2017

Hydrodec Group plc

Annual Report & Financial Statements

05188355

Overview

Hydrodec Group plc is a clean-tech industrial oil re-refining group with operations in the USA and Australia.

Hydrodec's technology is a proven, highly efficient, oil re-refining and chemical process principally targeted at the multi-billion US dollar market for transformer oil used by the world's electricity industry. MarketsandMarkets forecasts that the global transformer oil market is expected to grow from USD 1.98 billion in 2015 to USD 2.79 billion by 2020 at a CAGR of 7.14%.

Used transformer oil is currently processed at two commercial plants with distinct competitive advantage delivered through very high recoveries (near 100%), producing 'as new' high quality oils at competitive cost and without environmentally harmful emissions. The process also completely eliminates PCBs (polychlorinated biphenyls), a toxic additive banned under international regulations.

In 2016 Hydrodec received carbon credit approval from the American Carbon Registry ("ACR"), enabling its product to be sold with a carbon offset and creating an incremental revenue stream. The Group is now generating carbon offsets through the re-refining of used transformer oil, which would otherwise ordinarily be incinerated or disposed of in an unsustainable manner. This is a highly distinctive feature for the Group, confirming (as far as the Board is aware) Hydrodec as the only oil re-refining business in the world to receive carbon credits for its output. This is a significant endorsement of the Company's proprietary technology and standing as a leader in its field.

Hydrodec's plants are located at Canton, Ohio, US and Bomen, New South Wales, Australia.

Contents

Directors, Advisers and Officers

Company registration number:	05188355
Registered office:	Dorset House Regent Park Kingston Road Leatherhead KT22 7PL
Directors:	Lord Moynihan (Executive Chairman and Interim Chief Executive Officer) Dr. Caroline Brown (Senior Independent Director) Dame Mary Archer DBE (Non-Executive Director) Andrew Black (Non-Executive Director) David Dinwoodie (Interim Chief Financial Officer)
Company secretary:	Michael Preen
Nominated adviser and broker:	Arden Partners plc 125 Old Broad Street London EC2N 1AR
Solicitors:	CMS Cameron McKenna Nabarro Olswang LLP Cannon Place 78 Cannon Street London EC4N 6AF
Registrars:	Link Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Auditor:	KPMG LLP 15 Canada Square London E14 5GL

2017 Highlights

Strategic highlights

- Strategic focus during 2017 on core transformer oil re-refining business and associated technology
- Rigorous focus on execution, making effective cost savings and delivering the first positive Group EBITDA in the Company's history
- New patent for the Hydrodec technology secured in key geographies for a further 20 years from the initial application date to 2034
- Sale of historic carbon credits up to and including 2013 vintage

Financial highlights

- Revenues for the year arising from the core re-refining business increased by 6% to US$17.9 million (2016: US$16.8 million)
- Gross margins improved to 15% (2016: 8%)
- Improvement in overall sales mix between higher margin transformer oil and lower margin base oil, with transformer oil sales representing 52% of total Group oil sales in 2017, up from 39% in 2016
- Administrative expenses fell 12% to US$5.8 million (2016: US$6.6 million) representing 32% of total income (2016: 38%), driven by further reduction in corporate costs with benefits from initiatives implemented at the end of 2016 continuing to filter through into 2017
- Positive Group EBITDA from continuing operations of US$0.3 million, a significant improvement in the year (2016: US$2.4 million loss)
- Net financial expense of US$1.3 million (2016: US$1.1 million) relates to the interest payable under the lease in the US and interest accruing on the shareholder loans in the UK
- The overall loss for the year reduced to US$4.3 million (2016: US$7.8 million, including losses associated with the discontinued business)

Operational highlights

- Group sales volumes of premium quality **SUPER**FINE transformer oil and base oil in 2017 lower at 29.3 million litres (2016: 33.3 million litres), reflecting feedstock constraints and higher feedstock inventory at start of prior year due to Canton plant recommissioning - demand for **SUPER**FINE products remains robust
- Average utilisation rate of 60% achieved for the year at Canton; feedstock remains key constraint to higher throughput
- The US business was awarded a two year agreement to supply up to 7.6 million litres annually of its **SUPER**FINE transformer oil to a major transformer original equipment manufacturer ("OEM")
- Reauthorisation of the PCB treatment permit from the US EPA for a further 5 years with enhanced operating capabilities including unlimited PCB treatment (previously limited to 2,000 parts per million) and the ability to store PCB containers onsite
- Successfully concluded an agreement with a major provider of renewable energy and carbon mitigation strategies, products and services, to market the carbon offsets generated through the re-refining of used transformer oil by Hydrodec of North America

Post period-end highlights and current trading

- Feedstock constraints in the US and Australia impacted sales volumes and revenues in Q1 2018; however demand for products remained strong and margins continue to improve
- Recently all six processing "trains" in Canton have been operating - the first time, save for a few days in January, since August 2017 - due to improved feedstock supply driving utilisation
- Strategic initiatives continue in order to secure additional and sustainable feedstock supplies going forward - the Group's key focus for 2018
- Focused on generating new partnerships and securing additional feedstock in the USA - approaches to US utilities have been initiated given the sale of carbon offset credits which, uniquely in the market, provide opportunities for utilities to partner with Hydrodec of North America to meet sustainability goals
- Superior quality of **SUPER**FINE transformer oil has been further verified by independent laboratory tests and is evidenced by higher pricing being achieved in the US relative to pricing indices
- Concluded successful sale of historic carbon credits from 2009 to 2013 vintages - targeting higher prices for more recent credits
- Additional working capital facility provided by Andrew Black, the Company's largest shareholder and a non-executive Director, extended up to £1.5 million and bearing no interest

At a Glance

We apply proprietary technology to re-refine used oil to produce, market and distribute **SUPER**FINE transformer oil and naphthenic base oil at the following locations:

	USA	Australia
Plant location	Canton, Ohio	Bomen, New South Wales
Process/Products	Re-refining used transformer oil to produce **SUPER**FINE transformer oil and naphthenic base oil	Re-refining used transformer oil to produce **SUPER**FINE transformer oil and naphthenic base oil
Existing operating capacity	Nameplate capacity of 45 million litres of **SUPER**FINE per annum	Nameplate capacity of 6.5 million litres of **SUPER**FINE per annum under outsourced tolling arrangement
Partners/value chain	G&S, a leading New Jersey-based electricity transformer recovery services group is our partner in Hydrodec of North America (HoNA), having initially invested in 2013. G&S currently has a 37.5% voting interest and 41.65% economic interest in HoNA, with the right to acquire a further and final interest for USD 1.7 million, to bring its overall interest to 49.9%, following the commissioning of additional capacity	Outsourced tolling arrangements with Southern Oil Refinery and its partner JJ Richards who are leading collectors and re-refiners of used lubricant oils in Australia
Future growth opportunities	To establish future partnerships for acquisition of additional and more sustainable feedstock supplies in the USA in order to develop a stronger footprint in this key market Potential to build-out our transformer oil re-refining business in the USA, Japan and the EU and extend access into the >US$2bn global transformer oil market	

Our Business

Our Objective

Our objective is to deliver significant growth, profitability and long term shareholder value through the re-refining of used oil to produce and sell sustainable, high quality oils.

Our business model

Our re-refining business model is founded on:
- Proven proprietary technology;
- Integrated value chains to secure the supply of competitively priced feedstock;
- Locations in the USA and Australia with proximity to markets;
- Defined sales channels to a globally short market for transformer oil; and
- The availability of attractive margins from the sale of high quality transformer oil.

Our objective:	To deliver significant growth, profitability and long term shareholder value			
Our business:				
Our culture:				
Leadership:				
Market drivers:	Transformer oil critical to global power infrastructure	High quality transformer oil margins among best available in oil industry	Increasing importance of re-refining in waste management	
Key differentiators:	Proven, proprietary 'best in class' technology	High recoveries, sustainable & access to carbon offset credit	High quality products for original purpose, as good or better than original	Integrated feedstock and value chain business model
Strategic priorities:	Access significant feedstock markets	Rigorous focus on performance	IP protection	Risk reduction/ value chain consolidation
Growth accelerators:	Maximising plant utilisation through increased feedstock supplies	Entry into additional US geographies and international markets through joint venture/licensing of proprietary technology		

Executive Chairman and Interim Chief Executive's Report

I am pleased to provide this review of 2017 and also share the Board's thoughts for the outlook for the Group, although I reflect that the period under review relates to Chris Ellis' tenure as CEO. On behalf of the Board I would like to take the opportunity to thank Chris once again for all of his hard work in driving the initial phases of the turnaround strategy for the business and achieving the first year of positive Group EBITDA in Hydrodec's history.

I would also like to record, on behalf of the Board and the Company, our ongoing thanks to Andrew Black, our largest shareholder, whose continuing support of the business, financially and otherwise, in recent years, over a challenging period in the Company's history, has been hugely appreciated. In this respect, we also welcomed David Dinwoodie as Interim Chief Financial Officer in April. We are confident we will be in a position to repay Andrew's good faith and support as the Company seeks to implement in full its turnaround strategy.

The focus in 2017 was to continue to deliver on the Board's objective to develop the Group's core market leading transformer oil re-refining technology and to grow that business in order to access a larger proportion of the US$2 billion global transformer oil market.

I am pleased to report that 2017 saw significant progress for your Company as we achieved positive Group EBITDA for the first time, reflecting the positive impact of the operational improvements and cost reduction measures put in place over the last two years. The plants continued to operate well and demand for our products is strong - feedstock remains the key constraint to business growth and resolution of this issue is the Board's over-riding strategic focus.

Post period-end, the successful sale of carbon credits relating to historic production provided a further endorsement of the quality of our technology, our product and market leading green credentials; whilst supporting an annuity-styled revenue stream for the Group. We look forward to reporting further sales of the remaining historic credits, together with establishing a price for credits relating to current production. Carbon credits also open the door to "closed-loop" utility partnerships in the USA.

Progress on these initial fronts has created strong foundations for the business on which we will build.

Regional business review

USA

The Canton plant continued to produce a product of the highest quality during 2017 following the operational improvements made during 2016. This gave us the opportunity to further improve the proportion of transformer oil sales, a key element of our strategy, increasing to 58% for the year compared to 42% in 2016. This improvement in mix enabled us to deliver further margin enhancement with gross margins increasing by 40%. Most importantly, demand for our product remains robust and the award of a two-year contract from a major OEM in the US to supply up to 7.6 million litres annually of **SUPER**FINE transformer oil underlines the quality of the product the Company produces and represents further validation of our technology.

Plant utilisation rate for the year was 60% (2016: 73%) as feedstock remained the key constraint to further growth and improved performance. In the US, the Group currently sources the majority of its feedstock via its partner, G&S, but does not currently source sufficient supplies to run the Canton plant at its target levels of utilisation. There are competing uses for used transformer oil - notably as a diesel extender, with current high demand from Mexico - and the location of feedstock supplies, and cost of transport, are key components in the Group's ability to source feedstock at an appropriate price. The new interim executive management team are working closely with local management to increase supplies from G&S and other existing sources, and also looking to develop new partnerships - including initiating direct approaches to US utilities around "closed-loop" arrangements, leveraging the Group's carbon offset credits to allow utilities to meet their own sustainability goals. After a challenging start to 2018, the feedstock position is already showing signs of improvement with scope for further increases through the year.

During the year, the Group received recognition from the Ohio Environmental Protection Authority (EPA)'s Encouraging Environmental Excellence Program (E3) which commends an organisation's exceptional achievements in environmental stewardship as well as related criteria developed by the Ohio EPA. Along with our transformer oil output generating carbon credits, this further supports a uniquely environmentally friendly business model within the refining and re-refining industry and should provide additional opportunities with those businesses whose strategy has sustainability as a key element.

Australia

The relocated plant at Southern Oil's location in Bomen, New South Wales continued to operate well under the tolling arrangements and the quality of the oil produced there remains high. The key to unlocking all of the operational benefits available to us is driven by the availability of feedstock. The more feedstock we are able to put through our production process over the fixed monthly fee, the more profitable the operation will become. 2017 provided some progress on this front with a 32% increase in volumes for the period and a 38% increase in margins compared to the prior year.

Carbon credits

Having received carbon credit approval from the American Carbon Registry ("ACR") in 2016, Hydrodec's products can be sold with a carbon offset creating an incremental revenue stream. This is a highly distinctive feature for the Company, confirming (as far as the Board is aware) Hydrodec as the only oil re-refining business in the world to receive carbon credits for its output. This is a significant endorsement of the Company's proprietary technology and standing as a leader in its field.

Hydrodec of North America ("HoNA") generates carbon offsets through the re-refining of used transformer oil, which would otherwise ordinarily be incinerated or disposed of in an unsustainable manner. The ACR recognised 165,000 credits for HoNA's previous production between 2009 and 2013 and the Board was pleased to announce, post the financial year end, that all of these historic credits have now been contracted for sale and are expected to generate US$190k of income. Whilst these historic credits only generated nominal sums, the Company anticipates that it could generate between 50,000 to 60,000 tons of carbon offset annually going forward and the ongoing generation of such credits could realise a value of between US$3 and US$5 per ton based on recent industry reports.

Operating and commercial performance

Revenues for the year arising from the continuing core re-refining business increased by 6% to US$17.9 million (2016: US$16.8 million), reflecting improved product sales mix and pricing.

Group sales volumes of premium quality **SUPER**FINE transformer oil and base oil for the year were lower at 29.3 million litres (2016: 33.3 million litres), reflecting feedstock constraints and higher feedstock inventory at the start of the prior year due to Canton plant recommissioning – demand for **SUPER**FINE products remains robust.

Gross margins improved significantly to 15% (2016: 8%), in part driven by an improvement in the overall sales mix between higher margin transformer oil and lower margin base oil, with transformer oil sales representing 52% of total Group oil sales in 2017, up from 39% in 2016.

An average utilisation rate of 60% was achieved for the year at Canton, with feedstock remaining the key constraint to higher throughput and the main strategic focus for the Board.

Another key focus has been on managing the cost base appropriately, and significant reductions in operating and corporate costs have been realised. Administrative expenses fell significantly by 12% to US$5.8 million (2016: US$6.6 million) representing 32% of total income (2016: 38%) and a reflection of efforts in this area.

Positive Group EBITDA of US$0.3 million from continuing operations represents a significant improvement for the year (2016: US$2.4 million loss) and the first positive annual EBITDA in the Group's history.

The overall loss for the year reduced to US$4.3 million (2016: US$7.8 million, including losses associated with the discontinued business).

Internally the business continues to be managed and performance measured by reference to EBITDA, it being the closest indicator of cash generated from operations. As this is not a statutory accounting measure, the table below reconciles this figure to the statutory operating loss:

	2017 US$'000	2016 US$'000
EBITDA	**303**	**(2,396)**
Interest costs	(1,286)	(1,086)
Taxation	129	445
Depreciation and loss on disposal	(2,471)	(2,730)
Amortisation	(627)	(1,667)
Share based payment costs	17	(9)
Transaction and deal costs	(44)	-
Foreign exchange adjustment	(276)	1,137
Statutory operating loss	**(4,255)**	**(6,306)**

Executive Chairman and Interim Chief Executive's Report
(continued)

Finance costs
Net financial expense was US$1.3 million (2016: US$1.1 million) and relates to the interest payable under the lease in the US and interest accruing on the shareholder loans in the UK.

Operating cash flow and working capital
In 2017, the Group had net cash inflow from operating activities of US$1.4 million (2016: US$4.4 million outflow). The movement in working capital of US$1.3 million was principally through improved terms with feedstock suppliers including the Group's US partner, G&S.

The amount of working capital required by the Group's operations continues to be closely monitored and controlled, and forms a key part of management information. While the improving operational and financial performance in 2017 led to the positive EBITDA position, the Group is not yet sufficiently cash generative from its operations to meet all central costs, having taken account of the need to retain sufficient working capital in the operations. As a result, the Company announced in April 2018 that it had agreed an additional working capital facility (the "Facility") with Andrew Black, the Company's largest shareholder and a non-executive Director (the "Lender"). The Facility was initially for up to £500,000, bears no interest and is secured over the assets of the Company. The Company has announced today that it has agreed with the Lender to extend this Facility up to £1.5 million.

The Facility is repayable on 31 December 2018, however the Lender has agreed to provide the Company with an option to extend the repayment date on the Facility, and the repayment date on all other existing working capital facilities provided by the Lender, to 30 June 2019. Any such extension of the loans would be at the sole discretion of the Company.

Liquidity and financing activities
The Group's principal financing facilities are a seven year US$10 million finance lease arrangement with First Merit fully drawn and repayment under which commenced on 1 October 2015, and shareholder loans from Andrew Black of US$11 million as at 31 December 2017, currently repayable on 31 December 2018. The interest on these shareholder loans is accrued and rolled-up in order that ongoing interest payments are not a cash drain on the Company. As noted above, an additional facility of up to £1.5 million bearing no interest has been made available by Mr Black post period end and the Company has acquired the option, at the Company's sole discretion, to extend the repayment date of these shareholder loans to 30 June 2019.

The Company also has in place a lease financing arrangement of US$1.2 million with its partner in Australia, Southern Oil, in respect of the infrastructure costs incurred for the establishment of its facilities at the site in Bomen. Additional working capital has been provided by overdraft facilities in the USA and Australia.

The Group's net debt at 31 December 2017 was US$20.5 million (2016: US$19.2 million).

Capital expenditure in 2017 totalled US$0.5 million (2016: US$0.5 million), primarily incurred in the US in relation to operational improvements of the plant at Canton and also on the patent renewal.

Financial reporting
The financial information has been prepared under IFRS and in accordance with the Group's accounting policies. There have been no changes to the Group's accounting policies during the year ended 31 December 2017.

Going concern
As set out in note 3 of the Group financial statements, taking into account the Group's current forecast and projections, available facilities and on-going support from Andrew Black (a non-executive Director of the Company and its largest shareholder), the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue operating for at least the next 12 months. Accordingly, the Directors continue to adopt the going concern basis in preparing the Annual Report and financial statements.

Related party transaction
As Andrew Black is a non-executive Director and a substantial shareholder of the Company (as defined in the AIM Rules for Companies ("**AIM Rules**")), the agreement by Mr. Black to increase the amount available under the working capital loan facilities (as referred to above), when aggregated with previous agreements between Mr. Black and the Company in respect of the facilities in the previous 12 months, constitutes a related party transaction for the purposes of the AIM Rules.

The Directors, with the exception of Andrew Black and David Dinwoodie who were excluded from the Board's discussions to approve the proposed loan, consider that, having consulted with the Company's Nominated Adviser, Arden Partners plc, the terms of the increase in the facilities are fair and reasonable insofar as shareholders are concerned.

Outlook

Despite a challenging Q1 2018, and subject to delivering its principal objective of accessing further feedstock, Hydrodec's business continues to offer significant upside with a strong forward order book in the US; the first material sale of carbon credits and excellent quality production. The Board is pleased to report that recently all six processing "trains" in Canton have been operating – the first time, save for a few days in January, since August 2017 – due to improved feedstock supply driving utilisation.

The Board is also focused on developing a stronger balance sheet and finalising the Board's review of its various growth options, which it intends to conclude and implement by the end of September 2018. These include opportunities for internal and organic business growth as well as strategic acquisition opportunities and partnerships if, and only if, they are seen by the Board to add shareholder value.

We look forward to updating shareholders further in due course.

Lord Moynihan
Executive Chairman and Interim CEO

Principal Risks and Uncertainties

How we manage risk

The effective management of risk is a core function of the Board and executive management, who regularly review and monitor the key risks involved in operating the business. The table below sets out identified key risks which are believed by the Board to be the most significant to the achievement of the Group's strategic business objectives. They do not comprise all of the risks that the Group may face and are not listed in any order of priority. There may be other risks which are currently unknown to the Group or which may become material in the future. We have also identified relevant mitigating factors which are designed to provide a reasonable (but not absolute) level of protection against the impact of the events in question.

Attention is drawn to the "Going concern" section of note 3 to the financial statements on page 38 and also the Audit Committee Report on page 26.

Risk	Description	Mitigation
Strategic and Commercial Risks		
Plant utilisation dependant on feedstock availability	In the US and Australia, the Group is dependent on sourcing used oil feedstock from which to manufacture its **SUPER**FINE products. Historically, this has provided the main operational challenge due to competing uses for used transformer oil and/or long-established practices around waste incineration.	This is the Group's key risk and as detailed in the Executive Chairman and Interim Chief Executive Officer's Report, the Group is actively exploring new feedstock supplies and potential partnerships with established feedstock suppliers and utilities as its key strategic focus.
Key executives and personnel	The Group's future success is substantially dependent on the continued services and performance of its core management team and key operational staff experienced in operating the Group's proprietary technology.	The Remuneration Committee reviews the employment terms for executives and key operational management with the aim of attracting, motivating and retaining key personnel for the Group. The Board has considered and approved the appointment of Lord Moynihan and David Dinwoodie as the interim executive management team on the clear understanding that they will work together and remain in office to execute the turnaround strategy outlined earlier in the Annual Report.
Relationships with partners and key third parties	The Group operates in the USA through a joint venture structure and in Australia under an outsourced tolling arrangement. To maximise such arrangements requires ongoing commercial alignment between the Group and its third party partners, which is made more challenging in difficult market conditions.	Procedures are in place to maintain close on-going relationships with G&S and Southern Oil respectively.
Commercialising our IP	The Group's current operations and potential for growth rest on the successful commercial deployment of our proprietary technology and know-how to the re-refining of waste oils. The original patent has expired.	During 2017 the Group received confirmation of a new patent for a further 20 years in the key US market reinforcing uniqueness and market-leading nature of Hydrodec technology. The Group expects to finalise a new patent in Europe shortly.

Risk	Description	Mitigation
Health, Safety and Environmental Risks		
Health, safety and environmental compliance	The activities of the Group involve a range of health, safety and environmental risks. Managing these risks is the top priority for all Directors, managers and employees across the Group.	All group subsidiaries operate health, safety and environmental management systems appropriate to the nature and scale of their risks. The establishment of the Safety and Technology Committee under the leadership of Dame Mary Archer DBE further reinforces the high priority the Board attaches to health, safety and environmental matters. Insurance cover is maintained at group level for significant insurable risk.
Operational Risk		
Operational reliability and product quality	The Group operates from two sites and is therefore dependent on their continuing operations. Further, the Group is dependent on the continuing reliability of, and product quality from, Canton, and under the tolling arrangement with Southern Oil Refinery in Australia, with associated risk of loss of revenue and reputation for non-performance.	The Group continues to invest in operational and capital expenditure, including management resource, in order to maintain and improve operational reliability and product quality. Business interruption insurance is in place.
Competitors	The Group may face competition including from global competitors with large capital resources.	The Group's technology is its key differentiating factor. The Group also benefits from a commercial first mover advantage provided by its proprietary know-how, trade secrets and its carbon credit approval received from the American Carbon Registry ("ACR").
Market conditions /pricing risk	The overall growth and demand for the Group's products is subject to the drivers of commercial activity. Demand can be unpredictable and the nature of the business is such that there is relatively low visibility of future orders from its customers. The market is also impacted by the global oil price.	Management prepares regular forecasts and reviews that focus on remedial action plans required to deliver performance. In addition, the Board has approved measures to deliver improved operational performance and efficiencies.

Principal Risks and Uncertainties
(continued)

Risk	Description	Mitigation
Financial Risk		
Liquidity risk	Challenging feedstock conditions, the need to retain sufficient working capital in the operating businesses whilst funding central overheads, and the future growth and expansion of the Group's operations all place demand on the Group's overall cash resources. The Group's cash position remains subject to the availability of working capital, overdraft and finance lease facilities on commercially acceptable terms, the ability to realise value from redundant assets and continued shareholder support.	Management monitors the Group's financial performance closely with a strong focus on cash control. The Group has benefited significantly from the on-going support of its major shareholder.
Foreign exchange risk	The Group is exposed to foreign exchange risk. Since our principal operations are in the USA, increases in the strength of sterling against the US dollar would impact the ability of the US operations to contribute to Group overhead.	The Group's policy is to match, as far as possible, its principal projected cash flows by currency. Currently, no hedging instruments are used. The Group keeps under review the extent of its exposure to currency fluctuations.

The Strategic Report was approved by the Board of Directors on 31 May 2018 and was signed on its behalf by:

Lord Moynihan
Executive Chairman and Interim Chief Executive Officer

Board of Directors

	Lord Moynihan Interim Chief Executive Officer	David Dinwoodie	Dr. Caroline Brown
Background and experience	Colin was previously Executive Chairman and Chief Executive of Consort Resources Limited and Executive Chairman of Clipper Windpower Europe Limited. He was also a main board director of Rowan Companies where he chaired the HSE Committee. Colin was a Member of Parliament in the UK for 10 years, serving as Minister for Energy from 1990 to 1992. Colin stood down as Chairman of the British Olympic Association in 2012 after seven years of overall stewardship of Team GB's successful performance in the Beijing and London Olympic Games.	David is a Chartered Accountant and is the principal of the family office of Andrew Black, a non-executive director of the Company and its largest shareholder. Prior to joining Andrew Black's office in 2015, he spent over 15 years at KPMG, Deloitte and more recently Compass Group plc, specialising in corporate finance and strategy.	Caroline is an experienced executive and non-executive Director, has managed early stage companies and divisions of FTSE 100 companies in the energy and technology sectors and has worked as a corporate finance advisor to governments and energy companies with banks including Merrill Lynch, UBS and HSBC. Caroline holds a First Class degree and PhD in Chemistry from the University of Cambridge, an MBA in Finance from the Cass Business School, and is a Fellow of the Chartered Institute of Management Accountants.
Date of appointment	Colin joined the Board and became non-executive Chairman in October 2012. In April 2018 he took the role of Executive Chairman and Interim Chief Executive Officer.	David joined the Board in April 2018 as Interim CFO.	Caroline joined the Board in September 2015 as a non-executive Director and was appointed Senior Independent Director in December 2015.
External appointments	Colin is Chairman of Buckthorn Capital LLP.	David sits on the boards of a number of Andrew Black's investee companies.	Caroline acts as a non-executive director, and chairs the audit committees, of several other public companies.
Current committee memberships	Colin serves on the Safety & Technology Committee.	None	Caroline chairs the Audit Committee and serves on the Board's Remuneration, Nominations and Safety & Technology Committees.
Independence	Executive - non-independent	Executive - non-independent	The Board considers Caroline to be an independent Director and she has been appointed as the Senior Independent Director.

Board of Directors
(continued)

	Andrew Black **Non-Executive Director**	**Dame Mary Archer DBE** **Non-Executive Director**
Background and experience	Andrew is the co-founder of Betfair, the world's leading online betting exchange and FTSE 100 constituent, having devised its unique betting exchange model. He was a Director of the Betfair Group from 1999 to 2010.	Dame Mary studied chemistry at St Anne's College, Oxford, and physical chemistry at Imperial College, London, before becoming a lecturer at Cambridge University. She was awarded the Energy Institute's Melchett Medal in 2002 and the Eva Philbin Award of the Institute of Chemistry of Ireland in 2007. Dame Mary has held prominent leadership roles in the NHS. She was appointed DBE in 2012 for services to the NHS.
Date of appointment	Andrew joined the Board in July 2011.	Dame Mary joined the Board in November 2014.
External appointments	Andrew is a director of Slicker Recycling Limited (formerly Hydrodec (UK) Limited), the UK recycling operation previously owned by the Group. Andrew also holds board seats at a number of companies unrelated to the activities of the Group.	Dame Mary holds multiple external appointments including Chairman of the Science Museum Group, Cambridge Early Music and the External Advisory Board of the Centre for Personalised Medicine, Oxford. Dame Mary is also President of the National Energy Foundation and the UK Solar Energy Society.
Current committee memberships	Andrew chairs the Board's Remuneration and Nominations Committees.	Dame Mary chairs the Board's Safety & Technology Committee and serves on the Remuneration, Nominations and Audit Committees.
Independence	Non-independent due to significant shareholding	The Board considers Dame Mary to be an independent Director.

All Directors shall retire and put themselves forward for re-election at the AGM.

Directors' Report

The Directors present their Annual Report on the affairs of the Group, together with the financial statements and auditor's report for the year ended 31 December 2017. The Corporate Governance Report set out on pages 19 to 22 forms part of this report.

Strategic Report

Details of the Group's strategy and business model during the year and the information that fulfils the requirements of the strategic report can be found in the Strategic Report on pages 4 to 12. An indication of likely future developments in the business of the Group, and details of research and development activities are included in the Strategic Report, which are deemed to form part of this report by reference.

Results and dividends

The consolidated income statement for the year is set out on page 32. No dividend has been declared or is proposed by the Company for the year.

Capital structure

Details of the issued share capital are shown in note 20 to the consolidated financial statements on page 61. The Company has one class of Ordinary Share which carry no right to fixed income. Each ordinary share carries the right to one vote at general meetings of the Company. There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. No person has any special rights of control over the Company's share capital and all issued shares are fully paid. Details of employee share schemes are set out in note 22 to the financial statements on page 62. Any shares held by the Hydrodec Group Employee Benefit Trust abstain from voting.

Directors and their interests

The Directors who served during the year are set out below, together with their beneficial interests in the ordinary shares of the Company. Biographical details for the current Directors are included on pages 13 and 14.

	31 December 2017		31 December 2016	
	Ordinary shares of 0.5p each	**Share options**	Ordinary shares of 0.5p each	Share options
Dame Mary Archer	**426,839**	**-**	426,839	-
Andrew Black	**197,574,858**	**-**	197,574,858	-
Dr. Caroline Brown	**-**	**-**	-	-
Chris Ellis (resigned 4 April 2018)	**3,301,121**	**15,000,000**	3,301,121	-
Lord Moynihan	**11,818,895**	**15,000,000**	11,347,050	-

Further details regarding the share options are provided in the Remuneration Committee Report on pages 23 to 25.

Directors' Report
(continued)

Directors' indemnity and insurance

The Company has made qualifying third-party indemnity provisions, as defined by section 236 of the Companies Act 2006, for the benefit of its Directors which remain in force at the date of this report. The Company has also arranged Directors' and Officers' liability insurance.

Substantial shareholdings

As at the date of this report, the Company has been notified of the following beneficial interest in 3% or more of its issued voting share capital:

Shareholder	% holding
Andrew Black	26.5%
Thesis Asset Management plc	12.2%
Hugo Bulmer	3.4%

Related party transactions

Related party transactions are disclosed in note 27 to the financial statements on pages 68 and 69.

Occupational health and safety, and environment (OHSE)

The Group operates complex industrial plants involving hazardous conditions, substances and materials. As a consequence, we place great emphasis on our environmental performance and the safety of our employees and our broader communities and strive continuously to further improve in these areas. We have dedicated OHSE personnel providing advice and support to staff, customers, suppliers and other visitors, as well as coordinating the fulfilment of the Group's regulatory obligations. Further details on the composition, scope and activities of the Safety and Technology Committee are set out on page 22.

Change of control

There are no material contracts which enable the counterparties to alter or terminate those arrangements in the event of a change of control of the Company.

The Group does not have any agreement with a Director or officer that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Group's share plans may cause options and awards granted under such plans to vest on a takeover.

Political donations

The Group's policy is not to make political donations. Neither the Company nor its subsidiaries, during the financial year, made any political donation to a political party, other political organisation or independent election candidate, or incurred any political expenditure or made any contribution to a non-EU political party.

Articles of Association

The Articles of Association of the Company may be amended by special resolution of shareholders.

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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 parent Company and of their profit or loss for that period. In preparing each of the Group and Parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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

Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are currency risk, interest rate risk, credit risk and liquidity risk. The Directors review the policies for managing each of these risks on an on-going basis and they are summarised in note 23 to the consolidated financial statements on pages 64 to 65. These policies have remained unchanged from previous years.

Directors' Report
(continued)

Going concern

As set out in note 3 to the consolidated financial statements, taking into account the Group's current forecasts and projections, available facilities and on-going support from Andrew Black (a non-executive Director and the Company's largest shareholder), the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue operating for at least the next 12 months. Accordingly, the Directors continue to adopt the going concern basis in preparing the Annual Report and financial statements.

Statement of disclosure of information to auditors

In accordance with Section 418(2) of the Companies Act 2006, each Director who held office at the date of approval of this Directors' Report confirms that: (a) so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and (b) the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Forward looking statements

These reports and financial statements contain certain forward looking statements which are subject to assumptions, risks and uncertainties; actual future results may differ materially from those expressed in or implied in such statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond the Group's ability to control or estimate precisely. The forward looking statements reflect the knowledge and information available at the date of preparation of this report, and will not be updated during the year. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout these reports and financial statements and include statements regarding the current intentions, beliefs or expectations of the Directors or the Group concerning, among other things, the results of operations, financial condition, prospects, growth, strategies, and dividend policy of the Group and the industry in which it operates. In particular, the statements regarding the Group's strategy and other future events or prospects are forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

Annual General Meeting

All holders of ordinary shares are entitled to attend the annual general meeting of the Company (**AGM**). They are also entitled to speak at general meetings of the Company, to appoint one or more proxies or, if they are corporations, corporate representatives, and to exercise voting rights. The notice of meeting specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be put to the AGM.

This year's AGM will be held on 27 June 2018. The Notice of AGM is set out at the end of this document.

Approved by the Board and signed on its behalf by:

Lord Moynihan
Executive Chairman and Interim Chief Executive Officer

Corporate Governance Report

Responsibility for good governance lies with the Board. This Corporate Governance Report details the corporate governance arrangements which the Company currently has in place and the steps being taken to develop good governance within the Company and the Group.

Compliance statement

As the Company is listed on the Alternative Investment Market it is not required to comply with the provisions of the UK Corporate Governance Code (the **Code**) issued in September 2014 and, having taken account of the additional costs and practicalities involved in doing so and the current size and structure of the Company, it does not do so. The Board considers that the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies (**QCA Code**) provides the most appropriate guidance in respect of best corporate governance practice and disclosure for a company such as the Company. The Board currently draws upon, and benchmarks itself against, this best practice. We believe this approach to the Code and the QCA Code is in the best interests of shareholders.

Leadership

How we govern the Company

Our governance structure comprises the Board and various committees detailed below, supported by the Group's standards, polices and controls, which are described in more detail in this report.

The Board

As at 31 December 2017, the Board of Directors was made up of five members, comprising the Chairman, one Executive Director and three Non-Executive Directors. At the date of this report, the Board of Directors is made up of five members, comprising the Executive Chairman and Interim Chief Executive Officer, the Interim Chief Financial Officer and three Non-Executive Directors. The full Board holds meetings quarterly and at any other times as may be necessary to address specific significant matters that may arise.

The Board's primary role is the protection and enhancement of long-term shareholder value. To fulfil this role, the Board is responsible for the overall management and corporate governance of the Company including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

From time to time the Board may delegate or entrust to any Executive Director such of its powers, authorities and discretions for such time and on such terms as it thinks fit. The Board has adopted a Delegation of Board Authority which establishes those matters which it considers appropriate to remain within the overall control of the Board (or its committees) and those

Corporate Governance Report
(continued)

which are delegated to the Chief Executive (or onwards as appropriate). In addition to overall strategy, the Board approves the annual budget and retains control over corporate activity (mergers, acquisitions, joint ventures, material disposals and investments) and material contract and financing decisions (over and above set value/credit-risk limits). Management's role is to implement the strategic plan established by the Board and to work within the corporate governance and internal control parameters established by the Board.

Division of Responsibilities

During the year, the roles of Chairman and Chief Executive were separate and there was a clear division of responsibilities. The Chairman is responsible for leadership of the Board, ensuring its effectiveness and setting the agenda for Board meetings. Once strategic objectives have been agreed by the Board, it is the Chief Executive's responsibility to ensure they are delivered and to be accountable to the Board. The day to day operations of the Company are managed by the Chief Executive and his management team.

Following the resignation of Chris Ellis as Chief Executive in April 2018, Lord Moynihan has combined the roles of Executive Chairman and Interim Chief Executive Officer as a transitional arrangement pending consideration of the composition of the senior management team going forward.

Conflicts of interest

In line with the requirements of the Companies Act 2006, each Director has notified the Company of any situation in which he or she has, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company. Where the Board believes that a significant conflict exists, the Director concerned is either not present or does not take part in discussions and voting at the meeting whilst the item is considered.

Specific safeguards have been put in place for David Dinwoodie given his roles as Interim Chief Financial Officer of the Company and principal of the family office of Andrew Black, the Company's largest shareholder and a non-executive director.

Committees of the Board

The Board has established a number of committees to assist in the discharge of its duties and the formal Terms of Reference for the principal committees, approved by the Board, can be found on the Company's website at www.hydrodec.com. The Terms of Reference are reviewed annually and updated where necessary. Membership of the principal committees is shown on pages 21 to 22. The Company Secretary acts as Secretary to all Board committees. Meetings between the non-executive Directors, both with and without the presence of the Chief Executive, are also scheduled in the Board's annual programme.

The Composition of the Board

The composition of the Board is determined using the following principles:

- a majority of the Board should be Non-Executive Directors;
- the role of Chairman is typically to be filled by a Non-Executive Director - as noted above there are transitional arrangements in place whereby Lord Moynihan fulfils the roles of Executive Chairman and Interim Chief Executive Officer;
- the Board should have enough Directors to serve on various committees of the Board without overburdening the Directors or making it difficult for them to fully discharge their responsibilities;
- the Company Secretary should not be a member of the Board but should attend meetings and should report directly to and advise the Chairman on corporate governance matters; and
- Directors appointed by the Board are subject to election by shareholders at the following annual general meeting and thereafter Directors are subject to re-election every year.

Meeting attendance

The following table shows the attendance of Directors at meetings of the Board, Audit, Remuneration and Safety and Technology Committees during 2017:

	Board		Remuneration Committee		Audit Committee		Safety and Technology Committee	
	Number of meetings	Number attended	Number of meetings	Number attended	Number of meetings	Number attended	Number of meetings	Number attended
Dame Mary Archer	5	5					2	2
Andrew Black	5	5	2	2				
Dr. Caroline Brown	5	4	2	2	4	4	2	1
Chris Ellis	5	5					2	2
Lord Moynihan	5	5	2	2	4	4	2	2

Information, support and development

The agenda for Board meetings is prepared in conjunction with the Chairman. Submissions are circulated in advance. For the regular quarterly Board meetings the agenda will include operational and financial updates together with papers relating to specific agenda items. Senior executives are involved in Board discussions and Directors have other opportunities, including visits to operations, for contact with a wider group of employees.

Each Director has the right of access to all relevant company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice at the Company's expense. A copy of any advice received by the Director is to be made available to all other members of the Board. In accordance with best practice, the Chairman monitors the developmental needs of the Board as a whole, with a view to further developing its effectiveness as a team.

Nominations Committee

The key objective of the Nominations Committee is to ensure that the Board comprises individuals with the necessary skills, knowledge and experience to ensure that it is effective in discharging its responsibilities. The members of the Nominations Committee for 2017 were Lord Moynihan (Chairman), Andrew Black, Caroline Brown and Chris Ellis. The current membership is Andrew Black (Chairman), Caroline Brown, Dame Mary Archer and Lord Moynihan. The Company Secretary also attends meetings. The Nominations Committee did not meet formally during 2017, however, its members discuss relevant matters informally and the business of the Nominations Committee has been addressed by its members in the forum of the Group Board meetings to date during 2018.

Financial and Business Reporting

Management prepare regular finance reports which allow the Board to assess the Company's activities and review its performance.

Corporate Governance Report
(continued)

Risk Management and Internal Control

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. The Board has reviewed and updated the process for identifying and evaluating the significant risks affecting the Company and the policies by which these risks are managed. Internal control systems are designed to meet the Company's particular needs and the risks to which it is exposed. Accordingly, the internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against misstatement and loss.

Audit Committee

The Audit Committee is responsible for assisting the Board with the discharge of its responsibilities in relation to financial reporting, including reviewing the Company's annual and interim financial statements and accounting policies, reviewing and monitoring the scope of the annual audit and the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the internal controls systems in place within the Group. The members of the Audit Committee for 2017 were Dr. Caroline Brown (Chairman) and Lord Moynihan. The report of the Audit Committee is set out on pages 26 to 27. The Chairman of the Audit Committee will attend the AGM to respond to any shareholder questions that might be raised on the Audit Committee's activities. The Company's auditors are also invited to attend the AGM and are available for discussion in relation to the Company's financial statements.

Safety and Technology Committee

The Safety and Technology Committee is responsible for assisting the Board with the discharge of its oversight responsibilities in relation to the Group's strategy with respect to health, safety, environmental, quality and technology ('**HSEQT**') matters. The members of the Safety and Technology Committee for 2017 were Dame Mary Archer (Chairman), Lord Moynihan, Caroline Brown and Chris Ellis. During 2017 the committee continued its detailed root-cause technical analysis and review of the commissioning issues experienced by the Canton plant during 2015. Its findings continue to assist the Board and management with prioritising actions and expenditure.

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policy, and determining the specific remuneration packages for the Chairman, Executive Directors and senior management. During the year the Remuneration Committee comprised Lord Moynihan (Chairman), Andrew Black and Caroline Brown. The current membership is Andrew Black (Chairman), Caroline Brown and Dame Mary Archer. The report of the Remuneration Committee is set out on pages 23 to 25.

Communicating with shareholders

The Board aims to ensure that shareholders are informed of all major developments affecting the Company. The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals.

Remuneration Committee Report

Overview

The Remuneration Committee is formally constituted with written terms of reference which can be found on the Company's website at www.hydrodec.com.

Objectives

The key objectives of the Remuneration Committee are to:

- ensure that the Company's Directors and senior executives are fairly rewarded for their individual contributions to the Company's overall performance by determining their pay and other remuneration; and
- demonstrate to all shareholders that the general policy relating to, and actual remuneration of, individual senior executives of the Company is set by a committee of the Board who have no personal interest in the outcome of the decisions and who will give due regard to the interests of shareholders and to the financial and commercial health of the Company.

Composition

The Remuneration Committee is solely comprised of non-executive Directors. During the year the committee comprised Lord Moynihan (Chairman), Andrew Black and Caroline Brown. The current membership is Andrew Black (Chairman), Caroline Brown and Dame Mary Archer. The Company Secretary acts as secretary to the Remuneration Committee. The Chief Executive may be invited to attend meetings of the Remuneration Committee at the discretion of the Remuneration Committee.

Remuneration Committee Meetings

The Remuneration Committee met twice during the year. The attendance of its members at that meeting is set out in the table on page 21. The agenda for Remuneration Committee meetings is prepared in conjunction with the Chairman. Submissions are circulated in advance and may include remuneration benchmark surveys and guidance on best practice together with papers relating to specific agenda items.

Remuneration Policy

The Remuneration Committee intends that its policy and practice should align with, and support the implementation of, the Group's strategy, be in line with the Group's approach to risk management and promote the long-term success of the Group. The policy is intended to motivate the right behaviours and to ensure that any risk created by the remuneration structure is acceptable to the Remuneration Committee and within the strategy and risk appetite of the Company.

Implementation of the Policy

Salary

The Remuneration Committee continues to review the salaries of the Executive Directors against appropriate benchmarks for executive Directors of AIM and FTSE SmallCap companies of a similar scale. The level of salaries are considered by the Remuneration Committee to be appropriate to help attract, retain and motivate high calibre Executive Directors and reflect the experience of the individuals concerned and the current growth phase of the Group. The base salary of the then CEO (sole Executive Director) was increased during the period (with effect from 1 October 2017), having been unchanged since 1 January 2015 when he was CFO.

Annual bonus

During the period, the CEO (sole Executive Director) was entitled to participate in an annual bonus scheme pursuant to which he could earn up to 100 per cent of his base annual salary. No bonus award was made to the Executive Director in respect of the 2017 financial year.

Remuneration Committee Report
(continued)

Options and Long Term Incentive Plan

During the period, the CEO and the Chairman were granted options pursuant to the Hydrodec Group plc Unapproved Share Option Scheme 2015 (described further below under "Share Options") as follows:

Director	Position	Number of options	Exercise price
Chris Ellis	Chief Executive Officer	15,000,000	1.625 p
Lord Moynihan	Chairman	15,000,000	1.625 p

The options will only vest, and become exercisable, if the average mid-market closing price for an ordinary share of the Company exceeds 3p for a period of any 90 consecutive calendar days ending on or before 31 December 2018, or in certain other prescribed circumstances as provided for in the terms of the option scheme.

Both directors had waived any previous entitlement to options or interests in the Company's Long Term Incentive Plan ("LTIP"). As such, these options represented the only interests of this type held by any member of the Board. Chris Ellis' options lapsed on his resignation as CEO in April 2018.

Directors' Remuneration

The following table shows emoluments paid (or due) to Directors during the financial year, applying the average exchange rates (GBP to USD) used in the financial statements.

	Salary/fees USD '000	**Bonus USD '000**	**Total emoluments 2017 USD '000**	Total emoluments 2016 USD '000
Current Directors:				
Dame Mary Archer (Non-Executive)[1]*	**58**	-	**58**	61
Andrew Black (Non-Executive)[2]	-	-	-	-
Dr. Caroline Brown (Non-Executive)[3]	**71**	-	**71**	75
Lord Moynihan (Non-Executive Chairman)[4]*	**90**	-	**90**	95
Past Directors:				
Chris Ellis (CEO)	**356**	-	**356**	366
Alan Carruthers (Non-Executive)[5][6]	**n/a**	-	**n/a**	54
	575	-	**575**	651

* denotes Directors who have agreed to defer the payment of their fees

[1] In consideration of her role as Chair of the Safety & Technology Committee, entitled to an additional £10,000 per annum to the non-executive director fee

[2] Fees waived

[3] In consideration of her role as Senior Independent Director and Chair of the Audit Committee, entitled to an additional £20,000 per annum to the non-executive director fee

[4] Currently Executive Chairman and Interim CEO

[5] To cessation on 12 April 2016. Includes notice payment of USD16,943.

[6] In consideration of his role as Chair of the Remuneration Committee and the Nomination Committee, was entitled to an additional £15,000 per annum to the non-executive director fee

Share Options

In 2005 the Company established an unapproved share option scheme (the **2005 Scheme**) pursuant to which certain past Directors and other senior members of staff were granted share options. The 2005 Scheme expired during 2015 and a new unapproved share option scheme, the Hydrodec Group plc Unapproved Share Option Scheme 2015 (the **2015 Scheme**), was adopted on 22 September 2015. Options granted under the 2005 Scheme typically have a vesting schedule of between two to three years and exercise prices corresponding to the market price of a share at the date of grant. 2.5 million options to subscribe for ordinary shares remain in issue under the 2005 Scheme, none of which are held by Directors. Options awarded under the 2015 Scheme are described under "***Options and Long Term Incentive Plan***" above.

Service Contracts

During the period Chris Ellis had a service contract with the Group that was terminable by either party on not less than 12 months prior notice.

Pensions and Private Healthcare

There are no pension arrangements in place for Directors. During the period there was a private healthcare arrangement for Chris Ellis, representing a benefit in kind of USD5,800.

Directors' Share Interests

The Directors' shareholdings in the Company are set out in the Report of the Directors on page 15.

Lord Moynihan
Chairman of the Remuneration Committee (during period under review)
31 May 2018

Audit Committee Report

Overview

The Audit Committee is formally constituted with written terms of reference which can be found on the Company's website at www.hydrodec.com.

Objectives

The key objectives of the Audit Committee are to assist the Board with the effective discharge of its responsibilities for financial reporting, internal accounting and financial controls and to review the performance of the Company's external auditors.

Composition

During the period, the Audit Committee was solely comprised of non-executive Directors: Dr. Caroline Brown (Chairman) and Lord Moynihan. The current membership is Dr. Caroline Brown (Chairman) and Dame Mary Archer. The Company Secretary acts as secretary to the Audit Committee.

Audit Committee Meetings

The Audit Committee met four times during the year. The attendance of its members at those meetings is set out in the table on page 21. Representatives from the external auditors, KPMG LLP, the Chief Executive and other members of senior management were regularly invited to attend meetings, although the Audit Committee reserves time for discussion without invitees present.

Role of the Audit Committee

The role of the Audit Committee is one of oversight. The Audit Committee has no executive powers with regard to its recommendations and does not relieve the Executive Directors of their responsibilities for these matters. The agenda for Audit Committee meetings is prepared in conjunction with the Chairman. Submissions are circulated in advance and may include drafts of interim and annual financial statements, related papers from management, audit planning and key issues memoranda prepared by the external auditors and other papers relating to specific agenda items.

Activities of the Audit Committee

Key financial reporting activities

During the year and post period end, the Audit Committee considered specifically those matters with the potential likelihood to have the greatest significant impact on the financial statements. As in previous years, these included the projections forming the basis of the Directors' assessment of going concern, including the facilities available to the Group for the projection period, and the support for the carrying value of the intangible and tangible assets. Attention is drawn to the Independent Auditor's Report on page 28 to 31 in these respects, to note 3 of the financial statements (page 38) in respect of going concern considerations and to the liquidity risk section of the Principal Risks and Uncertainties on page 12.

Other activities

In addition, during the year and post period end, the Audit Committee also undertook the following key activities:

- monitoring the Group's working capital and cash position and adequacy of available facilities and funding;
- monitoring and updating the identified principal risks and uncertainties facing the business and the measures to mitigate these (see pages 10 to 12);
- review and approval of the 2016 audited financial statements;
- review and approval of the 2017 unaudited interim financial statements;
- review and approval of the 2017 audit plan;
- review and approval of the 2017 audited financial statements; and
- considering the impact of new accounting standards on the Group including IFRS 15 (Revenue from contracts with customers) and IFRS 16 (leases).

External auditors

KPMG LLP were appointed as the Group's external auditors at the Annual General Meeting of the Company on 9 June 2015, following a tender process which took place in the second half of 2014. They were last re-appointed at the AGM on 27 June 2017.

Auditor independence and provision of non-audit services

The Audit Committee reviews with management the engagement of the external auditor for non-audit services and the level of associated non-audit fees. For the year to 31 December 2017, the auditor did not earn any non-audit fees. The Audit Committee is satisfied as to the independence of the auditor.

Risk management and internal control

The Group's approach to risk management, identified principal risks and the steps taken to manage those risks are outlined on pages 10 to 12.

Dr. Caroline Brown
Chair of the Audit Committee
31 May 2018

Independent Auditor's Report to the Members of Hydrodec Group plc

1 Our opinion is unmodified

We have audited the financial statements of Hydrodec Group plc ("the Company") for the year ended 31 December 2017 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated and company statements of financial position, consolidated and company statements of changes in equity, consolidated statement of cash flows, and the related notes, including the accounting policies in note 3.

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 December 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, 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. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2016):

Risks of material misstatement		**vs 2016**
Recurring risks	Going concern	◄ ►
	Valuation of Group intangible and tangible assets and Parent company investment in subsidiaries	▲
	The risk	**Our response**
• ***Going Concern*** *Refer to page 18 (Directors' report) and note 3 (Going concern).*	**Forecast based evaluation** • Hydrodec Group plc has significant external funding as well as shareholder loans and relies on continued shareholder support, including assurance that the shareholder loan repayments and interest will not be demanded for the foreseeable future. • Forecasts have been prepared which form the basis of the level of shareholder support required. These forecasts are inherently subjective. • The risk for our audit was whether the above amounted to a material uncertainty that may have cast doubt about the ability of the Group to continue as a going concern, which if applicable, would have required disclosure of that fact.	**Our sector experience** • Critically assessed the Directors' going concern assessment, challenging the forecast and key assumptions based on our knowledge of the business and of the market **Historical comparison** • Evaluating the track record of assumptions used versus actual results in order to assess the historical accuracy of the Group's forecasting process.

		Sensitivity analysis • Performing sensitivity analysis on the key inputs and assumptions in the forecasts such as available financing facilities and revenue growth and the extent to which a change in assumptions would reduce head room available. **Evaluating shareholder's intent and ability** • Assessing the shareholder's intent and ability to not require repayment of existing loans and related interest, by agreeing to financial statements, with reference to bank and portfolio statements from the lender. **Assessing transparency** • Reading the disclosures in respect of going concern within the financial statements and assessed whether the disclosure was balanced, understandable and sufficiently prominent and reflected all relevant facts and circumstances of which we had become aware during our audit work and the requirements of the relevant standard.
• ***Recoverability of Group intangible and tangible assets and parent Company's investment in subsidiaries (Group and Parent)*** • *Intangible assets US$6.7m (2016: US$6.6m), tangible assets US$36.0m (2016: US$37.7m). Refer to note 4 (Critical accounting estimates).* • *Investments in subsidiaries £20m (2016: £21m) Refer to note 4 (Critical accounting estimates).*	**Forecast based evaluation** • Intangible and tangible assets in the Group and the carrying amount of the parent Company's investments in subsidiaries are significant and at risk of irrecoverability due to feedstock constraints. The estimated recoverable amount of these balances is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.	Our procedures included: **Our sector experience** • Evaluating and challenging the assumptions such as the discount rates used by the Directors in the cash flow forecasts based on our knowledge of the Group and the market. **Benchmarking assumptions** • Comparing the key assumptions used in the forecasts such as the short and long term growth rates and in looking at the discount rate the risk premium applied to externally derived data with the assistance of our own internal specialists. **Sensitivity analysis** • Performing sensitivity analysis on the key assumptions within the cash flow forecasts. This included sensitising the discount rate applied to the future cash flows and the short and longer term growth rates and profit margins forecast. Critically assessing the extent to which a change in these assumptions, both individually or in aggregate, would result in an impairment, and considered the likelihood of such events occurring.

Independent Auditor's Report to the Members of Hydrodec Group plc
(continued)

		Assessing transparency • Assessing the adequacy of the parent Company's disclosures in respect of the investment in subsidiaries and the Group's disclosure about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected in the risks inherent in the valuation of the assets.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at US$165k (2016: US$155k), determined with reference to a benchmark of Group revenue of $17.9m, of which it represents 0.9% (2016: 0.9%). We consider total revenue to be the most appropriate benchmark as it provides a more stable measure year on year than Group loss before tax.

Materiality for the parent Company financial statements as a whole was set at £116k (2016: £126k) determined with reference to a benchmark of Company total assets, of which it represents 1% (2016: 1%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding US$8k, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 8 (2016: 10) reporting components, we subjected 6 (2016: 6) to full scope audits for Group purposes.

The components within the scope of our work accounted for 100% (2016:100%) of total revenue, 99% (2016: 99%) of loss before tax and 99% of total assets (2016:99%).

All work (2016: all work) was performed by the Group team, using component materiality of US$157k, having regard to the mix of size and risk profile of the Group across the components.

4 We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5 We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 17, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and 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 they 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

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The purpose of our audit work and to whom we owe our responsibilities

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

Lynton Richmond

Lynton Richmond (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
Canary Wharf
London E14 5GL
31 May 2018

Consolidated Income Statement

For the year ended 31 December 2017

	Note	**2017 USD'000**	2016 USD'000
Continuing operations			
Revenue	5	**17,850**	16,828
Other income	5.3	**111**	445
Total income		**17,961**	17,273
Cost of sales		**(15,266)**	(15,952)
Gross profit		**2,695**	1,321
Administrative expenses		**(5,793)**	(6,613)
Operating loss before impairment		**(3,098)**	(5,292)
Impairment of property, plant and equipment		**-**	(373)
Operating loss after impairment		**(3,098)**	(5,665)
Finance costs	7	**(1,286)**	(1,086)
Loss on ordinary activities before taxation	5.2	**(4,384)**	(6,751)
Taxation	8	**129**	445
Loss for the year from continuing operations		**(4,255)**	(6,306)
Discontinued operations			
Loss from discontinued operations, net of tax	9	**-**	(1,503)
Loss for the year		**(4,255)**	(7,809)
Loss for the year attributable to:			
Owners of the parent company		**(3,936)**	(7,145)
Non-controlling interest	26.1	**(319)**	(664)
		(4,255)	(7,809)
Loss per Ordinary Share			
From continuing operations			
Basic and diluted, cents	10	**(0.57)**	(0.84)
From continuing and discontinued operations			
Basic and diluted, cents	10	**(0.57)**	(1.05)

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	2017 USD'000	2016 USD'000
Total loss for the year	**(4,255)**	(7,809)
Other comprehensive income		
Items that may be subsequently reclassified to profit and loss:		
Foreign currency translation differences on foreign operations	**72**	(1,101)
Foreign currency translation differences on discontinued operations	**-**	(216)
	72	(1,317)
Total comprehensive income for the year	**(4,183)**	(9,126)
Total comprehensive income for the year attributable to:		
Owners of the parent company	**(3,864)**	(8,462)
Non-controlling interest	**(319)**	(664)
	(4,183)	(9,126)

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	2017 USD'000	2016 USD'000
Non-current assets			
Property, plant and equipment	11	**36,627**	38,318
Intangible assets	12	**6,677**	6,586
		43,304	44,904
Current assets			
Trade and other receivables	13	**2,054**	1,969
Inventories	14	**585**	460
Cash and cash equivalents	15	**126**	114
		2,765	2,543
Current liabilities			
Bank overdraft		**(340)**	(688)
Trade and other payables	16	**(5,288)**	(3,787)
Other interest-bearing loans and borrowings	17	**(14,140)**	(2,981)
		(19,768)	(7,456)
Net current liabilities		**(17,003)**	(4,913)
Non-current liabilities			
Employee obligations		**(39)**	(63)
Other interest-bearing loans and borrowings	17	**(6,177)**	(15,612)
Provisions	18	**(777)**	(776)
Deferred taxation	19	**(1,062)**	(1,093)
		(8,055)	(17,544)
Net assets		**18,246**	22,447
Equity			
Called up share capital	20	**6,200**	6,200
Share premium account	21	**130,539**	130,539
Merger reserve	21	**48,940**	48,940
Profit and loss account	21	**(174,985)**	(171,103)
Equity attributable to owners of the parent company		**10,694**	14,576
Non-controlling interest		**7,552**	7,871
Total equity		**18,246**	22,447

The financial statements of the Group (Hydrodec Group plc - 05188355) were approved by the Board of Directors and authorised for issue on 31 May 2018 and were signed on its behalf by:

Lord Moynihan
Executive Chairman and Interim Chief Executive Officer

Consolidated Statement of Cash Flow

For the year ended 31 December 2017

	2017 USD'000	2016 USD'000
Cash flows from operating activities		
Loss before taxation	**(4,384)**	(8,254)
Net finance costs	**1,286**	1,113
Adjustments for:		
Gain on disposal of discontinued operations	-	(52)
Amortisation, depreciation and impairment	**3,093**	4,726
Loss on disposal of property, plant and equipment	**5**	19
Share-based payments	**(17)**	9
Foreign exchange movement	**133**	(470)
Operating cash inflow/(outflow) before working capital movements	**116**	(2,909)
(Increase)/decrease in inventories	**(89)**	510
Increase in trade and other receivables	**(85)**	(1,312)
Increase/(decrease) in trade and other payables	**1,470**	(611)
Decrease in provisions	-	(80)
Taxes paid	-	(9)
Net cash inflow/(outflow) from operating activities	**1,412**	(4,411)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(335)**	(540)
Purchase of intangible assets	**(120)**	-
Proceeds from disposal of property, plant and equipment	**7**	10
Disposal of discontinued operations, net of cash disposed of	-	1,760
Proceeds from sale of interest in subsidiary	-	322
Net cash (outflow)/inflow from investing activities	**(448)**	1,552
Cash flows from financing activities		
Proceeds from loans	**1,601**	4,665
Capital contribution from NCI	-	250
Interest paid	**(483)**	(640)
Repayment of lease liabilities	**(1,698)**	(1,618)
Net cash (outflow)/inflow from financing	**(580)**	2,657
Net increase/(decrease) in cash and cash equivalents	**384**	(202)
Cash and cash equivalents at beginning of year	**(574)**	(303)
Effect of movements in exchange rates on cash held	**(24)**	(69)
Closing cash and cash equivalents	**(214)**	(574)
Reported in the Consolidated Statement of Financial Position as:		
Cash and cash equivalents	**126**	114
Bank overdraft	**(340)**	(688)
Net cash balance	**(214)**	(574)

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Share capital USD '000	Share premium USD '000	Merger reserve USD '000	Employee benefit trust USD '000	Foreign exchange reserve USD '000	Capital redemption reserve USD '000	Share option reserve USD '000	Profit and loss account USD '000	Total profit and loss account USD '000	Total attributable to owners of the parent USD '000	Non-controlling interest USD '000	Total equity USD '000
At 1 January 2016	6,200	130,539	48,940	(1,150)	(9,174)	420	883	(152,662)	(161,683)	23,996	5,619	29,615
Transactions with owners in their capacity as owners:												
Capital contribution from NCI	-	-	-	-	-	-	-	-	-	-	250	250
Sale of interest in HoNA	-	-	-	-	-	-	-	(966)	(966)	(966)	2,666	1,700
Share-based payments	-	-	-	-	-	-	9	-	9	9	-	9
Transfer to retained earnings in respect of forfeit/waived options	-	-	-	-	-	-	(226)	226	-	-	-	-
Effect of foreign exchange rates	-	-	-	-	-	-	(1)	-	(1)	(1)	-	(1)
Total transactions with owners in their capacity as owners	-	-	-	-	-	-	(218)	(740)	(958)	(958)	2,916	1,958
Loss for the year	-	-	-	-	-	-	-	(7,145)	(7,145)	(7,145)	(664)	(7,809)
Other comprehensive income:												
Currency translation differences	-	-	-	-	(1,101)	-	-	-	(1,101)	(1,101)	-	(1,101)
Currency translation differences on discontinued operations	-	-	-	-	(216)	-	-	-	(216)	(216)	-	(216)
Total other comprehensive income for the year	-	-	-	-	(1,317)	-	-	-	(1,317)	(1,317)	-	(1,317)
Total comprehensive income for the year	-	-	-	-	(1,317)	-	-	(7,145)	(8,462)	(8,462)	(664)	(9,126)
At 31 December 2016	6,200	130,539	48,940	(1,150)	(10,491)	420	665	(160,547)	(171,103)	14,576	7,871	22,447
At 1 January 2017	6,200	130,539	48,940	(1,150)	(10,491)	420	665	(160,547)	(171,103)	14,576	7,871	22,447
Transactions with owners in their capacity as owners:												
Share-based payments	-	-	-	-	-	-	(17)	-	(17)	(17)	-	(17)
Effect of foreign exchange rates	-	-	-	-	-	-	(1)	-	(1)	(1)	-	(1)
Total transactions with owners in their capacity as owners	**-**	**-**	**-**	**-**	**-**	**-**	**(18)**	**-**	**(18)**	**(18)**	**-**	**(18)**
Loss for the year	-	-	-	-	-	-	-	(3,936)	(3,936)	(3,936)	(319)	(4,255)
Other comprehensive income:												
Currency translation differences	-	-	-	-	72	-	-	-	72	72	-	72
Total other comprehensive income for the year	-	-	-	-	72	-	-	-	72	72	-	72
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**72**	**-**	**-**	**(3,936)**	**(3,864)**	**(3,864)**	**(319)**	**(4,183)**
At 31 December 2017	**6,200**	**130,539**	**48,940**	**(1,150)**	**(10,419)**	**420**	**647**	**(164,483)**	**(174,985)**	**10,694**	**7,552**	**18,246**

A description of each reserve is set out in note 21.

The accompanying accounting policies and notes form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2017

1 Corporate Information

Hydrodec Group plc (the 'Company') is a public company incorporated, domiciled and registered in England in the UK. The registered number is 05188355 and the registered address is Dorset House, Regent Park, Kingston Road, Leatherhead, KT22 7PL.

The Group's principal activity is the re-refining of used transformer oil into, and the sale of, new **SUPER**FINE oil.

2 Adoption of new and revised Standards

Standards affecting presentation and disclosure

In the current year, the following new and revised Standards have been adopted but have not had any material impact on the amounts reported in these financial statements:

- Amendments to IAS 12 - *Recognition of deferred tax assets for unrealised losses*
- Amendment to IAS 7 - *Statements of cash flows - disclosure initiatives*
- Amendments to IFRS 12 - *Annual improvements to IFRS standards 2014-2016 cycle*

Standards issued but not yet effective

At the date of authorisation of the financial statements, the following Standards and Interpretations which have not been applied in the financial statements were in issue but not yet effective (and in some cases, had not yet been adopted by the EU):

- Amendments to IFRS 2 - *Share-based payments*
- IFRS 9 - *Financial instruments*
- Amendments to IFRS 15 - *Revenue from contracts with customers*
- IFRS 16 - *Leases*
- IFRIC 22 - *Foreign currency transactions and advance consideration*
- IFRIC 23 - *Uncertainty over income tax treatments*
- Amendments to IAS 28 - *Long-term interests in associates and joint ventures*
- Annual improvements to IFRS Standards 2015-2017

The Directors do not expect that the adoption of these Standards or Interpretations in future periods will have a material impact on the financial statements of the Company or the Group.

3 Significant accounting policies

Basis of preparation

The Group financial statements consolidate those of the Company and its subsidiaries. The parent Company financial statements present information about the Company as a separate entity and not about its Group.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The Company has elected to prepare its parent Company financial statements in accordance with FRS 101; these are presented on pages 70 to 78.

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

Judgements made by the Directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year, are discussed in note 4.

Notes to the Financial Statements
(continued)

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 4 to 12. The principal risks that could potentially have a significant impact on the Group in the future are set out on pages 10 to 12. In particular, the Group operates from two sites and is therefore dependent on their continuing operational reliability and rateability, with the ability to source sustainable and increased supplies of feedstock being both a principal risk and a key strategic focus for the Board. In the US, the Group currently sources the majority of its feedstock via its partner, G&S, but does not currently source sufficient supplies to run the Canton plant at its target levels of utilisation. There are competing uses for used transformer oil - notably as a diesel extender, with current high demand from Mexico - and the location of feedstock supplies, and cost of transport, are key components in the Group's ability to source feedstock at an appropriate price. The new interim executive management team are working closely with local management to increase supplies from G&S and other existing sources, and also looking to develop new partnerships - including initiating direct approaches to US utilities around "closed-loop" arrangements, leveraging the Group's carbon offset credits to allow utilities to meet their own sustainability goals. After a challenging start to 2018, the feedstock position is already showing signs of improvement with scope for further increases through the year.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Executive Chairman and Interim Chief Executive's Report on pages 6 to 9. In addition, note 23 to the consolidated financial statements on pages 64 to 65 includes details of the Group's approach to managing its capital and its exposures to interest rate, credit, currency and liquidity risk.

As described in the Executive Chairman and Interim Chief Executive's Report on pages 6 to 9 the Group has reported much improved financial results for 2017. The impact of continued improvements in operational performance and efficiencies, coupled with current and forecast improvements in pricing and margins, results in base case projections for the combined USA and Australian operations for the period to June 2019 showing a steadily improving position. In addition to targeting improvement in the performance of the Group's existing facilities, the Board and management will also consider other opportunities for growth in the Group's key market of the US and elsewhere.

However, while the projections to June 2019 show sufficient cash in totality to fund all of the Group's corporate costs (excluding the repayment of the loans from Andrew Black referred to below), in order to facilitate certain UK payments and also to provide additional working capital support for the business, an additional facility has been secured with Andrew Black, a non-executive Director and the Company's largest shareholder, demonstrating his continued support for the Group.

At 30 April 2018, the Group's indebtedness (excluding finance lease liabilities of USD 7.5 million which are secured over assets of the Group and are being repaid in accordance with their terms) was funded by a combination of overdraft facilities in the USA and Australia of USD 2.1 million, and committed loan facilities from Andrew Black, including accrued interest, of £8.9 million (USD 12.3 million). This includes a new facility from Andrew Black entered into in April this year for £0.5 million (USD 0.7 million) which bears no interest. In order to fund additional working capital requirements and provide headroom for additional downside risk in the period covered by the projections, the Company has today announced a further extension to the committed facilities for £1.0 million (USD 1.4 million), further details of which are set out in notes 17, 27 and 28. This latest extension to the facility also bears no interest. Where the existing facilities from Andrew Black provide for interest to be payable, this rolls-up and is accrued rather than requiring cash interest payments during the term. Furthermore, Andrew Black has indicated to the Board his continued support of the business in order to allow the Group to meet its liabilities as they fall due during the period covered by the projections. The key risks considered by the Directors in making their assessment as to the adequacy of headroom under the existing facilities and ongoing support from Andrew Black, include a reduction in volume of production/sales and a decline in projected pricing.

The committed loan facilities currently have a repayment date of 31 December 2018. However the Company has the option to extend the repayment period of these facilities to 30 June 2019 on their respective prevailing terms. The Board will keep the position under review and may elect to extend the repayment period and/or source alternative funding or re-financing. Looking to the position beyond 30 June 2019, given Andrew Black's past and continuing support together with the steady improvement in operational performance, the Board expects that it would be able to negotiate a further extension to the redemption date beyond 30 June 2019 if necessary while continuing to explore options for refinancing.

Taking into account the Group's current forecasts and projections, the available facilities and ongoing support from Andrew Black, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for at least the next 12 months from the date of approval of these financial statements. In preparing these financial statements the Directors have given consideration to the above matters and on that basis, they believe that it remains appropriate to prepare the financial statement on a going concern basis.

Presentational currency

For the purpose of the consolidated financial statements, the results and financial positon are expressed in United States dollars ('USD') as the Group's business is influenced by pricing in international commodity markets which are primarily USD based.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it 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. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Business combinations

All business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests, which have both present ownership interests and are entitled to a proportionate share of net assets of the acquiree in the event of liquidation, either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date. All other non-controlling interests are measured at their fair value at the acquisition date.

Notes to the Financial Statements
(continued)

Non-controlling interest

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Goodwill

Goodwill, representing the excess of the fair value of the consideration paid over the fair value of the identifiable net assets of subsidiary undertakings at the date of acquisition, is initially recognised as an asset at its fair value and is subsequently measured at cost less any accumulated impairment losses. If the fair values of identifiable net assets exceed fair value of consideration paid, the excess amount (i.e. on a bargain purchase) is recognised in profit or loss immediately.

Measurement convention

The financial statements are prepared on the historical cost basis except where stated otherwise in accounting policies. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates ('functional currency'). In preparing the financial statements of the individual companies, transactions in currencies other than the functional currency of each Group company ('foreign currencies') are translated into the functional currency at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated into the functional currency at the rates prevailing on the reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign exchange differences are recognised in the profit or loss in the period in which they arise, except for foreign exchange differences on monetary items receivable or payable to a foreign operation for which settlement is neither planned nor likely to occur and which, therefore, form part of the net investment in the foreign operation. Foreign exchange differences arising on the translation of the Group's net investment in foreign operations are recognised as a separate component of shareholders' equity via the statement of other comprehensive income.

The assets and liabilities of the Group's operations which have a functional currency other than USD, are translated using exchange rates prevailing at the end of each reporting period. 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. Foreign exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity. Equity items are translated at the exchange rates at the date of transaction and foreign exchange differences arising, if any, are accumulated directly in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign operations and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

On the disposal of a foreign operation (i.e. a disposal of a Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation or loss of joint control over a jointly controlled entity that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss. Where there is no change in the proportionate percentage interest in an entity then there has been no disposal or partial disposal and accumulated exchange differences attributable to the Group are not reclassified to profit or loss.

Property, plant and equipment

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

The cost of an item of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing the asset into use. The cost of self-constructed assets includes the cost of materials, direct labour, and any other costs directly attributable to bringing the asset into use.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The cost of the day-to-day servicing of property, plant and equipment are recognised as an expense as incurred.

Depreciation is provided at rates calculated to write off the cost of assets, less their estimated residual value, over their expected useful lives on a diminishing value basis. The rates used vary between 5% and 33% per annum. The estimated useful lives, residual value and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

Intangible assets

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired. The Group's policy for measuring goodwill arising in a business combination is described above.

Goodwill is not amortised but is reviewed for impairment at least annually.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Other intangible assets

Intangible assets acquired separately from a business are capitalised at cost and amortised over their useful lives. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Intangible assets are amortised over their estimated useful economic life.

Impairment

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Notes to the Financial Statements
(continued)

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit ('CGU')). Goodwill acquired in a business combination is allocated to each of the Group's CGUs expected to benefit from the synergies of the combination. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

An impairment loss is recognised if the carrying amount of an asset or its CGU, exceeds its estimated recoverable amount. An impairment loss is recognised in the profit and loss immediately. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing locations and condition.

Carbon credits

Carbon credits are not recognised in the Group's balance sheet but are recognised as income at fair value of the consideration received when the risks and rewards of ownership pass to a third party and when the amount of income can be measured reliably.

Financial instruments

Recognition of financial assets and financial liabilities

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

Derecognition of financial assets and financial liabilities

The Group derecognises a financial asset only when the contractual rights to cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for the amount it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or expired.

Impairment of financial assets and financial liabilities

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost less any provision for impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and on-demand deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Trade and other payables

Trade and other payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

Interest-bearing borrowings

Interest-bearing borrowings are initially measured at fair value less attributable transaction costs and are subsequently measured at amortised cost using the effective interest method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

The costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that would otherwise have been avoided.

Share-based payments

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

The Group operates an equity-settled share option plan and a share-based compensation plan in respect of certain Directors and employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value of the service received in exchange for the grant of option and equity is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

The fair value of option grants is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. For share-based payment awards with non-vesting conditions, the fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment transactions in which the Group receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Group's equity instruments are accounted for as cash-settled share-based

Notes to the Financial Statements
(continued)

payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is re-measured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic resources will result and that outflow can be reliably measured.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flow estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receipt can be measured reliably.

Leasing

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on temporary timing differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets are not recognised if the temporary difference arises from goodwill or the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted at the reporting date.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Employee Benefit Trust

The assets and liabilities of the Employee Benefit Trust (EBT) have been included in the Group accounts. Any assets held by the EBT cease to be recognised on the Group balance sheet when the assets vest unconditionally in identified beneficiaries.

The costs of purchasing own shares held by the EBT are shown as a deduction against equity. The proceeds from the sale of own shares held increase equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the consolidated statement of comprehensive income.

Revenue recognition

Revenue is recognised at fair value of the consideration receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Sale of goods

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the sale of re-refined oil to entities outside the consolidated entity. Sales revenue is recognised when the risks and rewards of ownership of the goods passes to the customer, which is normally upon delivery, and when the amount of revenue can be measured reliably.

Government income

The Australian Government provides an incentive for product stewardship of used oil which is recognised as additional income at the point of delivery of the associated revenue stream upon which the government income is based.

Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, and unwinding of the discount on provisions. Financing income comprises interest receivable on funds invested and dividend income.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

Patents

All costs incurred in maintaining patents are expensed in the period in which they are incurred, unless they meet the recognition criteria under IAS 38, in which case they are capitalised.

New product development costs

Expenditure on new product development is recognised as an expense in the period in which it is incurred.

Notes to the Financial Statements
(continued)

Development costs incurred on specific projects are capitalised when all the following conditions are satisfied:

- completion of the intangible asset is technically feasible so that it will be available for use or sale;
- the Group intends to complete the intangible asset and use or sell it;
- the Group has the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits. Among other things this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Costs incurred which do not meet the above criteria are expensed as incurred.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments and making strategic decisions, has been identified as the Board of Directors.

4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods.

The following are the critical judgements and estimations that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Recoverability of intangible assets and property, plant and equipment

Determining whether an asset is impaired requires an assessment of whether there are any indicators of impairment. If there is any indication of potential impairment, an impairment test is required based on the recoverable amount of the asset. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. At 31 December 2017, the Directors determined that there were indicators of impairment in respect of the Group's tangible and non-tangible assets and an impairment test was performed.

The Group considers it has two cash generating units (CGUs), being re-refining in the USA and Australia. The future cash flows expected to arise from these units were calculated using a discount rate of 11% based on the weighted average cost of capital. The impairment test indicated that the recoverable amount of the cash-generating units was at least equal to the carrying amount of the assets and no provision for impairment was required.

At 31 December 2017, the carrying amount of intangible assets and property, plant and equipment was USD 6.7 million (2016: USD 6.6 million) and USD 36.6 million (2016: USD 38.3 million) respectively.

Estimated useful life of intangible assets

In accordance with the provisions of IAS 38 Intangible assets, the Group is required to review the estimated useful life of a finite life intangible asset at least each financial year.

In September 2017, the Group was granted a new patent in respect of its transformer oil re-refining process which has been recognised as an intangible asset in accordance with IAS 38. The Group considers the patent and its intangible technology assets to be complementary assets and that the expiration date of the new patent more accurately reflects the pattern in which the technology assets' future economic benefits are expected to arise. As a result, management are of the opinion that the estimated useful life of the technology assets' should be extended so as to be in line with the terms of the patent. It has, therefore, been considered appropriate to extend the estimated useful life of the technology assets to 31 December 2034. The change in estimate has been accounted for progressively, with the effect of the change being recognised in the current and future periods.

The change in estimate has resulted in the life of the intangible technology assets being extended by between 11.5 and 15 years, which has resulted in a reduction in the amortisation charge for the year ended 31 December 2017 of USD 1.0 million.

At 31 December 2017, the carrying amount of the intangible technology assets was USD 6.2 million (2016: USD 6.0 million) and an amortisation charge of USD 0.3 million (2016: USD 1.4 million) has been recognised during the year in respect of these assets.

5 Revenue and operating loss

5.1. Segment analysis

Subsequent to the disposal of Hydrodec (UK) Limited and Hydrodec Re-refining (UK) Limited (the 'discontinued operations') in March 2016, the Group has one main operating segment, Re-refining, which is classified as the treatment of used transformer oil and the sale of **SUPER**FINE oil. The operating segment arises from two geographic locations, USA and Australia.

The financial information detailed below is frequently reviewed by the Board (the Chief Operating Decision Maker) and decisions made on the basis of adjusted segment operating results.

Year ended 31 December 2017 **Income Statement**	**USA** **USD'000**	**Australia** **USD'000**	**Unallocated** **USD'000**	**Total** **USD'000**
Revenue	**13,442**	**4,408**	**-**	**17,850**
Other income	**67**	**3**	**41**	**111**
EBITDA	**1,519**	**196**	**(1,412)**	**303**
Depreciation and loss on disposal of property, plant and equipment	**(1,994)**	**(474)**	**(3)**	**(2,471)**
Amortisation	**-**	**(281)**	**(346)**	**(627)**
Loss for the year on continuing operations	**(1,023)**	**(727)**	**(2,505)**	**(4,255)**

At 31 December 2017 **Balance Sheet**	**USA** **USD'000**	**Australia** **USD'000**	**Unallocated** **USD'000**	**Total** **USD'000**
Total assets	**32,969**	**6,777**	**6,323**	**46,069**
Total liabilities	**(11,313)**	**(3,733)**	**(12,777)**	**(27,823)**
Net assets	**21,656**	**3,044**	**(6,454)**	**18,246**

Notes to the Financial Statements
(continued)

Revenue from a single customer accounted for 39% of the Group's total revenues for the year ended 31 December 2017. The total amount of revenue from this customer amounted to USD 7.0 million (2016: USD 6.7 million). These revenues were reported in the USA segment above.

Year ended 31 December 2016 **Income Statement**	**USA** **USD'000**	**Australia** **USD'000**	**Unallocated** **USD'000**	**Total** **USD'000**
Revenue	13,158	3,670	–	16,828
Other income	400	2	43	445
EBITDA	307	(544)	(2,159)	(2,396)
Depreciation, loss on disposal of property, plant and equipment, and impairment	(1,924)	(408)	(398)	(2,730)
Amortisation	–	(273)	(1,394)	(1,667)
Loss for the year on continuing operations	(1,682)	(787)	(3,837)	(6,306)

At 31 December 2016 **Balance Sheet**	**USA** **USD'000**	**Australia** **USD'000**	**Unallocated** **USD'000**	**Total** **USD'000**
Total assets	34,642	6,759	6,046	47,447
Total liabilities	(11,951)	(3,547)	(9,502)	(25,000)
Net assets	22,691	3,212	(3,456)	22,447

5.2. Loss on ordinary activities

The loss before taxation is stated after charging/(crediting) the following amounts:

	Continuing **2017** **USD'000**	**Discontinued** **2017** **USD'000**	Continuing 2016 USD'000	Discontinued 2016 USD'000
Government income	**(1,425)**	-	(1,031)	-
Cost of sales				
- inventory expenses	**5,823**	-	6,783	133
- other direct costs	**5,599**	-	5,379	2,925
- employee benefit expense	**1,501**	-	1,583	814
- depreciation	**2,343**	-	2,207	301
Share-based payments	**(17)**	-	9	-
Payroll costs (excluding share-based payments)	**3,678**	-	4,627	1,315
Depreciation and impairment of property, plant and equipment	**123**	-	504	47
Loss on disposal of property, plant and equipment	**5**	-	19	–
Amortisation	**627**	-	1,667	-
Operating lease rentals – land and buildings	**83**	-	206	157
Exchange loss/(gain)	**276**	-	(1,137)	(4)
Fees payable to the Company's auditor for the audit of the annual accounts	**52**	-	60	-
Fees payable to the Company's auditor and its associates for other services:				
- audit of the Company's subsidiaries	**32**	-	35	-

5.3. Other income

	Continuing 2017 USD'000	Discontinued 2017 USD'000	Continuing 2016 USD'000	Discontinued 2016 USD'000
Settlement proceeds	**47**	-	400	-
Carbon credit sale	**3**	-	-	-
Other income	**61**	-	45	-
	111	-	445	-

Settlement proceeds

Subsequent to the incident at Canton in December 2013, Zeton Inc., the main contractor for the rebuild, installed faulty heat exchangers which leaked and caused a safety hazard. Hydrodec filed a claim against Zeton Inc. in 2015 and a total settlement of USD 0.4 million was received during the year ended 31 December 2016. The Company made a further claim against API Heat Transfer, the company responsible for manufacturing the faulty heat exchangers, and a further settlement of USD 47,500 was received during the year ended 31 December 2017.

Carbon credit sale

In September 2016, the Group received carbon credit approval form the American Carbon Registry ("ACR") enabling the Group's product to be sold with a carbon credit offset, creating a future incremental revenue stream. The Group agreed its first trade of a proportion of its historic credit during the year ended 31 December 2017.

Other income

Other income relates primarily to the recharge of employee services provided by the Group to third party entities.

6 Staff Costs

The average monthly number of employees (including Executive Directors) was:

	Continuing 2017	Discontinued 2017	Continuing 2016	Discontinued 2016
Operations	**34**	-	38	-
Corporate Office	**4**	-	6	-
	38	-	44	-

Their aggregate remuneration (including Executive Directors) comprised:

	Continuing 2017 USD'000	Discontinued 2017 USD'000	Continuing 2016 USD'000	Discontinued 2016 USD'000
Wages and salaries	**3,388**	-	4,171	1,121
Social security costs	**247**	-	325	169
Other pension costs	**114**	-	131	25
Share-based payments	**(17)**	-	4	-
	3,732	-	4,631	1,315

Notes to the Financial Statements
(continued)

Included within wages and salaries is the sum of USD 71,429 (2016: nil) which was capitalised to intangible assets during the year ended 31 December 2017.

The remuneration of the highest paid Director was USD 0.36 million (2016: USD 0.37 million). Refer to the Remuneration Comittee Report on page 24.

7 Finance costs

	Continuing 2017 USD'000	**Discontinued 2017 USD'000**	Continuing 2016 USD'000	Discontinued 2016 USD'000
Bank overdrafts and leases	**489**	-	612	27
Shareholder loan	**797**	-	474	-
	1,286	-	1,086	27

Finance costs in respect of the shareholder loan have been added to the pincipal loan amount. See note 17.

8 Income tax

	Continuing 2017 USD'000	**Discontinued 2017 USD'000**	Continuing 2016 USD'000	Discontinued 2016 USD'000
Current tax	-	-	(19)	-
Deferred tax				
Reversal of temporary timing differences	**67**	-	279	-
Adjustment for change in estimates	**62**	-	-	-
Adjustment for change in UK tax rate	-	-	185	-
	129	-	464	-
Total tax	**129**	-	445	-

The credit for the year can be reconciled to the loss per the income statement as follows:

	Continuing 2017 USD'000	**Discontinued 2017 USD'000**	Continuing 2016 USD'000	Discontinued 2016 USD'000
Loss on ordinary activities before taxation	**(4,384)**	-	(6,751)	(1,503)
Loss multiplied by the rate of corporation tax for UK companies of 19.25% (2016: 20%)	**(844)**	-	(1,350)	(301)
Effects of:				
Expenses not deductible for tax purposes	**250**	-	866	47
Foreign tax withheld	-	-	(19)	-
Temporary differences	**(30)**	-	813	-
Share-based payments	**(3)**	-	2	-
Difference in foreign exchange rates	-	-	(1)	-
Unrelieved tax losses carried forward	**756**	-	134	254
	129	-	445	-

Unrealised tax losses carried forward, as detailed in note 19, have not been recognised as a deferred tax asset as there is currently insufficient evidence that the asset will be recoverable in the foreseeable future. The losses must be utilised in relation to the same operations.

9 Discontinued operations

On 4 March 2016, following a strategic auction process conducted by an independent third-party financial adviser, Hydrodec Holdco Limited, a wholly-owned subsidiary of the Company, disposed of Hydrodec (UK) Limited and Hydrodec Re-Refining (UK) Limited (together, the 'UK operations'), together with certain other rights and assets relating to its UK operations, to Andrew Black (the 'Buyer"), a non-executive Director and a substantial shareholder of the Company. The consideration for the sale of the UK operations was £1 in cash and, in addition, the Buyer agreed to grant the Group a contractual right to receive 10% of the Buyer's entitlement to any future net profits of the UK lubricant oil re-refining project on distribution or exit.

The UK operations have been treated as discontinued operations for the year ended 31 December 2016. A single amount is shown on the face of the consolidated income statement, comprising the post-tax result of discontinued operations and the post-tax loss recognised on the re-measurement to fair value less costs to sell and on disposal of the discontinued operations. In the cash flow statement, the cash provided by the operating activities of the UK operations has been reported as a single line item.

The results of the discontinued operations, which have been included in the consolidated income statement for the year ended 31 December 2016, were as follows:

9.1. Loss from discontinued operations, net of tax

	USD'000
Revenue and other income	4,500
Expenses	(6,028)
Operating loss	(1,528)
Finance costs	(27)
Loss before taxation	(1,555)
Taxation	-
Net loss attributable to discontinued operations	(1,555)
Gain on disposal of discontinued operations (see note 9.2)	52
Loss from discontinued operations, net of tax	(1,503)
Loss per Ordinary Share	
Basic and diluted, cents	(0.21)

Notes to the Financial Statements
(continued)

9.2. Gain on disposal of discontinued operations

	USD'000
Property, plant and equipment	(4,538)
Inventories	(312)
Trade and other receivables	(6,164)
Cash and cash equivalents	2,014
Trade and other payables	4,732
Provisions	894
Other interest-bearing loans and payables	3,464
Net liabilities	90
Currency translation differences	216
Costs of disposal, satisfied in cash	(254)
Gain on disposal of discontinued operations	52
Costs of disposal, satisfied in cash	(254)
Cash and cash equivalents disposed of	2,014
Net cash inflow	1,760

During the year ended 31 December 2016, the discontinued operations contributed USD 1.64 million to the Group's net cash outflow from operating activities, USD 1.76 million to inflow from investing activities and USD 0.5 million to net cash inflow from financing activities.

10 Loss per Ordinary Share

Basic loss per Ordinary Share is calculated by dividing the net loss for the year attributable to ordinary shareholders by the weighted average number of Ordinary Shares in issue during the year. The calculation of the basic and diluted loss per Ordinary Share is based on the following data:

	Continuing operations 2017 USD'000	**Continuing and discontinued operations 2017 USD'000**	Continuing operations 2016 USD'000	Continuing and discontinued operations 2016 USD'000
Losses				
Losses for the purpose of basic loss per Ordinary Share	**(4,255)**	**(4,255)**	(6,306)	(7,809)
	Number '000	**Number '000**	Number '000	Number '000
Number of shares				
Weighted average number of shares for the purpose of basic loss per share	**746,683**	**746,683**	746,683	746,683
Loss per Ordinary Share				
Basic and diluted, cents per share	**(0.57)**	**(0.57)**	(0.84)	(1.05)

Due to the losses incurred in the years reported, there is no dilutive effect from the existing share options or share-based employment compensation plan.

Notes to the Financial Statements
(continued)

11 Property, plant and equipment

	Land and buildings USD'000	Plant and equipment USD'000	Assets in course of construction USD'000	Total USD'000
Cost				
At 31 December 2015	6,018	52,072	-	58,090
Derecognised	-	(94)	-	(94)
Additions	-	422	147	569
Discontinued operations	(42)	(10,783)	-	(10,825)
Disposals	-	(93)	-	(93)
Exchange differences	(18)	(700)	-	(718)
At 31 December 2016	5,958	40,824	147	46,929
Reclassified	-	139	(147)	(8)
Additions	40	351	-	391
Disposals	-	(30)	-	(30)
Exchange differences	96	619	-	715
At 31 December 2017	**6,094**	**41,903**	-	**47,997**
Accumulated depreciation and impairment				
At 31 December 2015	1,829	10,616	-	12,445
Derecognised	-	(94)	-	(94)
Depreciation charge for the year	73	2,613	-	2,686
Impairment	-	373	-	373
Discontinued operations	(10)	(6,278)	-	(6,288)
Disposals	-	(64)	-	(64)
Exchange differences	(10)	(437)	-	(447)
At 31 December 2016	1,882	6,729	-	8,611
Reclassified	-	(8)	-	(8)
Depreciation charge for the year	74	2,392	-	2,466
Disposals	-	(18)	-	(18)
Exchange differences	56	263	-	319
At 31 December 2017	**2,012**	**9,358**	-	**11,370**
Carrying amount				
At 31 December 2017	**4,082**	**32,545**	-	**36,627**
At 31 December 2016	4,076	34,095	147	38,318

The Group's obligations under finance leases are secured by the lessors' title to certain assets. The carrying amount of the Group's plant and equipment includes USD 1.4 million (2016: USD 1.2 million) in respect of assets held under finance leases. In addition, there is a lease denominated in USD which includes a general title to certain tangible assets held in the USA. The carrying amount of the Group's plant and equipment includes USD 28.5 million (2016: USD 30.1 million) in respect of these assets. See note 17.

Buildings are depreciated at rates varying from 2.5% and 10% based on the estimated useful life of the asset. Plant and equipment is depreciated at rates varying from 5% and 33% based on the estimated useful life of the asset.

An impairment of USD nil (2016: USD 0.4 million) has been recognised in respect of a specific item of property, plant and equipment whose carrying value is not expected to be recovered.

12 Intangible assets

	Re-Refining					Recycling			
	Royalty USD'000	Hydrodec Technology USD'000	Patent USD'000	Goodwill USD'000	CEP Licence USD'000	Contracts USD'000	Brand Name USD'000	Goodwill USD'000	Total USD'000
Cost									
At 31 December 2015	4,090	22,867	-	3,144	903	2,117	1,980	1,409	36,510
Discontinued operations	-	-	-	-	(903)	(2,117)	(1,980)	(1,409)	(6,409)
Exchange differences	(38)	(3,921)	-	(593)	-	-	-	-	(4,552)
At 31 December 2016	4,052	18,946	-	2,551	-	-	-	-	25,549
Reclassified	-	-	8	-	-	-	-	-	8
Additions	-	-	120	-	-	-	-	-	120
Exchange differences	316	1,811	-	244	-	-	-	-	2,371
At 31 December 2017	**4,368**	**20,757**	**128**	**2,795**	**-**	**-**	**-**	**-**	**28,048**
Accumulated amortisation and impairment									
At 31 December 2015	3,176	14,165	-	3,144	903	2,117	1,980	1,409	26,894
Provided in the year	273	1,394	-	-	-	-	-	-	1,667
Discontinued operations	-	-	-	-	(903)	(2,117)	(1,980)	(1,409)	(6,409)
Exchange differences	(37)	(2,559)	-	(593)	-	-	-	-	(3,189)
At 31 December 2016	3,412	13,000	-	2,551	-	-	-	-	18,963
Reclassified	-	-	8	-	-	-	-	-	8
Provided in the year	281	346	-	-	-	-	-	-	627
Exchange differences	271	1,258	-	244	-	-	-	-	1,773
At 31 December 2017	**3,964**	**14,604**	**8**	**2,795**	**-**	**-**	**-**	**-**	**21,371**
Carrying amount									
At 31 December 2017	**404**	**6,153**	**120**	**-**	**-**	**-**	**-**	**-**	**6,677**
At 31 December 2016	640	5,946	-	-	-	-	-	-	6,586

Re-Refining

USA and Australia

The royalty payment, recorded at cost in 2008, represents the right for the Group as a whole to generate income based on the quantity of **SUPER**FINE oil produced for a period of 15 years, commencing in 2004. It is being amortised on a straight-line basis and the remaining unamortised life of the asset at 31 December 2017 was 1.4 years.

Hydrodec technology relates to intellectual property acquired by the Group in 2004, consisting of know-how and trade secrets, some of which is covered by a patent. The original patent in respect of the USA expired on 14 September 2016 and a new

Notes to the Financial Statements
(continued)

patent was granted in September 2017. The successful application is expected to provide a marketing and operational advantage by extending the ability to claim patent protection over the Group's processes until 2034. The Group considers the patent and its intangible technology assets to be complementary assets and that the expiration date of the new patent more accurately reflects the pattern in which the technology assets future economic benefits are expected to arise. As a result, management are of the opinion that the estimated useful life of the technology assets should be extended so as to be in line with the terms of the patent. It has, therefore, been considered appropriate to extend the estimated useful life of the technology assets to 31 December 2034.

Goodwill arose on the acquisition of Virotec International plc in 2008 and has been allocated to the USA and Australian CGUs. The Group's projected cash flows did not provide robust support for the carrying value of goodwill and it was impaired in full at 31 December 2015. This situation remains unchanged at 31 December 2017.

Discontinued operations

As a result of the disposal of the UK recycling business on 4 March 2016 for £1, the Directors considered the impact of the purchase consideration on the carrying value of the assets included in the sale as at 31 December 2015. As a result, the carrying amount of the CEP licence, contracts, brand name and goodwill was impaired in full at 31 December 2015 and forms part of the discontinued operations in 2016.

Impairment

The Group tests intangible assets for impairment annually, or more frequently, if there are indications that the carrying value might be impaired.

Subsequent to the disposal of the Group's UK re-refinery and recycling operations in March 2016, the Group considers it has two cash generating units (CGUs), being re-refining in the USA and Australia. Re-refining relates to the global exploitation of the Hydrodec re-refining technology (currently operating in respect of the treatment of used transformer oil and the production and sale of **SUPER**FINE oils). The recoverable amount of each of the USA and Australian CGUs is determined from value in use calculations.

Value in use is the present value of the projected cash flows of these CGUs. The key assumptions regarding the value in use calculations were budgeted growth in revenues, budgeted gross profit margins and the discount rate applied. Budgeted revenue growth and budgeted gross profit margins were estimated based on actual performance over the past two financial years and expected market changes. The remaining technology and prepaid royalty intangible assets have been treated as 'shared' assets between the USA and Australian CGUs.

The key inputs used to determine the recoverable amount of each CGU are:

- pre-tax discount rate of 11%
- perpetuity growth rate of 2%
- five-year forecast period

The Group prepares cash flow forecasts, based on the most recent financial budgets approved by management.

Impairment tests indicated that the recoverable amount of the cash-generating units was at least equal to the carrying amount of the assets and no provision for impairment was required. Further sensitivity analysis indicated that an impairment provision might be required if revenue reduced by 11.5%.

13 Trade and other receivables

	2017 USD'000	2016 USD'000
Trade receivables	**1,297**	1,427
Prepayments and accrued income	**442**	421
Other receivables	**280**	97
VAT recoverable	**35**	24
	2,054	1,969

Trade receivables principally comprise amounts receivable in respect of revenue and are short term. No interest is generally charged on trade receivables.

Other receivables include the sum of USD 2,877 (2016: USD 25,507) in respect of the sale of a further 12.45% interest in Hydrodec of North America LLC to G&S Oil Recycling Group LLC which took place during the year ended 31 December 2016. See note 26.

Other receivables include the sum of USD 55,000 which is cash held in a restricted use bank account in connection with EPA environmental expenditure.

At 31 December 2017, trade receivables include amounts which are past their due date against which the Group has recognised an allowance for impairment because there is some doubt as to whether the amounts are recoverable.

The analysis of trade receivables is as follows:

	2017 USD'000	2016 USD'000
Less than one month	**954**	1,399
Past due but not impaired	**343**	28
	1,297	1,427
Past due impaired	**62**	-
	1,359	1,427

Credit sales are only made after credit approval procedures are completed, and the carrying value represents the Group's maximum exposure to credit risk.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Notes to the Financial Statements
(continued)

14 Inventories

	2017 USD'000	2016 USD'000
Raw materials	**161**	175
Finished goods at cost	**188**	131
Work-in-progress	**6**	5
Consumables	**230**	149
	585	460

All inventory is carried at lower of cost and net realisable value.

15 Cash and cash equivalents

Cash and cash equivalents held by the Group as at 31 December 2017 were USD 0.1 million (2016: USD 0.1 million). The Directors consider that the carrying amount of these assets approximate to their fair value.

16 Trade and other payables

	2017 USD'000	2016 USD'000
Trade payables	**3,986**	2,382
Other payables	**11**	180
VAT payable	**11**	17
Other taxation and social security	**33**	44
Accruals	**1,247**	1,164
	5,288	3,787

Trade payables and accruals principally comprise amounts outstanding for trade purchases and on-going costs. No interest is generally charged on trade payables.

The Group has financial risk management policies to ensure that all payables are paid within the credit time frame.

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

17 Other interest-bearing loans and borrowings

	2017 USD'000	2016 USD'000
Current liabilities		
Finance lease liabilities	**1,800**	1,662
Unsecured bank facility	**1,319**	1,319
Shareholder loan	**11,021**	-
	14,140	2,981
Non-current liabilities		
Finance lease liabilities	**6,177**	7,774
Shareholder loan	**-**	7,838
	6,177	15,612

Finance lease liabilities

The Group has two arrangements which have been classified as finance leases. The first is denominated in USD and was for a principal sum of USD 10.0 million, bearing interest at the rate of 3.96% and is repayable on a fixed repayment basis over 7 years. The second arrangement is denominated in Australian dollars, bearing interest at the rate of 5.55% and is repayable on a fixed repayment basis over 7 years.

	Minimum lease payments 2017 USD'000	**Interest 2017 USD'000**	**Principal 2017 USD'000**	Minimum lease payments 2016 USD'000	Interest 2016 USD'000	Principal 2016 USD'000
Less than one year	**2,105**	**305**	**1,800**	2,028	366	1,662
Between one and five years	**6,604**	**427**	**6,177**	7,989	729	7,260
More than five years	**-**	**-**	**-**	518	4	514
	8,709	**732**	**7,977**	10,535	1,099	9,436

The Group's obligations under finance leases are secured by the lessor's rights over certain assets as disclosed in note 11. The amount outstanding in respect of the lease in which there is a general title to certain tangible assets held in the USA is USD 6.8 million (2016: USD 8.2 million).

Unsecured bank facility

The unsecured bank facility at 31 December 2017 represents a working capital facility in the USA.

Shareholder loan

The shareholder loan represents an amount due to Andrew Black, a non-executive Director and significant shareholder in the Company.

	2017 USD'000	2016 USD'000
Facility	**9,688**	7,380
Interest and fees	**1,333**	458
Amount outstanding	**11,021**	7,838

The shareholder loan is secured over assets of the Group.

The loan consists of three working capital facilities:

- an initial facility of USD 2.9 million (£2.15 million) which originally bore interest at 7% per annum;
- a second facility of USD 5.7 million (£4.25 million) which originally bore interest at 8% per annum; and
- a third facility agreed on 11 May 2017, originally for USD 0.7 million (£0.5 million) which bears interest at 10% per annum and was subject to an arrangement fee of 2.5%. On 27 December 2017, the parties agreed to extend the third facility by USD 0.4 million (£0.3 million) to USD 1.1 million (£0.8 million).

Accumulated interest and fees to 31 December 2017 have been added to the principal loan amount.

Strategic Report | Governance | Financial Statements | Notice of AGM

Notes to the Financial Statements
(continued)

On 27 December 2017, the parties agreed to increase the rate of interest payable in respect of the initial and second facilities to 10% per annum. At this time, the repayment date for the facilities was extended from 31 December 2017 to 31 December 2018 in return for a one-off extension fee of 1% of the total amount of each facility being USD 0.09 million (£0.07 million). The Company has subsequently agreed an option to further extend the repayment date to 30 June 2019. See notes 27 and 28.

18 Provisions

	2017 USD'000	2016 USD'000
Remediation of contaminated stock		
Non-current	**777**	721
Remediation of contaminated land		
Non-current	**-**	55
	777	776

The movement in the provision is represented by:

	Provision USD'000
At 31 December 2016	776
Release of provision	(55)
Change in exchange rates	56
At 31 December 2017	**777**

The remediation of contaminated stock provision of USD 0.78 million relates to stocks of materials at the Young facility dating from the plant's original function, ownership and business strategy. The Directors have reviewed the timing and cost of the Young remediation provision and have determined that these costs will be incurred at least 12 months from the balance sheet date.

The remediation of contaminated land provision of USD 0.055 million related to the costs of remediation of land occupied by the Group's USA operations at Canton.

19 Deferred taxation

	USD'000
At 31 December 2015	1,827
Transfer to income statement	(464)
Change in exchange rates	(270)
At 31 December 2016	1,093
Transfer to income statement	(67)
Change in estimates	(62)
Change in exchange rates	98
At 31 December 2017	**1,062**

The deferred tax provision arises from temporary timing differences relating to the Group's intangible assets.

There are unrecognised deferred tax assets in relation to:

	2017 USD'000	2016 USD'000
UK tax losses	**43,390**	43,560
USA tax losses	**23,174**	21,875
Australian tax losses	**19,922**	18,777
	86,486	84,212

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax liability at 31 December 2017 has been calculated based on these rates.

20 Share capital

	2017 USD'000	2016 USD'000
Allotted, issued and fully paid		
Ordinary Shares of 0.5 pence each		
At 1 January and 31 December	**6,200**	6,200

	2017 Number of shares	2016 Number of shares
At 1 January and 31 December	**746,682,805**	746,682,805

21 Reserves

The share premium account represents the sum paid, in excess of the nominal value, of shares allotted.

The merger reserve arises under s612 of the Companies Act 2006 as a result of the acquisition of Virotec International PLC when 62.5 million Ordinary Shares were issued at a price of 48p as part of the consideration paid. The excess of fair value over nominal value of shares is transferred to a merger reserve rather than share premium. This reserve is not distributable.

The profit and loss account is composed of the following:

	2017 USD'000	2016 USD'000
Employee Benefit Trust	**(1,150)**	(1,150)
Foreign exchange reserve	**(10,419)**	(10,491)
Capital redemption reserve	**420**	420
Share option reserve	**647**	665
Profit and loss account	**(164,483)**	(160,547)
	(174,985)	(171,103)

The Employee Benefit Trust represents the value of 2,583,333 shares held on trust for the benefit of employees.

Strategic Report | Governance | Financial Statements | Notice of AGM

Notes to the Financial Statements
(continued)

The foreign exchange reserve represents foreign exchange differences arising on the translation of foreign operations and any net gain/(loss) on the hedge of net investment in foreign subsidiaries.

The capital redemption reserve represents the Ordinary Share capital that was cancelled in 2015 upon the liquidation of Virotec International plc.

The share option reserve represents accumulated charges made under IFRS 2 in respect of share-based payments.

The profit and loss reserve includes all current and prior period retained losses.

22 Share-based payments

Long Term Incentive Plan

In June 2015, the Company adopted a new long-term incentive plan for senior executives, the Hydrodec Group plc 2015 Long Term Incentive Plan (the '2015 LTIP'), for the purposes of attracting, retaining and motivating key executives of the Group and securing greater alignment of the interests of shareholders and management.

Participants in the 2015 LTIP were awarded a new class of Ordinary Shares in a wholly-owned subsidiary of the Company, Hydrodec Holdco Limited ('Flowering Shares'). The Flowering Shares have minimal rights at award, however, they become exchangeable for Ordinary Shares in the Company if specified hurdles relating to the average mid-market closing price for the Company's Ordinary Shares listed on AIM (each a 'Hurdle') are met prior to 9 June 2018. The Hurdles have been set at 14 pence and then in 2 pence increments up to a maximum threshold of 25 pence. Each Hurdle will be satisfied if the average mid-market closing price for the Company's Ordinary Shares listed on AIM, over any 20 consecutive trading days within the performance period, exceeds the relevant Hurdles. At that time, the Hurdle is deemed satisfied, although the award will only vest at the end of the three-year term of the 2015 LTIP.

No Flowering shares were issued, and the remaining participant in the 2015 LTIP waived all entitlement to interests in the plan, during the year ended 31 December 2017.

Equity-settled share option scheme

In 2005, the Company established an unapproved share option scheme (the '2005 Scheme') pursuant to which certain Directors and other senior employees were granted options to subscribe for the Company's shares. The 2005 Scheme expired in 2015 and a new unapproved share option scheme, the Hydrodec Group Unapproved Share Scheme 2015, (the '2015 Scheme') was adopted on 9 June 2015. Options are generally exercisable at a price equal to the quoted market price of the Group's shares on the date of grant. The vesting period for each grant is variable and typically between two and five years.

On 27 October 2017, the Company issued 30 million share options with an exercise price of 1.625 pence, which vest if the average mid-market closing price for an Ordinary Share exceeds 3 pence for a period of 90 consecutive calendar days ending on or before 31 December 2018, or in certain other prescribed circumstances as provided for in the terms of the 2015 Scheme.

The Company has no legal or constructive obligation to repurchase or settle the options in cash. The latest date for exercise of these share options is 2027.

At 31 December 2017, 32.5 million options had been granted under the terms of the share option schemes and not exercised.

Notes to the Financial Statements
(continued)

Details of the share options outstanding at the end of the year were as follows:

	2017 Number of options '000	**2017** Weighted average exercise price	2016 Number of options '000	2016 Weighted average exercise price
Outstanding at 1 January	**2,500**	**25.10p**	4,500	18.15p
Granted	**30,000**	**1.625p**	-	-
Forfeited	-	-	(1,000)	9.69p
Waived	-	-	(1,000)	8.50p
Outstanding at 31 December	**32,500**	**3.43p**	2,500	25.10p
Exercisable at 31 December	**2,000**	**27.62p**	2,000	27.62p

The options outstanding at 31 December 2017 had an estimated weighted average remaining contractual life of 9.2 years, with an exercise price ranging from 1.625 pence and 33.25 pence.

The fair value of the options issued during the year has been calculated using the Black-Scholes model. The significant inputs into the model for the IFRS 2 valuation were as follows:

	Grants in year 30 million share options
Exercise price (pence)	1.625
Expected volatility (%)	64
Expected life (years)	1.2
Risk free rate (%)	0.54
Expected dividends	-
Probability of forfeiture (%)	81

Expected volatility was calculated considering Hydrodec Group plc share price movements over a period commensurate with the expected term immediately prior to the grant date.

The fair value of the options granted during the year was USD 32,448 (2016: nil). No expense has been recognised during the year on the basis that the charge for the period would be immaterial.

Warrants

In 2011, the Group issued 10.75 million warrants in connection with the issue of £2.0 million of fixed rate loan notes. The warrants lapsed on 14 June 2016.

Between 24 December 2012 and 27 June 2013, the Group issued an additional 25 million warrants in connection with the issue of £5.0 million of fixed rate loan notes. The warrants lapsed on 19 December 2017.

No value has been ascribed to the warrants in these accounts due to the value being negligible and thus immaterial.

In the year ended 31 December 2017, the Company recognised a total credit of USD 17,336 (2016: USD 8,840 charge) related to equity-settled share-based payment transactions; USD 17,336 credit (2016: USD 4,141 charge) in respect of the LTIP and USD nil (2016: USD 4,699 charge) in respect of the share option scheme.

Notes
(continued)

23 Financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns, while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2016.

The capital structure of the Group consists of cash and cash equivalents, interest-bearing loans and borrowings and equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings.

The Group plans its capital requirements on a regular basis and as part of this review the Directors consider the cost of capital and the risks associated with each class of capital.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instruments are disclosed in note 3.

Categories of financial instruments

	2017 USD'000	2016 USD'000
Financial assets measured at amortised cost		
Cash and cash equivalents	**126**	114
Trade receivables	**1,297**	1,427
Other receivables	**280**	97
	1,703	1,638

	2017 USD'000	2016 USD'000
Financial liabilities measured at amortised cost		
Bank overdraft	**340**	688
Trade payables	**3,986**	2,382
Other payables	**11**	180
Interest bearing loans and borrowings	**20,317**	18,593
	24,654	21,843

Fair value of financial instruments

The Directors consider that the carrying amount of its financial instruments approximates to their fair value.

Financial risk management objectives

Management provides services to the business, co-ordinates access to domestic and international financial markets and monitors and manages the financial risks relating to the operations of the Group. These risks include liquidity risk, cash flow, interest rate risk, credit risk and foreign currency risk.

The policies for managing these risks are regularly reviewed and agreed by the Board.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by the pooling of cash resources and depositing funds available for investment in approved financial instruments with financial institutions. Counterparty risk with respect to cash and cash equivalents is managed by only investing in banks and financial instruments with good credit ratings. The Board of Directors continuously monitors forecast and actual cash flow.

Interest rate risk management

The Group's policy on interest rate management is agreed at Board level and reviewed on an on-going basis.

Interest costs of items acquired under lease arrangements are fixed at the time the lease is entered into for the term of the lease, which carry a weighted average interest cost of 4.0% (2016: 4.0%) per annum.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group does not have any significant risk exposure on trade receivables.

The Group makes allowances for impairment of receivables where there is an identified event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows.

The credit risk on liquid funds (cash) is considered to be limited because the counterparties are financial institutions with high and good credit ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk.

Foreign exchange risk and foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, with the result that exposure to exchange rate fluctuations arise.

The Group does not normally hedge against the effects of movements in exchange rates. When foreign exchange is required the Group purchases using the best spot rate available. The Group policy is not to repatriate any currency where there is the requirement or obligation to spend in the same denomination unless absolutely necessary. As a result, there is limited currency risk within the Group and the carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are not material.

24 Capital commitments

At 31 December 2017, the Group had no contractual commitments (2016: USD 0.1 million relating to the construction of an access road to the Hydrodec plant in its facility in Australia).

Notes to the Financial Statements
(continued)

25 Financial commitments

The Group has entered into commercial leases on certain properties. There are no restrictions placed upon the lessee by entering into these leases.

The future minimum rentals payable under non-cancellable operating leases are as follows:

	2017 USD'000	2016 USD'000
Within one year	**51**	75
Between one and five years	**-**	48
	51	123

26 Investments

The Company had investments in the following subsidiary undertakings as at 31 December 2017 which principally affected the losses and net assets of the Group:

	Country of incorporation and principal operations	**Proportion of ownership interest**	**Principal activity**
Hydrodec Holdco Limited	UK	100%	Holding company
Hydrodec Development Corporation (UK) Limited*	UK	100%	Technology company
Hydrodec Inc	USA	100%	Holding company
Hydrodec of North America LLC**	USA	62.55%	Oil treatment services
Hydrodec Development Corporation Pty Limited	Australia	100%	Technology and holding company
Hydrodec Australia Pty Limited***	Australia	100%	Oil treatment services
Hydrodec Japan Co Limited	Japan	100%	Holding company
Hydrotek Eco Japan Co Limited****	Japan	100%	Patent holding company

* Held through Hydrodec Holdco Limited
** Held through Hydrodec Inc
*** Held through Hydrodec Development Corporation Pty Limited
**** Held through Hydrodec Japan Co Limited

On 4 March 2016, Hydrodec Holdco Limited, a wholly-owned subsidiary of the Company, disposed of Hydrodec (UK) Limited and Hydrodec Re-Refining (UK) Limited. See note 9.

The registered office address for all companies incorporated in the United Kingdom is Dorset House, Regent Park, Kingston Road, Leatherhead KT22 7PL.

The registered office address for Hydrodec Inc and Hydrodec of North America LLC is 850 New Burton Road, Suite 201, Dover, Kent, Delaware 19904, USA.

The registered office address for Hydrodec Development Corporation Pty Limited and Hydrodec Australia Pty Limited is 'Tower A' Level 20, 821 Pacific Highway, Chatswood NSW, 2067, Australia.

The registered office address for Hydrodec Japan Co Limited and Hydrotek Eco Japan Co Limited is 4th Floor, Kyodo Tsushin Kaikan, 2-2-5 Toranomon, Minato-Ku Tokyo, 105-0001, Japan.

26.1. Subsidiary with material non-controlling interests

On 16 April 2013, the Group sold a 25% interest in Hydrodec of North America LLC ('HoNA') to G&S Oil Recycling Group LLC ('G&S') for a total consideration, based on a multiple of earnings, which management estimated to be USD 3.31 million. Additionally, a royalty stream of 5% of net revenue is payable to a member of the Group under the terms of the strategic partnership with G&S.

The terms of the agreement with G&S included the potential for the sale of a further 24.9% interest in HoNA to G&S in two equal tranches of 12.45%, subject to certain criteria being met. The additional investment would be triggered by the successful expansion of the Canton facility's existing four trains, by a further four trains, in increments of two trains (Stage 1 and Stage 2). The expansion was to be funded equally by the Group and G&S, and the terms of the agreement intended that the subsequent investment, and ownership of the additional trains, would be within newly incorporated entities, owned equally by the partners to ensure ownership was representative of the capital contributed by each party.

An additional two trains were funded equally by the parties as part of the rebuild of Canton and upon subsequent commencement of production at the end of December 2015, the key qualifying condition for the Stage 1 closing was met. Accordingly, on 14 October 2016, a further sale of 12.45% interest in HoNA was made for a total consideration of USD 1.7 million.

The details of the sale were as follows:

	USD'000
Value of 12.45% interest	**2,666**
Consideration received	**(1,700)**
	966

At 31 December 2017, there was an amount outstanding in respect of the sale of USD 2,877 (2016: USD 25,507) which is included in other receivables. See note 13.

The additional two trains were constructed on the Canton site and not within a separate legal entity reflecting the equal funding, as prescribed under the terms of the agreement. It was therefore agreed that G&S would be allocated 41.65% share of net income from 14 October 2016 to reflect their contractual entitlement.

	Proportion of ownership interest and voting rights held by NCI		Total comprehensive income allocated to NCI		Accumulated NCI	
			2017	2016	**2017**	2016
	2017	2016	**USD'000**	USD'000	**USD'000**	USD'000
Hydrodec of North America LLC	**37.45%**	37.45%	**(319)**	(664)	**(742)**	(423)

No dividends were paid to the NCI during the years reported.

Notes to the Financial Statements
(continued)

Summarised financial information for Hydrodec of North America LLC, before intragroup eliminations, is set out below:

	2017 USD'000	2016 USD'000
Non-current assets	**31,289**	32,994
Current assets	**1,680**	1,648
Total assets	**32,969**	34,642
Non-current liabilities	**(7,068)**	(8,353)
Current liabilities	**(5,992)**	(5,082)
Total liabilities	**(13,060)**	(13,435)
Equity attributable to owners of the parent	**12,357**	13,336
Equity attributable to NCI	**7,552**	7,871
Total equity	**19,909**	21,207

	2017 USD'000	2016 USD'000
Revenue	**13,442**	13,158
Other income	**67**	400
Loss for the year attributable to owners of the parent company	**(979)**	(1,654)
Loss for the year attributable to NCI	**(319)**	(664)
Total loss for the year	**(1,298)**	(2,318)
Total comprehensive income for the year attributable to owners of the parent	**(979)**	(1,654)
Total comprehensive income for the year attributable to NCI	**(319)**	(664)
Total comprehensive income	**(1,298)**	(2,318)

	2017 USD'000	2016 USD'000
Net cash from operating activities	**2,145**	967
Net cash used in investing activities	**(346)**	(303)
Net cash from financing activities	**(1,785)**	(804)
Net cash flow	**14**	(140)

27 Related party transactions

Amounts due from subsidiaries

Balances and transactions between the Company and its subsidiaries which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Remuneration of key management personnel

The remuneration of the key management personnel of the Group is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

	2017		2016	
	Purchase of services '000	**Amounts owing '000**	Purchase of services '000	Amounts owing '000
Short-term employee benefits	**616**	**324**	824	137
Share-based payments	**(17)**	**-**	4	-
	599	**324**	828	137

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

Transactions with Directors and shareholders

There are outstanding loans of USD 11.0 million (2016: USD 7.8 million) due to Andrew Black, a non-executive Director and significant shareholder in the Company.

On 11 May 2017, a third working capital facility was agreed for USD 0.7 million (£0.5 million) which bears interest at 10% per annum and was subject to an arrangement fee of 2.5%. On 27 December 2017, the parties agreed to extend the third facility by USD 0.4 million (£0.3 million) to USD 1.1 million (£0.8 million). The facility is secured over the assets of the Group.

On 27 December 2017, the parties also agreed to increase the rate of interest payable in respect of the initial and second working capital facilities to 10% per annum. At this time, the repayment date for the facilities was extended from 31 December 2017 to 31 December 2018 in return for a one-off extension fee of 1% of the total amount of each facility being USD 0.09 million (£0.07 million). The Company has subsequently agreed an option to further extend the repayment date to 30 June 2019. See notes 17 and 28.

Transactions with material non-controlling interests

G&S Technologies, a company in which G&S Oil Recycling Group LLC, the holder of a 37.45% voting interest in Hydrodec of North America LLC, has an interest, supplied feedstock to the value of USD 2.3 million (2016: USD 1.665 million).

All transactions with related parties have been conducted on an arm's length basis.

28 Post balance sheet events

On 4 April 2018, the Company agreed an additional working capital facility of USD 0.7 million (£0.5 million) from Andrew Black, a non-executive Director and significant shareholder in the Company. The facility is secured over the assets of the Group, is non-interest bearing and is not subject to any arrangement or other fees. This facility was further extended to USD 2.1 million (£1.5 million) on 31 May 2018. The principle of this additional facility was originally due for repayment on 31 December 2018, but the Company has subsequently agreed an option to extend the repayment date on all of the shareholder loans from Andrew Black to 30 June 2019.

Company Balance Sheet

As at 31 December 2017

	Note	2017 £'000	2016 £'000
Fixed assets			
Tangible fixed assets	31	**1**	4
Investments	32	**19,953**	21,029
		19,954	21,033
Current assets			
Debtors	33	**31**	843
Amounts owed by group undertakings	34	**1,555**	1,959
Cash at bank and in hand		**5**	6
		1,591	2,808
Current liabilities			
Creditors: amounts falling due within one year	35	**(8,701)**	(462)
Net current (liabilities)/assets		**(7,110)**	2,346
Creditors: amounts falling due after more than one year			
Shareholder loan	36	**–**	(6,383)
Net assets		**12,844**	16,996
Equity attributable to equity holders of the parent			
Called-up share capital	37	**3,733**	3,733
Share premium account		**108,895**	108,895
Employee Benefit Trust		**(775)**	–
Capital redemption reserve		**283**	283
Share option reserve		**405**	418
Profit and loss account		**(99,697)**	(96,333)
Shareholders' funds		**12,844**	16,996

The financial statements of the Company (Hydrodec Group plc – 05188355) were approved by the Board of Directors on 31 May 2018 and were signed on its behalf by:

Lord Moynihan
Executive Chairman and Interim Chief Executive Officer

Company Statement of Changes in Equity

For the year ended 31 December 2017

	Share capital £'000	Share premium £'000	Employee Benefit Trust £'000	Capital redemption reserve £'000	Share option reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2016	3,733	108,895	-	283	596	(91,627)	21,880
Transactions with owners in their capacity as owners:							
Share-based payment	-	-	-	-	6	-	6
Transfer to retained earnings in respect of forfeited/waived options	-	-	-	-	(184)	184	-
Total transactions with owners in their capacity as owners	-	-	-	-	(178)	184	6
Loss for the year	-	-	-	-	-	(4,890)	(4,890)
Total comprehensive income for the year	-	-	-	-	-	(4,890)	(4,890)
At 1 January 2017	3,733	108,895	-	283	418	(96,333)	16,996
Transactions with owners in their capacity as owners:							
Reclassification of own shares	-	-	(775)	-	-	-	(775)
Share-based payment	-	-	-	-	(13)	-	(13)
Total transactions with owners in their capacity as owners	-	-	(775)	-	(13)	-	(788)
Loss for the year	-	-	-	-	-	(3,364)	(3,364)
Total comprehensive income for the year	-	-	-	-	-	(3,364)	(3,364)
At 31 December 2017	**3,733**	**108,895**	**(775)**	**283**	**405**	**(99,697)**	**12,844**

The accompanying accounting policies and notes form an integral part of these financial statements.

Notes to the Financial Statements
(continued)

29 Significant accounting policies

Basis of preparation

The Company's financial statements are prepared in accordance with Financial Reporting Standard 101 ('FRS 101'), the Financial Reporting Standard applicable in the UK and Republic of Ireland. The presentation currency of these financial statements is sterling.

Hydrodec Group plc ('the Company') is a company limited by shares, domiciled and incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is Dorset House, Regent Park, Kingston House, Leatherhead, KT22 7PL. The Company's shares are admitted to trading on the Alternative Investment Market of the London Stock Exchange.

As permitted by section 408 of the Companies Act 2006, the Company's income statement and statement of other comprehensive income have not been included in these accounts. The loss on ordinary activities attributable to shareholders of the Company dealt with in these accounts was £3.4 million (2016: £4.9 million).

In these financial statements, the Company is considered to be a qualifying entity (for the purpose of this FRS) and has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash flow statement and related notes; and
- Key management personnel compensation.

As the consolidated financial statements of Hydrodec Group plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share-Based Payment* in respect of Group settled share-based payments;
- Certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets; and
- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

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

Judgements made by the Directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 30.

Measurement convention

The financial statements are prepared on the historical cost basis.

Going concern

As set out in note 3 of the consolidated financial statements on page 38, taking into account the Group's current forecasts and projections, available facilities and on-going support from Andrew Black (a non-executive Director and the Company's largest Shareholder), the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and is viable on a robust assessment of the Company's principle risks and the Company's current position. Accordingly, the Directors continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Investments in subsidiaries

Investments in subsidiaries are carried at cost less any provision for impairment.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. The cost of an item of tangible fixed assets comprise its purchase price and any costs directly attributable to bringing the asset into use.

Depreciation is provided at rates calculated to write-off the cost of tangible fixed assets, less their estimated residual value, over the expected useful life on a diminishing value basis. The rates generally applicable are:

Fixtures and equipment 30% diminishing value

Financial instruments

Classification of financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial instruments issued by the Company are treated as equity only to the extent that they meet the following conditions:

- they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- where the instruments will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial asset for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability.

Basic financial instruments

Trade and other debtors/creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and on-demand deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the cost of the consideration received net of issue costs associated with the borrowing. All interest costs are charged to the income statement.

Own shares held by the Employee Benefit Trust

Transactions of the Employee Benefit Trust ('EBT') are included in the financial statements. In particular the EBT's purchase and sales of shares in the Company are debited and credited directly to equity.

Impairment

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Notes to the Financial Statements
(continued)

For financial instruments measured at cost less impairment, an impairment is calculated as the difference between its carrying amount and the best estimate of the amount the Company would recover for the asset.

Impairment losses are recognised in profit and loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment is reversed through profit and loss.

30 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 29, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of the assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both the current and future years.

The following are the critical judgements and estimations that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Recoverability of investments and loans to subsidiary undertakings

The Company has investments and outstanding loans due from its subsidiaries. However, due to losses currently being generated in certain subsidiaries there is a risk that the carrying amount of the Company's investments and loans will exceed the recoverable amount. The Board have assessed the recoverability of its investments and loans based on the risk and the Directors consider that an impairment provision of £1.1 million (2016: £1.5 million) in respect of its investments, and £0.8 million (2016: £0.8 million) in respect of its outstanding loans should be recognised by the Company in the year to 31 December 2017. See notes 32 and 34.

31 Tangible fixed assets

	Fixtures and equipment £'000
Cost	
At 1 January 2016	146
Derecognised	(69)
Disposals	(62)
At 1 January 2017 and 31 December 2017	**15**
Depreciation	
At 1 January 2016	117
Depreciation charge for the year	4
Derecognised	(63)
Disposals	(47)
At 1 January 2017	**11**
Depreciation charge for the year	3
At 31 December 2017	**14**
Carrying amount	
At 31 December 2017	**1**
At 31 December 2016	4

32 Investments

	Shares in subsidiary undertakings £'000
Cost	
At 31 December 2016 and 31 December 2017	**22,772**
Impairment	
At 1 January 2016	200
Impairment	1,543
At 1 January 2017	1,743
Impairment	1,076
At 31 December 2017	**2,819**
Carrying amount	
At 31 December 2017	**19,953**
At 31 December 2016	21,029

Details regarding the subsidiary undertakings held both directly and indirectly by the Company at 31 December 2017 are disclosed in note 26 of the consolidated financial statements.

Notes to the Financial Statements
(continued)

33 Debtors

	2017 £'000	2016 £'000
Trade receivables	-	13
Other receivables	6	8
VAT recoverable	10	19
Prepayments	15	28
Employee Benefits Trust (EBT)	-	775
	31	843

In accordance with the Company's EBT accounting policy, own shares held by the EBT were reclassified to equity during the period.

34 Amounts owed by group undertakings

	Company loans to subsidiary undertakings £'000
Cost	
At 1 January 2016	20,696
Additions	1,801
At 1 January 2017	22,497
Additions	407
Loans forgiven	(5,857)
At 31 December 2017	**17,047**
Impairment	
At 1 January 2016	19,727
Impairment	811
At 1 January 2017	20,538
Impairment	811
Loan forgiven	(5,857)
At 31 December 2017	**15,492**
Carrying amount	
At 31 December 2017	**1,555**
At 31 December 2016	1,959

The amount due from subsidiaries relates to the ongoing funding provided to the principal trading subsidiaries during their development phase and are repayable on demand. The timing of the repayment of this debt is uncertain and unlikely to be within one year.

During the year ended 31 December 2017, the Company waived its right to repayment of a proportion of a loan made to a subsidiary entity.

The Directors assessed the recoverability of the amounts due from subsidiaries and due to the losses being generated in certain subsidiaries, consider that an impairment provision of £0.8 million (2016: £0.8 million) should be recognised at 31 December 2017. See note 30.

35 Creditors: amounts falling due within one year

	2017 £'000	2016 £'000
Trade creditors	**134**	107
Taxes and social security	**18**	36
Accruals	**358**	319
Shareholder loans	**8,191**	-
	8,701	462

The shareholder loan represents an amount due to Andrew Black, a non-executive Director and substantial shareholder in the Company and is secured over assets of the Group.

The loan consists of three working capital facilities:

- an initial facility of £2.15 million which originally bore interest at 7% per annum;
- a second facility of £4.25 million which originally bore interest at 8% per annum; and
- a third facility agreed on 11 May 2017, originally for £0.5 million which bears interest at 10% per annum. On 27 December 2017, the parties agreed to extend the third facility by £0.3 million to £0.8 million.

Accumulated interest and fees to 31 December 2017 have been added to the principal loan amount.

On 27 December 2017, the parties agreed to increase the rate of interest payable in respect of the initial and second facilities to 10% per annum. At this time, the repayment date for the facilities was extended from 31 December 2017 to 31 December 2018 in return for a one-off extension fee of 1% of the total amount of each facility being £0.07 million. The Company has subsequently agreed an option to further extend the repayment date to 30 June 2019. See notes 39 and 40.

36 Creditors: amounts falling due after more than one year

	2017 £'000	2016 £'000
Shareholder loans	**-**	6,383

See note 35.

37 Share capital

	2017 £'000	2016 £'000
Allotted, issued and fully paid		
Ordinary Shares of 0.5 pence each	**3,733**	3,733

	2017 Number of shares	2016 Number of shares
At 31 December	**746,682,805**	746,682,805

Notes to the Financial Statements
(continued)

38 Reserves

The share premium account represents the sum paid, in excess of the nominal value, of shares allotted.

The Employee Benefit Trust represents the value of 2,583,333 shares held on trust for the benefit of employees.

The capital redemption reserve represents the ordinary share capital that was cancelled in 2015 upon the liquidation of Virotec International plc.

The share option reserve represents accumulated charges made under FRS 101 in respect of share-based payments.

The profit and loss account includes all current and prior period retained losses.

39 Related party transactions

Subsidiary undertakings

The Company has taken advantage of the exemption under FRS 101 in regard to the disclosure of transactions and balances with wholly-owned group companies.

Directors and shareholders

There are outstanding loans of £8.2 million (2016: £6.4 million) due to Andrew Black, a non-executive Director and significant shareholder in the Company.

On 11 May 2017, a third working capital facility was agreed for £0.5 million which bears interest at 10% per annum and was subject to an arrangement fee of 2.5%. On 27 December 2017, the parties agreed to extend the third facility by £0.3 million to £0.8 million. The facility is secured over the assets of the Group.

On 27 December 2017, the parties also agreed to increase the rate of interest payable in respect of the initial and second working capital facilities to 10% per annum. At this time, the repayment date for the facilities was extended from 31 December 2017 to 31 December 2018 in return for a one-off extension fee of 1% of the total amount of each facility being £0.07 million. The Company has subsequently agreed an option to further extend the repayment date to 30 June 2019. See notes 35 and 40.

40 Post balance sheet events

On 4 April 2018, the Company agreed an additional working capital facility of £0.5 million from Andrew Black, a non-executive Director and significant shareholder in the Company. The facility is secured over the assets of the Group, is non-interest bearing and is not subject to any arrangement or other fees. This facility was further extended to £1.5 million on 31 May 2018. The principle of this additional facility was originally due for repayment on 31 December 2018, but the Company has subsequently agreed an option to extend the repayment date on all of the shareholder loans from Andrew Black to 30 June 2019.

Notice of Annual General Meeting

HYDRODEC GROUP PLC

(Incorporated and registered in England and Wales with registered no. 05188355)

Notice is hereby given that the Annual General Meeting ('AGM') of Hydrodec Group plc (the 'Company') will be held at the offices of CMS Cameron McKenna Nabarro Olswang LLP, Cannon Place, 78, Cannon Street, London EC4N 6AF on Wednesday, 27 June 2018 at 10.00 a.m.

The business of the meeting will be to consider and, if thought fit, to pass the following resolutions.

All resolutions will be proposed as ordinary resolutions, save for resolutions 10 and 11 which will be proposed as special resolutions. Explanations of the resolutions are given on pages 83 and 84.

Company and Auditors' Reports

1. To receive and adopt the Company's accounts and the reports of the Directors and the Auditors for the year ended 31 December 2017.

Election and Re-election of Directors

2. To re-elect Dame Mary Archer DBE as a Director.
3. To re-elect Andrew Black as a Director.
4. To re-elect Dr. Caroline Brown as a Director.
5. To elect David Dinwoodie as a Director.
6. To re-elect Lord Moynihan as a Director.

Auditors' Appointment and Remuneration

7. To appoint KPMG LLP as auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company.
8. To authorise the Directors to determine the remuneration of the Auditors of the Company.

Authority to Allot Shares

9. To authorise, in substitution for all subsisting authorities to the extent unused, the Directors generally and unconditionally in accordance with section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company:
   (a) up to an aggregate nominal amount of £1,244,471; and
   (b) comprising equity securities (as defined in section 560 of the Act) up to a further aggregate nominal amount of £1,244,471 in connection with an offer by way of a rights issue:
      (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
      (ii) to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary,

and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange or any other matter. The authorities conferred on the Directors under paragraphs (a) and (b) above shall expire at the conclusion of the next AGM of the Company or 15 months after passing of this resolution, whichever is the earlier, save that under each authority, the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted or rights to subscribe for, or to convert any share into, shares to be granted after such expiry and the Directors may allot shares or grant rights to subscribe

Notice of Annual General Meeting
(continued)

for, or to convert any security into, shares (as the case may be) in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

Disapplication of Pre-emption Rights

10. To renew, subject to the passing of resolution 9 above, in substitution for all subsisting authorities to the extent unused, the power conferred on the Directors to allot equity securities (as defined in the Act) for cash under the authority conferred under resolution 9 and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561(1) of the Act did not apply to any such allotment provided that the power conferred by this resolution shall be limited:

   (a) to the allotment of equity securities of the Company in connection with an issue or offer of equity securities to the holders of ordinary shares in the capital of the Company in proportion (as nearly as may be) to their existing holdings of such shares (excluding any shares held by the Company as treasury shares (within the meaning of section 724 of the Act)) on the record date for such allotment or in accordance with the rights attached to such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or as a result of legal or practical problems under the laws of or the requirements of any regulatory body or any stock exchange in any territory or any other matter;

   (b) to the grant or exercise of any share awards or share options pursuant to any share option scheme or long term incentive scheme of the Company in force from time to time; and

   (c) to the allotment, otherwise than pursuant to paragraphs (a) and (b) above, of equity securities of the Company or the sale or transfer of treasury shares which is treated as an allotment of equity securities under section 560(3) of the Act up to an aggregate nominal value equal to £370,000,

and unless previously renewed, revoked, varied or extended this power shall expire on the earlier of the conclusion of the next AGM of the Company or the date which is 15 months from the date of the passing of this resolution except that the Company may before the expiry of this power make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if this power had not expired.

Purchase of Own Shares

11. To generally and unconditionally authorise the Company, pursuant to and in accordance with section 701 of the Act, to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 0.5 pence each in the capital of the Company on such terms and in such manner as the Directors of the Company shall from time to time determine, provided that:

   (a) the maximum aggregate number of ordinary shares which may be purchased is 74,500,000 ordinary shares, representing less than 10% of the Company's issued ordinary share capital as at 31 May 2018;

   (b) the minimum price which may be paid for an ordinary share is its nominal value;

   (c) the maximum price which may be paid for an ordinary share is the higher of: (i) an amount equal to 105 per cent of the average of the closing mid-market quotations for an ordinary share in the Company as derived from the Daily Official List of the London Stock Exchange or the AIM supplement thereto for the five business days immediately preceding the date on which that ordinary share is contracted to be purchased; and (ii) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System, in each case, exclusive of expenses;

   (d) the authority hereby conferred shall expire at the conclusion of the next AGM of the Company following the passing of this resolution, unless previously revoked, varied or renewed by the Company in general meeting; and

(e) the Company may at any time prior to the expiry of such authority make a contract or contracts to purchase ordinary shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares in pursuance of any such contract or contracts.

By order of the Board

Michael Preen
Company Secretary

31 May 2018

Registered office:
Dorset House
Regent Park
Kingston Road
Leatherhead
KT22 7PL

Notice of Annual General Meeting
(continued)

Notes:

1. Holders of ordinary shares are entitled to attend and vote at the AGM of the Company. The total number of issued ordinary shares in the Company on 31 May 2018, which is the latest practicable date before the publication of this document, is 746,682,805. On a vote by show of hands every member who is present in person or by proxy shall have one vote. On a poll vote every member who is present in person or by proxy shall have one vote for every ordinary share of which he is the holder.
2. A member of the Company entitled to attend, speak and vote at this meeting is entitled to appoint one or more proxies to attend, speak and vote in that member's place. A member may appoint more than one proxy in relation to this meeting provided that each proxy is appointed to exercise rights attached to a different share or shares held by that member. A proxy need not also be a member. Completion and return of a Form of Proxy (or any CREST Proxy Instruction, as described in notes 7 to 9) will not preclude a member from attending and voting at the meeting should the member so decide. A Form of Proxy has been sent to all registered holders of shares. If you wish to appoint multiple proxies please photocopy the Form of Proxy, fill in each copy in respect of different shares and send the multiple forms together to the Company's registrars, Link Asset Services, in accordance with note 3 below. Alternatively you may appoint multiple proxies by CREST Proxy Instruction in accordance with note 7 below.
3. To be valid, the Form of Proxy and any power of attorney or other authority (if any) under which it is signed (or a copy certified notarially, or in some other manner approved by the Board) must be completed and returned so as to reach the Company's registrars, Link Asset Services at: PXS1, 34 Beckenham Road, Beckenham, BR3 4ZF by 10.00 a.m. on 25 June 2018 (or, if the meeting is adjourned, not less than 48 hours before the time fixed for the holding of the adjourned meeting).
4. In the event that a poll is demanded at the meeting, and such poll is to be taken more than 48 hours thereafter, the Form of Proxy (together with any documents of authority required by note 3) may be returned to the Company's registrars, Link Asset Services at the address in note 3 above so as to arrive not later than 24 hours before the time appointed for such poll. In the event that a poll is demanded at the meeting, and such poll is not taken at the meeting, but is taken less than 48 hours after the meeting, the enclosed Form of Proxy (together with any documents of authority required by note 3) may be delivered at the meeting to the chairman of the meeting or to the secretary or any director of the Company.
5. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), to be entitled to attend and vote at the meeting (and for the purpose of determining the number of votes a member may cast), members must be entered on the Register of Members of the Company on 25 June 2018.
6. In the case of joint holders, the signature of only one of the joint holders is required on the Form of Proxy, but the vote of the senior (by order in the register of members) who tenders a vote will be accepted to the exclusion of the others.
7. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for this meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
8. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ('Euroclear') specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the Company's agent (ID RA10) by the latest time for proxy appointments set out in note 3 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
9. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings (www.euroclear.com/CREST).
10. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).
11. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

Explanatory Information

The following explanatory information is provided by way of background to the business of the meeting:

Resolution 1 – To receive the Annual Report and Accounts (ordinary resolution)

This is a standard resolution whereby shareholders are asked to receive the report of the Directors, the report of the Auditors, and the financial statements for the year ended 31 December 2017.

Resolutions 2 to 6 – To elect or re-elect Directors (ordinary resolutions)

The Company's Articles of Association require one third of the Directors to retire by rotation each year and no Director may serve more than three years without being re-elected by shareholders. However, in line with the UK Corporate Governance Code, all Directors individually submit themselves for annual re-election by shareholders. In addition, David Dinwoodie, who was appointed by the Board since the date of the last AGM, submits himself for election by sharehoders. Biographical details of all the Directors standing for re-election appear on pages 13 and 14 of the 2017 Annual Report. It is the view of the Chairman that the performance of each of the Directors continues to be effective and that each Director submitting themselves for re-election demonstrates commitment to the role and has sufficient time to meet their commitments to the Company.

Resolutions 7 and 8 – To reappoint KPMG LLP as the Company's auditors (ordinary resolutions)

The auditor is appointed at every general meeting at which accounts are presented to shareholders. The current appointment of KPMG LLP as the Company's auditor will end at the conclusion of the AGM and it has advised of its willingness to stand for reappointment. It is normal practice for a company's directors to be authorised to agree how much the auditors should be paid and resolution 8 grants this authority to the Directors.

Resolution 9 – To authorise the Directors to allot shares (ordinary resolution)

The authority given to the Directors to allot further shares in the capital of the Company requires the prior authorisation of the shareholders in general meeting under section 551 of the Act. The authority granted at the Company's last general meeting is due to expire at this year's AGM. Accordingly, resolution 9 will be proposed as an ordinary resolution to grant new authorities to allot shares and grant rights to subscribe for, or convert any security into, shares: (i) up to an aggregate nominal amount of £1,244,471; and (ii) in connection with a rights issue up to an aggregate nominal amount (when added to allotments under paragraph (a) of this resolution) of £2,488,942. These amounts represent approximately one third and approximately two thirds respectively of the total issued ordinary share capital of the Company, in accordance with current guidelines. This authority will expire immediately following the AGM in 2019 or, if earlier, 15 months following the resolution being passed.

Resolution 10 – To approve the disapplication of pre-emption rights (special resolution)

If the Directors wish to exercise the authority under resolution 9 and offer shares (or sell any shares which the Company may purchase and elect to hold as treasury shares) for cash, the Act requires that, unless shareholders have given specific authority for the waiver of the statutory pre-emption rights, the new shares be offered first to existing shareholders in proportion to their existing shareholdings. In certain circumstances, it may be in the best interests of the Company to allot new shares (or to grant rights over shares) for cash without first offering them to existing shareholders in proportion to their holdings. The authority granted at the Company's last general meeting is due to expire at this year's AGM. Accordingly, resolution 10 would authorise the Directors to dis-apply the strict statutory pre-emption provisions.

This would provide the Directors with a degree of flexibility to act in the best interests of the Company by allotting shares for cash: (i) by way of a rights issue, open offer or other offer of securities in favour of existing shareholders in proportion to their shareholdings (subject to certain exclusions); (ii) pursuant to any long term incentive plan or share option scheme; and (iii) to persons other than pro rata to existing shareholders up to an aggregate nominal value of £370,000, which is equivalent to approximately 10 per cent of the Company's issued share capital. This authority will expire immediately following the AGM in 2019 or, if earlier, 15 months following the resolution being passed.

Explanatory Information
(continued)

Resolution 11 – To authorise the Company to purchase its own shares (special resolution)

The purpose of this resolution 11 is to obtain the authority for the Company to purchase its ordinary shares. Under the Act, such an authority must first be sanctioned by an ordinary resolution of the Company in general meeting but current IPC guidelines require that any such authority should be sanctioned by special resolution. Accordingly, resolution 11 is proposed as a special resolution to authorise the Company to purchase a maximum of 74,500,000 ordinary shares (approximately equal to 10% of the Company's present issued ordinary share capital) on AIM at a price per share of not less than 0.5p and not more than the higher of: (i) 105 per cent of the average of the closing mid-market quotations for an ordinary share in the Company as derived from the Daily Official List of the London Stock Exchange or the AIM supplement thereto for the five business days immediately preceding the date on which that ordinary share is contracted to be purchased; and (ii) the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System, in each case, exclusive of expenses. The authority will be kept under review and the Company will only exercise the power of purchase after careful consideration and when the Company is satisfied that to do so is in the Company's best interests under the circumstances. This authority will expire immediately following the AGM in 2019 or, if earlier, 15 months following the resolution being passed.

Action to be taken

If you are unable to attend the AGM, but wish to register your vote on the business to be transacted, please complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's registrars, Link Asset Services, as soon as possible and, in any event, no later than 10.00 a.m. on 25 June 2018. The completion and return of the form of proxy will not prevent you from attending and voting in person at the meeting should you so wish. Your vote is highly important to us and if you cannot vote at the AGM in person, we hope you will register your proxy vote.

Recommendation

The board of directors of the Company (the 'Board') considers that all the resolutions to be put to the AGM are in the best interests of your Company and shareholders as a whole and recommends that you vote in favour of them. The Board intends to vote in favour of these resolutions in respect of their own beneficial holdings.