Shearwater Group

19 December 2017

**SHEARWATER GROUP PLC**

("Shearwater" or the "Company" and, together with its subsidiaries, the "Group")

**Interim Results for the six months ended 30 September 2017**

Shearwater Group plc (AIM: SWG), the digital resilience group, is pleased to announce its unaudited interim results for the six months ended 30 September 2017.

The unaudited interim results of the Group reflect approximately 4.7 months of trading from SecurEnvoy (acquired in May 2017) and 2.2 months of trading from Newable Consulting (acquired in July 2017 and rebranded Xcina Consulting). Trading in both businesses continues to be in line with the Board's expectations and since acquisition have generated in aggregate £2.1 million of revenue and contributed £0.9 million of underlying EBITDA to the Group in the period.

**Strategic and operational highlights**

- Completed the acquisitions of SecurEnvoy in May 2017 and Newable Consulting in July 2017, subsequently rebranded Xcina Consulting
- Launched Xcina, the Group's new information security and assurance business
- First B-2-C multifactor authentication ("MFA") contract won by SecurEnvoy under its expanded growth strategy
- 13 new corporate customers won by Xcina Consulting since acquisition
- Development and rollout of SecurEnvoy's Version 9 update to their industry leading MFA solution, *SecurAccess*

**Financial highlights**

- Group revenue of £2.1 million (2016: £nil)
- Cash balance of £3.7 million (2016: £0.3 million)

**David Williams, Chairman of Shearwater Group commented:** "These are our first set of results since welcoming SecurEnvoy and Newable Consulting to the Group. Trading in both businesses continues to be in line with our expectations and we are investing in these portfolio businesses to make the most of the considerable opportunities we are seeing within their respective markets.

"Much has been achieved during the period under review, but we have barely scratched the surface. The digital resilience sector offers considerable growth potential and we are fortunate to have an industry leading team in place to capitalise on this potential.

"It is my firm belief that 2018 will be a particularly exciting one for us and that our loyal shareholders will be rewarded as our ambitious plans evolve and further deals in line with our growth strategy are secured."

**Enquires:**


| | |
|---|---|
| Shearwater Group plc | www.theshearwatergroup.co.uk |
| David Williams | +44 (0) 797 014 8016 |
| Michael (Mo) Stevens | +44 (0) 780 171 2582 |

| | |
|---|---|
| Cenkos Securities plc – NOMAD and Broker | +44 (0) 20 7397 8900 |
| Bobbie Hilliam – NOMAD | |
| Julian Morse / Alex Aylen – Sales | |
| | |
| WH Ireland Limited – Financial Advisor | www.whirelandcb.com |
| Mike Coe | +44 (0) 117 945 3470 |
| Ed Allsopp | |
| | |
| Powerscourt – Financial PR | shearwater@powerscourt-group.com |
| Ben Griffiths, Andy Jones | +44 (0) 20 7250 1446 |
| | +44 (0) 77 5346 4637 |


This announcement includes inside information as defined in Article 7 of the Market Abuse Regulation No. 596/2014 and is disclosed in accordance with the Company's obligations under Article 17 of those Regulations.

***Notes for Editors***

A copy of this announcement has been posted on the Company’s website at www.theshearwatergroup.co.uk.

*This announcement includes "forward-looking statements" which include all statements other than statements of historical facts, including, without limitation, those regarding the Group's financial position, business strategy, plans and objectives of management for future operations, and any statements preceded by, followed by or that include forward-looking terminology such as the words "targets", "believes", "estimates", "expects", "aims", "intends", "will", "can", "may", "anticipates", "would", "should", "could" or similar expressions or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Group's control that could cause the actual results, performance or achievements of the Group to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. These forward-looking statements speak only as at the date of this announcement. The Group expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained in this announcement to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based. As a result of these factors, readers are cautioned not to rely on any forward-looking statement.*

## Group Chief Executive Officer's Review

### Strategic and operational review

Since the start of the new financial year, the Group has made excellent progress identifying and securing two acquisitions, and launching a new Shearwater portfolio company under our long term strategy of building a leading UK based digital resilience group.

Through the acquisition of SecurEnvoy in May 2017, the Group has established its position within the Identity and Access Management ("IAM") sector, from which we are supporting the growth of the business through investing in new sales capability and expanding the service offering from MFA into wider IAM solutions. The establishment of our European and US offices has enabled us to attract key talent in the region, and will provide an ideal platform to support our international growth plans for the business.

Since acquisition, SecurEnvoy has also successfully broadened its existing MFA offering into the B-2-C market, winning its inaugural B-2-C contract in the post period end. This contract award has demonstrated the universal application of the business' MFA software and further emphasises how the criticality of authenticating a user is moving beyond the enterprise to mainstream consumer applications.

In July 2017, the Group acquired the business and assets of Newable Consulting (rebranded Xcina Consulting). Through this acquisition, the Group has been able to accelerate the development of its newly launched information security and assurance company, Xcina. During the period and post period end, Xcina Consulting has benefited from Group investment to support the growth of its consultant base by 29% and has won 13 new clients, reflecting the increasing demand for its assurance and advisory services. In October 2017, Xcina also launched its City of London based Security Operations Centre ("SOC") managed service offering.

Through a combination of acquisition and organic growth, Xcina as a business now has a full-service information security solutions capability covering risk, technology assurance and advisory services alongside SOC services, data analytics, threat intelligence and incident response. We believe it is well positioned to capture market opportunities as companies prepare themselves for the increasing legislative and regulatory demands on how data is held and processed, and the ongoing monitoring, analysis, detection and response to cyber threats.

Over the second half of the year, we will build on the good momentum across the Group by continuing to invest in our portfolio companies in order to meet customer demand, and organically develop capabilities where it is appropriate to do so, and where it can provide an enhanced return for our shareholders.

Alongside this, we will continue to seek out those acquisition opportunities where we believe we can add value through active management and capital investment, and that once secured, will provide the Group with additional scale and / or incremental capability, helping to broaden the Group's portfolio of digital resilience solutions and offering to our customers.

As the first interim results since the launch of our new digital resilience strategy, we are pleased with how our portfolio companies have performed since acquisition. Whilst we are yet to see a full six months of trading from either business reflected in our financial results, both SecurEnvoy and Xcina Consulting are progressing well, and we look forward to seeing the benefits of our continued investment over the coming reporting periods.

Cash management and cost control continue to be key priorities across the Group and over the period, in addition to considered investments into our portfolio companies to support growth, we have also invested in key talent and established an appropriate Group-wide infrastructure to underpin the expected advancement of the business.

### Market review

The outlook for the information security and cyber security sectors continues to be positive with considerable growth being driven by a number of trends which show no signs of abating. The rapidly growing interconnectivity of enterprises, functions, people and devices, mean organisations are facing unprecedented pressure to evolve their business models so that they can digitally engage with all stakeholders, whilst managing and protecting their critical data and information assets. All of this at a time when attack vectors are increasing, and the sophistication of threats continues to challenge the capability and capacity to respond.

The constant evolution of cybercrime and the mainstream awareness of high profile data breaches has helped drive a change in the regulatory environment. This is set to further substantially alter with the implementation of the General Data Protection Regulation on 25 May 2018, which will compel organisations of all sizes to rethink how they process and handle personal and sensitive data, or risk substantial fines for non-compliance.

Through the Group's portfolio companies, we believe we are well positioned to address the digital resilience issues faced by our current and prospective customers. The information security and cyber security sectors are however complex and dynamic environments, which often require flexible and adaptable solutions in order to protect an organisation as opposed to a "one size fits all" approach.

For Shearwater, our strategy of building a broad portfolio of select information security and cyber security assets means we can meet the ever-increasing digital resilience demands from our customers, whilst providing our investors with exposure to a large and rapidly growing sector through a portfolio approach, which aims to balance risk and return in a highly dynamic and unpredictable operating environment.

**Current trading and outlook**

Since 30 September 2017, trading has continued in line with the Board's expectations, and we are encouraged by the progress both businesses are making as part of the Group.

As a result of this, and combined with the investment in the Group infrastructure made in the period, the Board believes the outlook for the Group for the second half of the financial year is positive as focus turns to securing further acquisition opportunities in line with our stated strategy of building a leading UK based digital resilience group.

**Financial Review**

**Revenue**

Group revenue generated in the period of £2.1 million (2016: £nil) reflecting 4.7 months of trading from SecurEnvoy and 2.2 months of trading from Newable Consulting (rebranded Xcina Consulting) since acquisition respectively. Of the £2.1 million of Group revenue, 74.8% (2016: £nil) was generated through licencing of the Group's owned software products and 25.2% (2016: £nil) through the provision of services.

**Underlying EBITDA and Operating Loss**

Portfolio companies contributed £0.9 million of underlying EBITDA during the period (2016: £nil).

The Group generated an underlying EBITDA loss of £0.1 million for the period (2016: underlying EBITDA loss of £0.1 million), reflecting the cost of the Group's overhead, investments made in establishing the Group's infrastructure and the launch of Xcina.

After exceptional costs of £0.9 million (2016: £nil), amortisation of acquired intangible assets, depreciation and share-based payments charge, the Group made an operating loss of £1.5 million (2016: operating loss of £0.1 million). Of the £0.9 million of exceptional items, £0.7 million related to the acquisition of SecurEnvoy, £0.1 million related to the acquisition of the business and assets of Newable Consulting, with the remaining £0.1 million of costs incurred as a result of other potential acquisition opportunities.

**Financial position**

At the period end, Group cash was £3.7 million (2016: £0.3 million) reflecting strong cash generation at SecurEnvoy and the residual net proceeds from the equity issuances made during the period offsetting Group administrative costs, investments made in portfolio company growth initiatives, and the costs incurred as a result of the creation and development of Xcina.

Cash management continues to be a priority for the Group and actual expenditure compared to budget is monitored closely to ensure that the Group maintains adequate liquidity to meet financial commitments as they arise.

**Michael (Mo) Stevens**

Group Chief Executive Officer

# Consolidated statement of comprehensive income

| | Note | Six month period ended 30 September 2017 (unaudited) £'000 | Six month period ended 30 September 2016 (unaudited) £'000 | Year ended 31 March 2017 (audited) £'000 |
|---|---|---|---|---|
| **Revenue** | 5 | **2,068** | - | - |
| Cost of sales | | (620) | - | - |
| **Gross profit** | | **1,448** | - | - |
| Administrative expenses | | (2,957) | (96) | (1,585) |
| **Operating loss** | | **(1,509)** | **(96)** | **(1,585)** |
| Finance income | | 53 | - | 1 |
| Finance costs | | (1) | - | - |
| **Loss before tax** | | **(1,457)** | **(96)** | **(1,584)** |
| Income tax | | (106) | - | - |
| **Loss for the period** | | **(1,563)** | **(96)** | **(1,584)** |
| **Attributable to equity holders of the Company** | | **(1,563)** | **(96)** | **(1,584)** |
| Operating loss analysed as: | | | | |
| Underlying EBITDA | | (112) | (96) | (1,076) |
| Amortisation of acquired intangibles | 10 | (322) | - | - |
| Depreciation | | (4) | - | (1) |
| Share-based payments | | (180) | - | (79) |
| Exceptional items | 6 | (891) | - | (429) |
| **Operating loss** | | **(1,509)** | **(96)** | **(1,585)** |
| **Other comprehensive income** | | | | |
| Items that may be reclassified to profit or loss: | | | | |
| Change in fair value of available-for-sale assets | | (38) | 34 | 76 |
| **Total comprehensive loss for the year** | | **(1,601)** | **(62)** | **(1,508)** |
| **Attributable to equity holders of the Company** | | **(1,601)** | **(62)** | **(1,508)** |
| **Loss per share** | | | | |
| Basic and diluted (pence per share) | 7 | (0.18) | (0.06) | (0.54) |

## Consolidated statement of financial position

| | | 30 September | | 31 March |
|---|---|---|---|---|
| | | 2017 | 2016 | 2017 |
| | | (unaudited) | (unaudited) | (audited) |
| | | £'000 | £'000 | £'000 |
| **Assets** | **Note** | | | |
| **Non-current assets** | | | | |
| Intangible assets | 10 | 21,619 | 936 | 935 |
| Property, plant and equipment | | 52 | - | 1 |
| Available for sale financial assets | | 80 | 76 | 118 |
| **Total non-current assets** | | **21,751** | **1,012** | **1,054** |
| **Current assets** | | | | |
| Trade and other receivables | | 1,175 | 19 | 86 |
| Cash and cash equivalents | | 3,708 | 289 | 7,073 |
| **Total current assets** | | **4,883** | **308** | **7,159** |
| **Total assets** | | **26,634** | **1,320** | **8,213** |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | | 1,476 | 55 | 737 |
| Convertible loan | | - | 150 | - |
| **Total current liabilities** | | **1,476** | **205** | **737** |
| **Non-current liabilities** | | | | |
| Deferred tax | | 1,846 | - | - |
| **Total non-current liabilities** | | **1,846** | **-** | **-** |
| **Total liabilities** | | **3,322** | **205** | **737** |
| **Net assets** | | **23,312** | **1,115** | **7,476** |
| **Capital and reserves** | | | | |
| Share capital | | 9,649 | 1,744 | 5,353 |
| Shares to be issued | | - | 245 | - |
| Share premium | | 28,918 | 11,593 | 15,957 |
| Available for sale reserve | | 65 | 61 | 103 |
| Other reserves | | 219 | - | 39 |
| Retained deficit | | (15,539) | (12,528) | (13,976) |
| **Equity attributable to owners of the Company** | | **23,312** | **1,115** | **7,476** |
| **Total equity and liabilities** | | **26,634** | **1,320** | **8,213** |

# Consolidated statement of changes in equity

| | Share capital | Shares to be issued | Share premium | Available for sale reserve | Share based payment reserve | Retained deficit | Total |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **At 1 April 2017** | **5,353** | **-** | **15,957** | **103** | **39** | **(13,976)** | **7,476** |
| Loss for the year | - | - | - | | - | (1,563) | (1,563) |
| Other comprehensive loss for the period | - | - | - | (38) | - | - | (38) |
| **Total comprehensive loss for the period** | - | - | - | **(38)** | - | **-** | **(1,601)** |
| **Transactions with owners of the Company:** | | | | | | | |
| Issue of shares net of issue costs | 4,296 | - | 12,961 | - | - | - | 17,257 |
| Share based payments | - | - | - | - | 180 | - | 180 |
| **At 30 September 2017** | **9,649** | **-** | **28,918** | **65** | **219** | **(15,539)** | **23,312** |
| | | | | | | | |
| **At 1 April 2016** | **1,719** | **-** | **11,593** | **27** | **-** | **(12,432)** | **907** |
| Loss for the year | | | | | | (96) | (96) |
| Other comprehensive income for the period | - | - | - | 34 | - | - | 34 |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **34** | **-** | **(96)** | **(62)** |
| **Transactions with owners of the Company:** | | | | | | | |
| Issue of shares net of issue costs | 25 | - | - | - | - | - | 25 |
| Shares to be issued | - | 245 | - | - | - | - | 245 |
| **At 30 September 2016** | **1,744** | **245** | **11,593** | **61** | **-** | **(12,528)** | **1,115** |

# Consolidated statement of cash flows

| | Note | Six month period ended 30 September 2017 (unaudited) £000 | Six month period ended 30 September 2016 (unaudited) £000 | Year ended 31 March 2017 (audited) £000 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Loss for the period | | (1,563) | (96) | (1,584) |
| Adjustments for: | | | | |
| Depreciation of property, plant and equipment | | 4 | - | 1 |
| Amortisation of acquired intangibles | 10 | 322 | - | - |
| Finance income | | - | - | (1) |
| Finance expense | | 1 | - | - |
| Share based payments charge | | 180 | - | 79 |
| Income tax | | 106 | | |
| **Cash flow from operating activities before changes in working capital** | | **(950)** | **(96)** | **(1,505)** |
| (Increase) in trade and other receivables | | (638) | (8) | (75) |
| (Decrease)/increase in trade and other payables | | (370) | (12) | 670 |
| **Cash used in operations** | | **(1,958)** | **(116)** | **(910)** |
| Net foreign exchange movements | | (7) | - | - |
| **Net cash used in operating activities** | | **(1,965)** | **(116)** | **(910)** |
| | | | | |
| **Investing activities** | | | | |
| Acquisition of subsidiaries, net of cash acquired | | (9,839) | - | - |
| Purchases of property, plant and equipment | | (39) | - | (2) |
| Interest received | | - | - | 1 |
| Gold exploration payments | | (17) | (10) | (9) |
| **Net cash used in investing activities** | | **(9,895)** | **(10)** | **(10)** |
| | | | | |
| **Financing activities** | | | | |
| Proceeds from issue of share capital | | 9,020 | 25 | 8,084 |
| Expenses paid in connection with share issues | | (530) | - | (236) |
| Proceeds in respect of shares to be issued | | - | 245 | - |
| Proceeds from convertible loan | | - | 100 | 100 |
| **Net cash generated by financing activities** | | **8,490** | **370** | **7,948** |
| | | | | |
| **Net (decrease)/increase in cash and cash equivalents** | | **(3,370)** | **244** | **7,028** |
| Foreign exchange movement on cash and cash equivalents | | 5 | - | - |
| Cash and cash equivalents at the beginning of the period | | 7,073 | 45 | 45 |
| **Cash and cash equivalents at the end of the period** | | **3,708** | **289** | **7,073** |

# Notes

## 1. General information

The interim consolidated financial information was authorised by the board of directors for issue on 19 December 2017. The information for the six month period ended 30 September 2017 has not been audited and does not constitute statutory accounts as defined in section 434 of the Companies Act 2006, and should therefore be read in conjunction with the audited financial statements of the Company and its subsidiaries for the year ended 31 March 2017, which have been prepared in accordance with EU Adopted International Financial Reporting Standards. The interim consolidated financial information does not comply with IAS 34 *Interim Financial Reporting*, as permissible under the rules of AIM.

## 2. Basis of accounting

### Basis of preparation

These interim consolidated financial statements have been prepared under the historical cost convention and in accordance with the recognition and measurement principles of European Union Adopted International Financial Reporting Standards (IFRSs).

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2017. Incremental accounting policies that relate specifically to subsidiaries acquired during the six month period ended 30 September 2017 not previously disclosed have been outlined below.

There have been no significant changes to estimates of amounts reported in prior financial years.

### Reporting currency

The consolidated financial statements are presented in pounds sterling (GBP). This is the Group's functional currency, and is the currency of the primary economic environment in which it operates. All values are rounded to the nearest thousand pounds (£'000) unless otherwise stated.

### Going concern

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these interim consolidated financial statements.

## 3. Significant accounting policies

### Basis of consolidation

The interim consolidated financial statements consolidate those of the parent Company and all of its subsidiaries at 30 September 2017.

All transactions and balances between Group companies are eliminated on consolidation. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the period are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

### Use of additional performance measures

The Group presents underlying EBITDA information which is used by the directors for internal performance analysis and may not be comparable with similarly titled measures reported by other companies. The term "underlying EBITDA" refers to operating profit or loss excluding amortisation of intangibles, depreciation and impairment, share-based payments charge, exceptional items, income tax expense, finance income and finance expenses.

### Exceptional items

Exceptional items are those that in the judgement of the directors need to be disclosed by virtue of their size, nature or incidence, in order to draw the attention of the reader and to show the underlying business performance of the Group more accurately. Such items are included within the income statement caption to which they relate, and are separately disclosed either in the notes to the interim consolidated financial statements or on the face of the consolidated income statement.

### Revenue recognition

Revenue comprises the fair value of the consideration received or receivable from the licensing of software and for the provision of services to customers in the ordinary course of the Group's activities. Revenue is shown exclusive of VAT, discounts and after eliminating intra-group sales.

*Revenue from software licences*

The Group recognises revenue from the licencing of software when all the following conditions are satisfied:

- all licencing obligations have been performed;
- the rights to use the software has been assigned in exchange for a fixed fee;
- the Group retains no continuing managerial rights to use the software; and
- the contract is non-cancellable.

Revenue from after-sales support services related to the licencing of software is recognised rateably over the term of the contract on a straight-line basis.

*Revenue for the provision of services*

The Group recognises revenue from the provision of services when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

## Foreign currencies

At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting the Group's interim financial information, income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

## 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 profit or loss.

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 Company'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 profit or loss.

## 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. Expenditure on internally developed intangible assets is taken to the consolidated income statement in the period in which it is incurred to the extent that the expenditure does not qualify for capitalisation under research and development costs.

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

| | |
|---|---|
| Customer relationships | 1-15 years straight line basis |
| Software | 10 years straight line basis |

The amortisation expense on intangible assets with finite lives is recognised in the interim consolidated income statement 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 cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended. The Group has held no land and buildings during the reporting period.

Depreciation is provided to write off the cost less the estimated residual values of all property, plant and equipment over their estimated useful life as follows:

| | |
|---|---|
| Plant and machinery | 33 per cent. reducing balance |
| Office equipment | 25 per cent. straight line basis |

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable and are written down immediately to their recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset is included in the consolidated income statement in the period of de-recognition.

The residual values, useful lives and methods of depreciation of the assets are reviewed, and adjusted if appropriate, at each financial year end.

## 4. Critical accounting judgements and key sources of estimation uncertainty

The preparation of historical financial information requires the directors to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the reporting date and the amounts reported for revenues and expenses during the period. The nature of estimation means that actual outcomes could differ from those estimates.

In preparing these interim financial statements, the significant judgements and key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 March 2017 with the addition of the items noted below.

*Revenue recognition*

In making this judgement, the directors considered the detailed criteria for the recognition of revenue set out in IAS 18 *Revenue*. In particular, a judgement is made as to the extent of deferred revenue which relates to after-sales support services.

*Classification of exceptional items and presentation of additional performance measures*

The directors exercise their judgement in the classification of certain items as exceptional and outside of the Group's underlying results. The determination of whether an item should be separately disclosed as an exceptional item or other adjustment requires judgement on its materiality, nature and incidence, as well as whether it provides clarity on the Group's underlying trading performance. In exercising this judgement, directors take appropriate regard of IAS 1 *Presentation of Financial Statements*' as well as guidance issued by the Financial Reporting Council and the European Securities and Market Authority on the reporting of exceptional items and alternative performance measures. The overall goal of the directors is to present the Group's underlying performance without distortion from one-off or nontrading events regardless of whether they be favourable or unfavourable to the underlying result. Further details of the exceptional items are set out in note 6.

*Business combinations*

Directors are required to make an assessment of the intangible assets to be recognised as a result of business combinations. Furthermore, directors are required to make an assessment as to whether the intangible assets are separable and their fair values as at the time of acquisition. This is based on certain assumptions including the expected future cash flows arising from use of the intangibles, discount rates and estimated economic lives of the intangibles.

## 5. Segment information

**Operating segments**

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 Group Chief Executive Officer has been identified as the chief operating decision maker.

Segment information for the six months ended 30 September 2017 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.

| **Unaudited** | **Software £'000** | **Services £'000** | **Total £'000** |
|---|---|---|---|
| Revenue | 1,546 | 522 | 2,068 |
| Segment underlying EBITDA | 976 | (114) | 862 |
| Group costs | | | (974) |
| **Underlying EBITDA** | | | **(112)** |
| Amortisation of acquired intangibles | | | (322) |
| Depreciation | | | (4) |
| Share-based payments | | | (180) |
| Exceptional items | | | (891) |
| **Operating loss** | | | **(1,509)** |

## 6. Exceptional items

Exceptional items are those that in the judgment of the directors need to be disclosed by virtue of their size, nature or incidence, in order to draw the attention of the reader and to show the underlying business performance of the Group more accurately. Such items are included within the income statement caption to which they relate and are separately disclosed on the face of the consolidated income statement within administration expenses.

During the six months to 30 September 2017, £699,000 relating to the acquisition of SecurEnvoy and £124,000 relating to the acquisition of the business and assets of Newable Consulting were charged to the interim consolidated income statement. Further, the Company incurred costs of £68,000 relating to diligence on other potential acquisition opportunities. This resulted in total exceptional items of £891,000.

## 7. Loss per share

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

For diluted loss per share, the weighted average number of shares in issue is adjusted to assume conversion of all the potential dilutive ordinary shares. The potential dilutive shares are anti-dilutive for the six months ended 30 September 2017 and the six months ended 30 September 2016 as the Group is loss making.

At the reporting date, there were 11,828,882 (2016: zero) potentially dilutive ordinary shares. Dilutive potential ordinary shares relate to share options.

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

| | **Six month period ended 30 September** | | **Year ended 31 March** |
|---|---|---|---|
| | **2017** | **2016** | **2017** |
| | **unaudited** | **unaudited** | **audited** |
| **Net loss from total operations** | **£'000** | **£'000** | **£'000** |
| Earnings for the purposes of basic and diluted earnings per share being net loss attributable to shareholders | (1,563) | (96) | (1,584) |
| **Number of shares** | **No** | **No** | **No** |
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share | 871,346,679 | 172,770,616 | 291,850,286 |
| **Earnings per share** | **Pence** | **Pence** | **Pence** |
| Basic and diluted | (0.18) | (0.06) | (0.54) |

## 8. Share capital of the Company

| Allotted, issued and fully paid ordinary shares | Six month period ended 30 September | | | | Year ended 31 March | |
|---|---|---|---|---|---|---|
| | **2017** | **2017** | **2016** | **2016** | **2017** | **2017** |
| | **Number** | **£'000** | **Number** | **£'000** | **Number** | **£'000** |
| Ordinary shares of £0.01 each | 964,359,200 | 9,644 | 293,850,286 | 2,939 | 535,250,286 | 5,353 |

**Share capital**

The following issues of shares were undertaken in the six month period ended 30 September 2017:

On 9 May 2017, 200,000,000 new ordinary shares of 1p were issued to new and existing investors at a placing price of £0.04 per share raising gross cash proceeds of £8.0 million. In addition, a further 25,488,108 new ordinary shares of 1p were issued to existing shareholders by way of an open offer at a price of £0.04 per share raising gross cash proceeds of £1.0 million. The £9.0 million aggregated gross cash proceeds were used to part satisfy the £9.4 million of net cash consideration paid to the shareholders of SecurEnvoy, which was acquired by the Group on 9 May 2017.

On the same day, a further 200,000,000 new ordinary shares of 1p were issued to the shareholders of SecurEnvoy at a price of £0.05 per share to satisfy the share consideration as part of the acquisition.

On 26 July 2017, 3,620,806 new ordinary shares of 1p were issued to Newable Consulting Limited at a placing price of £0.04143 per share. The ordinary shares were subscribed for to satisfy the share consideration paid to Newable Consulting for the acquisition of its business and assets by the Group.

## 9. Business combinations

### SecurEnvoy

On 9 May 2017, the Group acquired 100% of the issued share capital of SecurEnvoy Limited ("SecurEnvoy") for a total consideration of £19.6 million (after customary adjustments), comprising £11.0 million gross cash consideration and £8.6 million share consideration. For accounting purposes, the fair value of the ordinary shares issued in the Company was based on 200,000,000 ordinary shares at the closing share price on the date of completion. This purchase was accounted for as an acquisition.

SecurEnvoy is a leading MFA software company headquartered in the UK with operations in the US, Europe and Australia, and established the Company's presence within the large and growing IAM sector.

The following table summarises the fair values of the assets acquired, the liabilities assumed and the total consideration transferred as part of this acquisition:

| **Unaudited** | **Fair value £'000** |
|---|---|
| Goodwill | 10,695 |
| Other intangible assets | 9,592 |
| Property, plant and equipment | 16 |
| Trade and other receivables | 452 |
| Cash and cash equivalents | 1,627 |
| Trade and other payables | (941) |
| Deferred tax liabilities | (1,825) |
| **Net assets acquired** | **19,616** |
| Satisfied by: | |
| Cash | 11,016 |
| Shares in Shearwater Group plc | 8,600 |
| **Total consideration transferred** | **19,616** |

The net cash outflow arising from the acquisition was £9.4 million in the six months ended 30 September 2017, comprising cash consideration of £11.0 million less cash and cash equivalents acquired of £1.6 million.

Acquisition related costs amounted to £1.2 million; of this £0.5 million related to the issuance of new equity and has been charged to the share premium account, and £0.7 million has been charged to the interim consolidated income statement for the six month period to 30 September 2017 within exceptional items.

SecurEnvoy contributed £1.5 million to the Group's revenue and underlying EBITDA of £1.0 million for the period from the date of the acquisition to 30 September 2017.

### Newable Consulting

On 26 July 2017, the Group acquired the business and assets of Newable Consulting ("Newable Consulting") for an initial consideration of £0.6 million. As part of the transaction, Newable Consulting agreed to subscribe for 3,620,806 new ordinary shares at £0.04143 per share. Subject to the future financial performance of Newable Consulting, a further payment of up to £0.1 million will be made to Newable Consulting, which if made, will be settled through the issuance of new ordinary shares. On acquisition, Newable Consulting was rebranded Xcina Consulting and formed a core component of the Company's new information and assurance company, Xcina.

| **Unaudited** | **Fair value £'000** |
|---|---|
| Goodwill | 590 |
| Other intangible assets | 111 |
| Deferred tax liabilities | (21) |
| **Net assets acquired** | **680** |
| Satisfied by: | |
| Cash | 450 |
| Shares in Shearwater Group plc | 163 |
| Contingent consideration | 67 |
| **Total consideration transferred** | **680** |

The net cash outflow arising from the acquisition was £0.4 million in the six months ended 30 September 2017, comprising cash consideration of £0.6 million less cash received for the subscription of shares of £0.2 million.

Acquisition related costs amounted to £0.1 million which have been charged to the interim consolidated income statement for the six month period to 30 September 2017 within exceptional items.

Xcina Consulting contributed £0.5 million to the Group's revenue and £0.1 million of underlying EBITDA loss for the period from the date of the acquisition to 30 September 2017.

## 10. Intangible assets

| | **Goodwill £'000** | **Customer relations £'000** | **Software £'000** | **Gold exploration £'000** | **Total £'000** |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2016 | - | - | - | 926 | 926 |
| Additions | - | - | - | 10 | 10 |
| **At 30 September 2016** | **-** | **-** | **-** | **936** | **936** |
| At 1 April 2017 | - | - | - | 936 | 936 |
| Recognised upon acquisition | 11,285 | 6,101 | 3,602 | - | 20,988 |
| Additions | - | - | - | 17 | 17 |
| **At 30 September 2017** | **11,285** | **6,101** | **3,602** | **953** | **21,941** |
| **Accumulated amortisation and impairment losses** | | | | | |
| At 1 April 2016 | - | - | - | - | - |
| Charge for the period | - | - | - | - | - |
| **At 30 September 2016** | **-** | **-** | **-** | **-** | **-** |
| At 1 April 2017 | - | - | - | - | - |
| Charge for the period | - | 179 | 143 | - | 322 |
| **At 30 September 2017** | **-** | **179** | **143** | **-** | **322** |

**Carrying amount**

| | | | | | |
|---|---|---|---|---|---|
| **At 30 September 2017** | **11,285** | **5,922** | **3,459** | **953** | **21,619** |
| At 30 September 2016 | - | - | - | 936 | 936 |

## 11. Related party transactions

On 9 May 2017, David Williams, Michael (Mo) Stevens, Robin Southwell, Stephen Ball and Giles Willits subscribed for new ordinary shares of 1p at a placing price of £0.04 as part of the placing through which gross proceeds were raised to part satisfy the cash consideration paid to the shareholders of SecurEnvoy. David Williams subscribed for ordinary shares at a value of £0.5 million and the other directors (excluding Chris Eadie) subscribed for ordinary shares at a total value of £1 million in aggregate. This constituted a related party transaction under the AIM Rules for Companies. Chris Eadie, who was an independent director for those purposes at the time of the transaction, considered, having consulted with WH Ireland, that the terms of the directors subscription were fair and reasonable insofar as the shareholders of the Company are concerned.

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