           |      |                 |                 |
| <b>Non-current assets</b>                               |      |                 |                 |
| Investments in subsidiaries                             | 2    | 63,668          | 58,667          |
| Financial assets at fair value through OCI              | 3    | -               | 33              |
| Property, plant and equipment                           | 4    | 10              | 17              |
| <b>Total non-current assets</b>                         |      | <b>63,678</b>   | <b>58,717</b>   |
| <b>Current Assets</b>                                   |      |                 |                 |
| Trade and other receivables                             | 5    | 7,150           | 4,554           |
| Cash and cash equivalents                               |      | 7               | 1               |
| <b>Total current assets</b>                             |      | <b>7,157</b>    | <b>4,555</b>    |
| <b>Total assets</b>                                     |      | <b>70,835</b>   | <b>63,272</b>   |
| <b>Liabilities</b>                                      |      |                 |                 |
| <b>Current liabilities</b>                              |      |                 |                 |
| Trade and other payables                                | 6    | 17,936          | 13,713          |
| <b>Total current liabilities</b>                        |      | <b>17,936</b>   | <b>13,713</b>   |
| <b>Non-current liabilities</b>                          |      |                 |                 |
| Creditors: amounts falling due after more than one year | 7    | 729             | 208             |
| <b>Total non-current liabilities</b>                    |      | <b>729</b>      | <b>208</b>      |
| <b>Total liabilities</b>                                |      | <b>18,665</b>   | <b>13,921</b>   |
| <b>Net assets</b>                                       |      | <b>52,170</b>   | <b>49,351</b>   |
| <b>Capital and reserves</b>                             |      |                 |                 |
| Share capital                                           | 8    | 22,107          | 19,040          |
| Share premium                                           |      | 34,581          | 34,578          |
| FVTOCI reserve                                          |      | 14              | 18              |
| Other reserves                                          |      | 20,714          | 19,123          |
| Accumulated losses                                      |      | (25,246)        | (23,408)        |
| <b>Equity attributable to owners of the Company</b>     |      | <b>52,170</b>   | <b>49,351</b>   |
| <b>Total equity and liabilities</b>                     |      | <b>70,835</b>   | <b>63,272</b>   |

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The loss for the financial year for the parent Company was £1.8m (2019: £6.4 million).

The notes on pages 96 to 102 are an integral part of these company financial statements. The financial statements on pages 94 to 102 were approved and authorised for issue by the Board and signed on their behalf by:

P Higgins, Chief Executive Officer  
28 July 2020  
Registered number: 05059457



## Company statement of changes in equity

For the year ended 31 March 2020

| Company                                             | Share<br>capital<br>£ (000) | Share<br>premium<br>£ (000) | FVTOCI<br>£ (000) | Other<br>reserve<br>£ (000) | Accumulated<br>losses<br>£ (000) | Total<br>Equity<br>£ (000) |
|-----------------------------------------------------|-----------------------------|-----------------------------|-------------------|-----------------------------|----------------------------------|----------------------------|
| <b>At 1 April 2018</b>                              | 9,644                       | 22,446                      | 36                | 7,127                       | (16,971)                         | 22,282                     |
| Loss for the year                                   | -                           | -                           | -                 | -                           | (5,982)                          | (5,982)                    |
| Other comprehensive loss for the year               | -                           | -                           | (18)              | -                           | -                                | (18)                       |
| <b>Total comprehensive loss for the year</b>        | -                           | -                           | <b>(18)</b>       | -                           | <b>(5,982)</b>                   | <b>(6,000)</b>             |
| <b>Contributions by and distributions to owners</b> |                             |                             |                   |                             |                                  |                            |
| Issue of share capital                              | 9,396                       | 12,658                      | -                 | -                           | -                                | 22,054                     |
| Merger relief reserve                               | -                           | -                           | -                 | 11,665                      | -                                | 11,665                     |
| Share issue costs                                   | -                           | (526)                       | -                 | -                           | (455)                            | (981)                      |
| Share based payments                                | -                           | -                           | -                 | 331                         | -                                | 331                        |
| <b>At 31 March 2019</b>                             | <b>19,040</b>               | <b>34,578</b>               | <b>18</b>         | <b>19,123</b>               | <b>(23,408)</b>                  | <b>49,351</b>              |
| Loss for the year                                   | -                           | -                           | -                 | -                           | (1,838)                          | (1,838)                    |
| Other comprehensive loss for the year               | -                           | -                           | (4)               | -                           | -                                | (4)                        |
| <b>Total comprehensive loss for the year</b>        | -                           | -                           | <b>(4)</b>        | -                           | <b>(1,838)</b>                   | <b>(1,842)</b>             |
| <b>Contributions by and distributions to owners</b> |                             |                             |                   |                             |                                  |                            |
| Issue of share capital                              | 3,067                       | -                           | -                 | -                           | -                                | 3,067                      |
| Merger relief reserve                               | -                           | -                           | -                 | 1,262                       | -                                | 1,262                      |
| Share issue costs                                   | -                           | 3                           | -                 | -                           | -                                | 3                          |
| Share based payments                                | -                           | -                           | -                 | 329                         | -                                | 329                        |
| <b>At 31 March 2020</b>                             | <b>22,107</b>               | <b>34,581</b>               | <b>14</b>         | <b>20,714</b>               | <b>(25,246)</b>                  | <b>52,170</b>              |





## Notes to the company financial statements

### General Information

Shearwater Group plc (the 'Company') is a company limited by shares and incorporated and domiciled in the UK.

#### 1. Statement of accounting policies - Company

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

The Company financial statements present information about the Company as a separate entity and not about the Group.

#### Basis of preparation

The Company financial statements have been prepared in accordance with Financial Reporting Standard 101, and in accordance with the Companies Act 2006 as applicable to Companies using Financial Reporting Standard 101.

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

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

The company has taken advantage of the exemptions allowed under FRS 101 which allow the exclusion of:

- A statement of cash flows;
- The effect of future accounting standards not yet adopted;
- The disclosure of key management personnel; and
- Disclosure of related party transactions with other wholly owned members of the Group.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for income and expenses during the year and that affect the amounts reported for assets and liabilities at the reporting date. Please see note 1 of the consolidated financial statements for more details.

#### Going concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these consolidated financial statements. See note 1 to the Group accounting policies on page 61 for further details of the Group's going concern position.

#### Investments in subsidiaries

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

#### Property, plant and equipment

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

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

Office equipment: 25 per cent per annum

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

#### Financial instruments

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

#### Financial assets

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

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

#### Financial liabilities

##### Trade and other payables

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

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

#### Share-based payments

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

The cost of equity-settled transactions with employees, and transactions with suppliers where fair value cannot be estimated reliably, is measured with reference to the fair value of the equity instrument. The fair value of equity-settled instrument is determined at the date of grant, taking into account market-based vesting conditions. The fair value is determined using an option pricing model.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will likely vest, or in the case of an instrument subject to market condition, be treated as vesting as described above. The movement in cumulative expense since the previous reporting date is recognised in the statement of comprehensive income, with the corresponding entry in equity.

## Notes to the company financial statements

### 1. Statement of accounting policies - Company *continued*

#### Current and deferred taxation

The charge for taxation is based on the profit or loss for the year and takes into account deferred tax. Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax based in the computation of taxable profit or loss and is accounted for using the balance sheet method.

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

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

Deferred income tax assets and liabilities are measured at the rates that are expected to apply when the related asset is realised, or liability settled, based on tax rates and laws enacted or substantively enacted at the reporting date.

#### Pensions

The Company operates a defined contribution personal pension scheme. The assets of this scheme are held separately from those of the Company in an independently administered fund. The pension charge represents contributions payable by the Company to the fund.

#### Leases

The Company has exercised the short life practical expedient and has not capitalised any leases held in the year as all leases have ended during the financial year to 31 March 2020. The company has no lease commitments at 31 March 2020. Further details of practical expedients are detailed on note 1 of the consolidated financial statements.

### 2. Investments in subsidiaries

| Company                                             | Total<br>£ (000) |
|-----------------------------------------------------|------------------|
| Investments in subsidiaries at 1 April 2018         | 20,221           |
| Additions                                           | 38,446           |
| <b>Investments in subsidiaries at 31 March 2019</b> | <b>58,667</b>    |
| Additions                                           | 5,001            |
| <b>Investments in subsidiaries at 31 March 2020</b> | <b>63,668</b>    |

The following table gives brief details of the entities controlled and included in the consolidated financial statements of the Group at 31 March 2020. Subsidiaries marked (\*) are directly owned by Shearwater Group plc, all other subsidiaries are indirectly owned.

| Name of company                    | Country of incorporation or residence | Registered address                       | Percentage owned |
|------------------------------------|---------------------------------------|------------------------------------------|------------------|
| Shearwater Subco Limited*          | England and Wales                     | 22 Great James Street, London, WC1N 3ES  | 100              |
| SecurEnvoy Limited*                | England and Wales                     | 22 Great James Street, London, WC1N 3ES  | 100              |
| Xcina Limited                      | England and Wales                     | 22 Great James Street, London, WC1N 3ES  | 100              |
| Xcina Consulting Limited           | England and Wales                     | 22 Great James Street, London, WC1N 3ES  | 100              |
| SecurEnvoy, Inc.                   | USA                                   | 1209 Orange Street, Wilmington, Delaware | 100              |
| SecurEnvoy GmbH                    | Germany                               | Freibadstr. 30, 81543, Munchen           | 100              |
| GeoLang Holdings Limited*          | England and Wales                     | 22 Great James Street, London, WC1N 3ES  | 100              |
| GeoLang Limited                    | England and Wales                     | 22 Great James Street, London, WC1N 3ES  | 100              |
| Shearwater Shared Services Limited | England and Wales                     | 22 Great James Street, London, WC1N 3ES  | 100              |
| Brookcourt Solutions Limited*      | England and Wales                     | 22 Great James Street, London, WC1N 3ES  | 100              |
| Pentest Limited*                   | England and Wales                     | 22 Great James Street, London, WC1N 3ES  | 100              |

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

### 3. Financial assets at fair value through OCI

|                         | Total<br>£ (000) |
|-------------------------|------------------|
| <b>Cost</b>             |                  |
| At 1 April 2018         | 51               |
| Fair value loss         | (18)             |
| <b>At 31 March 2019</b> | <b>33</b>        |
| Fair value loss         | (6)              |
| Disposal proceeds       | (27)             |
| <b>At 31 March 2020</b> | <b>-</b>         |

On 4 October 2019 the Group sold all of its' 715,000 ordinary shares in Plymouth Minerals Limited (ASX: INF previously PLH) listed on the Australian Securities Exchange.

## Notes to the company financial statements

### 4. Property, plant and equipment

|                                 | Total<br>£ (000) |
|---------------------------------|------------------|
| <b>Cost</b>                     |                  |
| At 1 April 2018                 | 22               |
| Additions                       | 6                |
| <b>At 31 March 2019</b>         | <b>28</b>        |
| Additions                       | -                |
| <b>At 31 March 2020</b>         | <b>28</b>        |
| <b>Accumulated depreciation</b> |                  |
| At 1 April 2018                 | 4                |
| Charge for the period           | 7                |
| <b>At 31 March 2019</b>         | <b>11</b>        |
| Charge for the period           | 7                |
| <b>At 31 March 2020</b>         | <b>18</b>        |
| <b>Net book amount</b>          |                  |
| <b>At 31 March 2020</b>         | <b>10</b>        |
| <b>At 31 March 2019</b>         | <b>17</b>        |
| <b>At 31 March 2018</b>         | <b>18</b>        |

### 5. Trade and other receivables

|                                      | 2020<br>£ (000) | 2019<br>£ (000) |
|--------------------------------------|-----------------|-----------------|
| Trade receivables                    | 5               | 91              |
| Amounts owed by Group companies      | 7,528           | 4,245           |
| Provision for expected credit losses | (496)           | (322)           |
| Accrued income                       | -               | 94              |
| Prepayments and other receivables    | 44              | 134             |
| VAT recoverable                      | 69              | 312             |
|                                      | <b>7,150</b>    | <b>4,554</b>    |

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

### 6. Trade and other payables falling due within one year

|                                          | 2020<br>£ (000) | 2019<br>£ (000) |
|------------------------------------------|-----------------|-----------------|
| Trade payables                           | 553             | 1,140           |
| Amounts owed to Group companies          | 12,201          | 8,108           |
| Loans                                    | 4,054           | 3,136           |
| Accruals and other payables              | 853             | 1,291           |
| Other taxation and social security       | -               | 38              |
| Deferred consideration – Holdback shares | 275             | -               |
|                                          | <b>17,936</b>   | <b>13,713</b>   |

Amounts owed to Group companies are interest free.

Deferred consideration of £0.3 million represents deferred share consideration owed to the previous owners of GeoLang Holdings Limited. Under the terms of the sale and purchase agreement, following no warrantee claims arising from the date of acquisition to the second anniversary of the acquisition an additional 129,601 ordinary shares will be issued to the ex-vendors of GeoLang Holdings Limited.

### 7. Trade and other payables falling due after more than one year

|                                          | 2020<br>£ (000) | 2019<br>£ (000) |
|------------------------------------------|-----------------|-----------------|
| Loans                                    | 728             | -               |
| Deferred tax                             | 1               | 2               |
| Deferred consideration – Holdback shares | -               | 206             |
|                                          | <b>729</b>      | <b>208</b>      |

### 8. Share capital

|                                                                                              | 2020<br>£ (000) | 2019<br>£ (000) |
|----------------------------------------------------------------------------------------------|-----------------|-----------------|
| <b>Allotted, called up and fully paid</b>                                                    |                 |                 |
| 22,109,317 Ordinary shares of £0.10 each (2018: 1,903,964,852 ordinary shares at £0.01 each) | 22,107          | 19,040          |

Please see note 18 of the Group financial statements for details of movements during the above financial periods.

### 9. Share-based payments

Please refer to note 19 of the Group financial statements for details of share-based payments.

### 10. Financial instruments

Please refer to note 20 of the Group financial statements for details of Financial instruments.

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



## Notes to the company financial statements

### 11. Accounting estimates and judgements

Management does not consider that there are any significant accounting estimates or judgements other than those detailed in note 1 of the Company financial statements.

### 12. Events after the reporting period

On 24 April 2020 the Group completed the fundraise which comprised of the placing of 1,562,500 ordinary shares of 10 pence each with existing and new institutional investors at a price of 240 pence per placing share to raise approximately £3.75 million (before expenses). As part of the placing Directors subscribed to 104,166 ordinary shares.

On 22 June 2020 the Group (through its subsidiary Brookcourt Solutions) signed a three-year, £4 million revolving credit facility with Barclays Bank plc. On publication of these results the Group intends to transfer this facility to Shearwater Group plc.

Following the year-end and further to discussions with the ex-vendors of Brookcourt, it was agreed that the outstanding balance which was due to be paid in full on 17 April 2020 would be extended with the final balance to be paid in full by 31 August 2020.

## Advisors and corporate calendar

### Nominated advisor and joint stockbroker

Cenkos Securities plc  
6-8 Tokenhouse Yard  
London  
EC2R 8HP

### Joint stockbroker

Joh. Berenberg, Gossler & Co. KG  
60 Threadneedle Street  
London  
EC2R 8HP

### Independent auditor

BDO LLP  
55 Baker Street  
London  
W1U 7EU

### Solicitors

Mayer Brown International LLP  
201 Bishopsgate  
London  
EC2M 3AF

### Registrars

Neville Registrars Limited  
Neville House  
Steelpark Road  
Halesowen  
West Midlands  
B62 8HD

### Registered address

22 Great James Street  
London  
WC1N 3ES

### Company number

05059457

### Corporate contact details

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### Corporate calendar

Announcement of final results  
29 July 2020

### Annual general meeting

September 2020

### Announcement of interim results

November 2020



Shearwater  
Group plc