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Kromek Group PLC
24 July 2023

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Kromek Group plc

("Kromek" or the "Company" or the "Group")

Final Results

Kromek (AIM: KMK), a leading developer of radiation and bio-detection technology solutions for the advanced imaging and CBRN detection segments, announces its final results for the year ended 30 April 2023.

Financial Summary

§ Revenue increased 44% to £17.3m (2022: £12.1m)
§ Gross margin improved to 51.6% (2022: 46.7%). Improvement largely due to sale mix and easing of supply chain challenges
§ Adjusted EBITDA loss reduced to £1.0m (2022: £1.2m loss)* and positive for H2
§ Loss before tax was £7.3m (2022: £6.1m loss)
§ Cash and cash equivalents at 30 April 2023 were £1.1m (30 April 2022: £5.1m). Fundraise of £8m (gross) post year end

**A reconciliation of adjusted EBITDA can be found in the Financial Review.*

Operational Highlights

Advanced Imaging

§ Strong revenue growth with delivery under component supply agreements; secured new milestone contracts; and end products launched into the market
§ Significant progress in medical imaging:
  o Signed a landmark 7-year collaboration agreement with a tier 1 OEM to provide CZT-based detectors for use in the customer's advanced medical imaging scanners
  o Entered a collaboration agreement with Analogic Corporation ("Analogic") to develop CZT-based detectors for photon counting computed tomography ("CT") applications in medical imaging and security screening
  o Launch by Spectrum Dynamics Medical ("Spectrum Dynamics") of the world's first digital single-photon emission computed tomography ("SPECT")/CT scanner for higher energy imaging, which uses Kromek's CZT technology
  o Received repeat orders totalling over $2.0m for the supply of detectors for bone mineral densitometry ("BMD") and SPECT applications and the gamma probes market
  o Awarded £2.5m from Innovate UK for two programmes to further develop a low dose molecular breast imaging technology based on Kromek's CZT-based detectors
  o Further contract win of $1.4m post year end from a new Asia-based OEM customer for CZT-based detectors to be used in the customer's SPECT systems

CBRN Detection

§ Record revenue in nuclear security, with the winning and delivery of new and repeat orders, including:
  - o A $1.3m contract from a US customer for the D3M and two orders totalling $1.5m from US government customers for the D3S-ID
  - o Two contracts, totalling £1.5m, for D3M and D3S-based product products for European government end-users
§ Established distribution partnership with Smiths Detection for the distribution of the Group's nuclear security products to North and South American markets, the Middle East and certain key markets in Asia and Australasia
§ Post year end, awarded a $1.5m contract in Asia for a new product in the civil nuclear market

Biological Threat Detection

§ Concluded long-running programme with the Defense Advanced Research Projects Agency to develop a biological-threat detection solution
§ Received a £4.9m contract from a UK government department for a three-year programme to deliver bio-security solutions

Manufacturing and IP

§ Significant progress in improving yield and cost efficiency in CZT crystal growth and detector manufacturing
§ Nine new patents were filed and four were granted during the year

Dr Arnab Basu, CEO of Kromek, said: "We are pleased to have delivered record revenues, with significant growth in advanced imaging and CBRN detection, and achieved positive adjusted EBITDA for the second half. During the year, we experienced our highest levels of customer engagement, with some of this transitioning to major agreements that are great endorsements of our offering as well as demonstrations of our strategy coming to fruition. Accordingly, we ended the year strongly, with enhanced foundations for future growth.

"We entered the 2024 financial year with a much-strengthened balance sheet and heightened commercial momentum - winning new orders in addition to a growing and substantial opportunity funnel. Accordingly, we anticipate a strong year-on-year increase in revenue and we remain on track to be adjusted EBITDA positive for the full year. This growth will be based on both of our segments, with demand continuing to be underpinned by macro-economic and market conditions. In advanced imaging, there is increasing widespread need for the early and accurate medical diagnosis facilitated by our CZT-based products. In CBRN, global insecurity and raised concern over potential nuclear threats continue to underscore the requirement for products such as ours in this sector. Consequently, the Board looks to the future with confidence."

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Investor Webinar

Arnab Basu, CEO, and Paul Farquhar, CFO, will be hosting a webinar for investors at 6.00pm BST on Wednesday 26 July 2023.

The event is open to all existing and potential shareholders. Interested parties should register to attend, and submit any questions, using the following link: https://forms.gle/dbLNhSfdUMuJ7WCx6. Participants are requested to submit questions in advance by 12.00pm on 26 July 2023.

Kromek Group plc

Kromek Group plc is a leading developer of radiation detection and bio-detection technology solutions for the advanced imaging and CBRN detection segments. Headquartered in County Durham, UK, Kromek has manufacturing operations in the UK and US, delivering on the vision of enhancing the quality of life through innovative detection technology solutions.

The advanced imaging segment comprises the medical (including CT and SPECT), security and industrial markets. Kromek provides its OEM customers with detector components, based on its core cadmium zinc telluride (CZT) platform, to enable better detection of diseases such as cancer and Alzheimer's, contamination in industrial manufacture and explosives in aviation settings.

In CBRN detection, the Group provides nuclear radiation detection solutions to the global homeland defence and security market. Kromek's compact, handheld, high-performance radiation detectors, based on advanced scintillation and solid-state readout technology, are primarily used to protect critical infrastructure, events, personnel and urban environments from the threat of 'dirty bombs'.

The Group is also developing bio-security solutions in the CBRN detection segment. These consist of fully automated and autonomous systems to detect a wide range of airborne pathogens.

Kromek is listed on AIM, a market of the London Stock Exchange, under the trading symbol 'KMK'.

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulation (EU) No. 596/2014. Upon the publication of this announcement via the Regulatory Information Service, this inside information is now considered to be in the public domain.

Operational Review

In the year to 30 April 2023, Kromek achieved its highest ever revenue - reflecting record revenue in both advanced imaging and CBRN detection respectively - and was adjusted EBITDA positive for the second half of the year. The Group delivered on its existing contracts and development programmes, won new and repeat orders across the business and from around the world, and experienced significantly increased customer engagement regarding future projects. Importantly, some of this engagement transitioned to significant agreements during the year - most notably, with a tier 1 OEM and Analogic in the advanced imaging segment and Smiths Detection in the CBRN detection segment. These agreements are great endorsements of Kromek's technology and solutions, but are also tangible demonstrations of the Group's strategy coming to fruition. Accordingly, the Group continues to deliver on its strategy, and ended the year strongly with a foundation for continued growth.

Advanced Imaging

In the advanced imaging segment, Kromek primarily operates in the medical imaging market with some opportunities in the security screening and industrial screening sectors. Kromek provides OEM customers with detector components, based on its core cadmium zinc telluride ("CZT") platform, to enable better detection of diseases such as cancer and Alzheimer's, contamination in industrial manufacture and explosives in aviation settings. The Group designs, develops and produces CZT detectors and solutions along with specialist electronics, which, when incorporated into its customers' systems, significantly enhance imaging quality to provide high resolution information on material composition and structure, which enables more effective identification and analysis.

In this segment, commercial engagement with customers consists of an initial design phase followed by incorporation of the Group's detectors and technologies into a customer's system and then the award of a multi-year supply contract, which provides long-term revenue visibility.

Medical Imaging

As the only independent commercial producer of CZT at scale, Kromek is well-positioned in the medical imaging market. The rate of introduction by leading OEMs of new medical imaging products that include CZT detector platforms as the enabling technology has been increasing in recent years. GE Healthcare and Siemens Healthineers introduced new products in their clinical SPECT and CT businesses in 2021 and Spectrum Dynamics launched the VERITON-CT 400 Series in 2022. SPECT and CT, as well as molecular breast imaging ("MBI") and BMD, are key target areas for future growth as they address diseases particularly associated with an ageing population such as cancer, Alzheimer's, Parkinson's, cardiovascular illnesses and osteoporosis - with higher resolution images enabling earlier diagnosis for better patient outcomes and reduced overall cost of care. Kromek also serves the gamma probes market in this sector, which are used during surgeries for the removal of lymph nodes.

This has been a milestone year in terms of the Group's medical imaging activity. Most notably, Kromek signed collaboration agreements with a recognised tier 1 OEM and with Analogic to develop CZT-based detectors for use in their advanced imaging scanners. The agreement with the tier 1 OEM, which is a leading health-technology company, has an initial period of seven years. This comprises a short development phase when the parties will work together to integrate Kromek's CZT-based detectors into the customer's medical imaging scanners, with the agreement then transitioning to a longer commercial supply phase.

With Analogic, who have been global leaders in CT detector technology for over 50 years, Kromek is developing CZT-based detector solutions for photon counting CT applications in both the medical imaging and security screening sectors. Its CZT sensors will be integrated with Analogic's detector designs and, as the project progresses towards commercialisation, Kromek will ensure production capacity is available to support their demand.

Another key milestone during the year was the introduction by Spectrum Dynamics of the VERITON-CT 400 Series, the world's first digital SPECT/CT scanner capable of high energy imaging, which uses Kromek's CZT detector technology. Kromek believes that this product is receiving wide-ranging interest, and the Group's business with Spectrum Dynamics is tracking as expected.

Post year end, Kromek received an order worth $1.4m from a new OEM customer that is an established player in the medical imaging sector in Asia. The order is for CZT-based detector-modules for use in the customer's next generation SPECT systems. Delivery and revenue recognition are expected in the current financial year.

In total, Kromek is now working with nine OEMs in SPECT and CT, including its current customers, and the Group expects some of the engagements to transition to formal significant contracts for final design and integration followed by the supply of CZT detectors and modules in the near term.

In its regular repeat business, the Group received two orders during the first half of the year worth £751k, with one being for the supply of detectors for BMD applications and the other for the gamma probes market. Kromek has seen an increase in demand for detectors in the BMD segment and the Group expects that demand to grow significantly over the next two years as rapid adoption of its customer's systems continue in China. In the second half, the Group received three further orders totalling $1.1m, which were primarily for SPECT applications.

Kromek continued to make progress under its development programme for ultra-low dose MBI technology based on its CZT-based SPECT detectors, which can significantly improve the early detection of breast cancer in women with dense breast tissue. The Group is expecting to enter the clinical study phase of this technology development with a US-based OEM customer over the next year. Kromek also received approximately £2.5m in funding from Innovate UK for two programmes to further develop an MBI system. The projects are being conducted in collaboration with the Newcastle-upon-Tyne Hospitals NHS Foundation Trust, the University of Newcastle-Upon-Tyne and University College London.

Security & Industrial Screening

In security screening, the Group's technologies are used in travel, primarily aviation, settings to enable its customers to meet the high-performance standards they require, and as demanded by regulatory bodies, to ensure passenger safety while increasing the convenience and efficiency of the security process. The Group provides OEM and government customers with components and systems for cabin and hold luggage scanning. In industrial screening, Kromek provides OEM customers with detector components for incorporating into scanning systems used during manufacturing processes to identify potential contaminants.

During the year, Kromek continued to deliver under its existing component supply agreements and development programmes. As noted above, the detector solutions to be developed under its collaboration agreement with Analogic, that was entered during the year, will be for security applications as well as medical.

CBRN Detection

In CBRN detection, the Group provides nuclear radiation detection solutions to the global homeland defence and security market. Kromek's compact, handheld, high-performance radiation detectors, based on advanced scintillation and solid-state readout technology, are primarily used to protect critical infrastructure, events, personnel and urban environments from the threat of 'dirty bombs'. Kromek's portfolio also includes a range of high-resolution detectors and measurement systems used for civil nuclear applications, primarily in nuclear power plants and research establishments.

Nuclear Security

The Group experienced a significant increase in demand for its nuclear security products - with multiple new and repeat orders being won and delivered during the year - as geopolitical instabilities continued to drive greater global government defence and security spending. Kromek also established key distribution partnerships to support continued expansion in this market. Accordingly, the Group delivered record revenues in nuclear security in 2023. Its detector solutions were used in multiple high-profile sporting, political and state events in the UK, across Europe and in the US. In May 2023, for example, the Group's D3S product range was used by the EU

Commission Protective Security Advisor team to provide security at an event in Aachen, Germany where President Zelensky of Ukraine was awarded the Charlemagne Prize for work done in the service of European unification.

During the year, Kromek received, and delivered, a $1.3m contract from a US customer for the D3M and two orders totalling $1.5m from US government customers for the D3S-ID, all of which were repeat orders. The Group also received, and delivered, two contracts, totalling £1.5m, for the supply of the D3M and D3S-based nuclear security products to European government end-users - with the contracts having been secured through its distribution and procurement partners. The large proportion of repeat orders reflects the increasingly regular nature of the Group's business in this market.

Kromek expanded its channels-to-market for its nuclear security products, as well as supporting the generation of regular, repeat business, through the establishment of a distribution partnership with Smiths Detection, a global leader in threat detection and security screening technologies for aviation, ports and borders, defence and urban security markets. The initial agreement was to distribute Kromek's nuclear security products - with a focus on the D3 and D5 series - to North and South American markets, with a further agreement being signed for distribution to the Middle East and certain key markets in Asia and Australasia.

Civil Nuclear

Business in the civil nuclear market progressed as expected, with regular sales through the Group's distributor network and direct to customer. In this sector, Kromek's products are used by over 450 customers around the globe.

Since year end, Kromek was awarded a $1.5m contract by one of its distribution partners in Asia, which is for a new product, based on the Group's existing technology, in the civil nuclear market. The development of this new product was funded by the distribution partner. Kromek believes that the product has a global market beyond its partner's targeted market in Asia.

Biological-Threat Detection

The Group is developing biosecurity solutions that consist of fully automated and autonomous systems to detect a wide range of airborne pathogens for the purposes of national security and protecting public health.

The Group continued to deliver on its long-running programme with the Defense Advanced Research Projects Agency, an agency of the US Department of Defense, to develop a biological-threat detection solution. The solution developed under this programme, which concluded during the year, is intended to form part of a mobile wide-area bio-surveillance system deployed in urban environments. Kromek's work with the UK government also resulted in the award of a contract by a UK government department for a three-year programme worth £4.9m to develop and supply biological threat detection systems. The contract includes an option for extended maintenance services after the initial term.

The biosecurity strategies of the UK and US governments are aligned with the need for a national network of automated genomic sequencing systems for the early warning of pathogens, which was reiterated in the UK Biological Security Strategy published by the UK government in June 2023.

Kromek continues to believe that biosecurity has significant market opportunities as its technologies align very well with major governments' biosecurity strategies to protect against future pandemics. In this sector, the Group

may consider forming strategic or financial partnerships to further accelerate the time to market for this technology.

R&D, IP and Manufacturing

Kromek continued to execute on its programmes for the expansion of production capacity and increased process automation, with particular progress being made at its CZT manufacturing facility in the US. These programmes are on track and are resulting in greater manufacturing productivity and cost efficiencies. Kromek is making significant progress in its cost and productivity in CZT crystal growth and detector manufacturing. The Group has dedicated teams that are focussed on targeted improvements for every step in the manufacturing process, which directly contributes to yield and cost improvement.

As noted, during the year Kromek continued to advance development programmes with a number of partners.

During the year, the Group applied for 9 new patents and had 4 patents granted across 12 patent families, with the total number of patents held by Kromek being in excess of 240. The new applications cover innovations in both of the Group's segments.

Financial Review

Revenue

The Group generated total revenue of £17.3m (2022: £12.1m). The split between product sales and revenue from R&D contracts is detailed in the table below.

Revenue Mix	**2023**		**2022**	
	£'000	**% share**		**% share**
Product	**14,768**	85%	**9,935**	82%
R&D	**2,541**	15%	**2,120**	18%
Total	**17,309**		**12,055**	

Gross Margin

Gross profit at £8.9m (2022: £5.6m) represented a margin of 51.6% (2022: 46.8%). The increase in gross margin, particularly in the second half of 2023, is attributable to a change in revenue mix and the easing of the supply chain pressures that impacted margin in 2022 and the first half of 2023.

Distribution and Administrative Expenses

Distribution and administrative expenses increased by £2.4m to £14.6m (2022: £12.2m). Of this £2.4m increase, £0.8m represents the foreign exchange impact of translating USD denominated expenses in the period due to the weaker GBP against the USD in 2023 compared to 2022. The remaining £1.6m increase is substantially the net result of:

- § £0.3m of depreciation and amortisation due to continued investment in the technology platform and product applications;
- § £1.1m increase in staff costs reflecting pay rises in line with the wider economy and modest increased headcount to drive future revenue growth;
- § £0.5m bad debt expense having assessed receivables at the year end for expected credit losses; and
- § savings of £0.3m relating to facility and general office expenses.

Adjusted EBITDA* and Result from Operations

Adjusted EBITDA loss for 2023 was reduced to £1.0m compared with a loss of £1.2m for the prior year as set out in the table below:

	2023	2022
	£'000	**£'000**
Revenue	17,309	12,055
Gross profit	8,935	5,636
Gross margin (%)	*51.6%*	*46.8%*
Loss before Tax	(7,292)	(6,129)
***EBITDA* Adjustments:**		
Net interest	1,243	548
Depreciation of PPE and Right-of-Use assets	1,903	1,751
Amortisation	2,891	2,569
Share-based payments	354	236
Change in fair value of derivative	(77)	-
Exceptional Item	-	(132)
Adjusted EBITDA*	**(978)**	**(1,157)**

**Adjusted EBITDA is defined as earnings before interest, taxation, depreciation, amortisation, exceptional items, early settlement discounts, the change in fair value of financial derivatives and share-based payments. The change in the value of financial derivatives and share-based payments are adjusted for when calculating the Group's adjusted EBITDA as these items have no direct cash impact on financial performance. Adjusted EBITDA is considered a key metric to the users of the financial statements as it represents a useful milestone that is reflective of the performance of the business resulting from movements in revenue, gross margin and the costs of the business.*

The reduction in the adjusted EBITDA loss in 2023 compared to the prior year loss reflects the higher revenue and gross margin and that the greater operating costs were offset primarily due to an increase in net interest, amortisation and depreciation. Importantly, due to cost control measures and significantly improved gross margin in the second half of the year, the Group delivered positive adjusted EBITDA of £1.7m in H2 2023.

As a result of the increase in operating costs - which primarily comprise distribution and administrative expenses as described above - loss before tax for the year was £7.3m (2022: £6.1m).

During 2023, the Group recognised a loss of £0.2m (2022: a gain of £2.1m) in the statement of other comprehensive income that arose from foreign exchange differences on the translation of foreign operations as described in note 2 to the financial statements. This gain has been treated as a reserve movement, consistent with the prior year. This accounting treatment is unlike the £0.1m foreign exchange gain (2022: £0.2m foreign exchange loss) arising on the revaluation and realisation of working capital balances that were expensed to the profit and loss account during the year.

Tax

The Group continues to benefit from the UK Research and Development Tax Credit regime as it invests in developments of technology. The Group recorded an R&D credit of £1.2m for the year (2022: £1.2m credit) arising from the option of surrendering tax losses in the year that qualify for cash credit, rather than carrying forward the tax losses to set against future taxable profits. The Group's deferred tax provision for the year remained static at £nil (2022: £nil) due to the distribution of losses between the UK and US operations, and accordingly there was a total tax credit to the income statement for the Group of £1.2m (2022: £1.2m credit).

Earnings per Share ("EPS")

Due to a £1.0m increase in the loss after tax for the period, the EPS is recorded in the year on a basic and diluted basis as a 1.4p loss per share (2022: 1.1p loss per share after excluding exceptional items).

R&D

The Group invested £4.8m in the year (2022: £5.6m) in technology and product developments that were capitalised on the balance sheet, reflecting the continuing investment in new products, applications and platforms for the future growth of the business. This expenditure was capitalised in accordance with IAS38 to the extent that it related to projects in the later stage (development phase) of the project life cycle.

The Group continues to advance its development roadmap in relation to the automated wide-area detection of biological and viral pathogens, involving portable DNA sequencing. It is the Board's belief that this technology platform, which enables the identification of COVID-19 and other biological pathogens, offers significant short and medium-term opportunities for the Group in this critical market.

The other key areas of development continue to be the development and expansion of the D3 and D5 suite of products in CBRN threat detection and the SPECT and CT platforms in advanced imaging. All such investments in research and development are linked to contract deliverables and productivity improvements which, in the Board's belief, add to the significant future revenue opportunities that the Group's technology offers. The Group continues to undertake this investment to strengthen its commercial advantage.

During the year, the Group undertook expenditure on patents and trademarks of £0.2m (2022: £0.2m) with 9 new patents filed and 4 patents granted across 12 patent families.

Other Income

The Group generated total other operating income of £0.1m (2022: £1.4m), which relates to a retrospective Customs Duty claim granted by HMRC. Other operating income in the previous year predominantly comprised the forgiveness of Paycheck Protection Program ("PPP") loans of £1.4m in the US.

Capital Expenditure

Capital expenditure in the year amounted to £0.3m (2022: £0.7m), which primarily relates to modest capital expenditure across lab and computer equipment, IT and manufacturing projects.

Financing Activities

The Group issued £2.8m of convertible loan notes, largely to existing shareholders, in August 2022. The loan notes have a term of 18 months, carry a coupon of 8% per annum and have conversion dates in January and February 2024. They are senior in ranking and unsecured. If they are repaid other than on the repayment date or not repaid by the repayment longstop date, they are convertible at the investors' option into ordinary shares in the capital of the Company at the lower of the closing mid-market price on the repayment date, or 15 pence per ordinary share.

At 30 April 2023, the Group had a £5.0m revolving credit facility ("RCF") with HSBC, the repayment date for which was extended by the bank from 11 March 2023 to 31 August 2023. At the date of this announcement, the Company is finalising the terms of an alternative borrowing facility to replace the HSBC RCF, and the Board is confident that this facility will be secured to repay the RCF by the required repayment date. Further details of the Group's borrowings are available at note 15.

Inventories

Inventories increased by £0.4m to £10.9m at 30 April 2023 (30 April 2022: £10.5m). This reflects a continuation of the global supply chain pressures, which requires the Group to hold higher inventory levels than historically has been necessary. However, raw material inventory reduced during the year to £2.2m at 30 April 2022 (30 April 2022:

£3.6m), reflecting the conversion to work in progress and finished goods of some of the additional component inventories purchased during the previous year when the supply chain had been acutely constrained.

Cash Balance

Cash and cash equivalents were £1.1m as of 30 April 2023 (30 April 2022: £5.1m). The £4.0m decrease in cash during 2023 was due to the combination of the following cash inflows and outflows:

- § Adjusted EBITDA loss for the year of £1.0m, significantly ahead of market expectations
- § R&D tax receipts of £1.2m
- § Investment in product development and other intangible assets, with capitalised development costs of £4.8m and IP additions of £0.2m
- § Capital expenditure of £0.7m (including £0.4m in respect of leased assets)
- § Net cash generated from financing activities of £1.7m (including £2.8m from the issue of convertible loan notes)
- § A decrease in cash arising from the impact of foreign exchange of £0.2m

Post year end, the Group's balance sheet was strengthened with the successful completion of a placing, subscription and open offer raising £8m before expenses, of which £7m was raised through the share placing and subscription, and a further £1m through the open offer.

Outlook

Kromek entered the 2024 financial year with a much-strengthened balance sheet and heightened commercial momentum - winning new orders in addition to a growing and substantial opportunity funnel. The Group already has visibility of 60% of full year 2024 revenue forecasts, comprising 45% contracted or already shipped, 4% awarded and going through contract negotiation and 11% being provided by the Group's regular repeat order business. Accordingly, Kromek anticipates a substantial year-on-year increase in revenue, representing growth in both the advanced imaging and CBRN detection segments. Alongside the anticipated revenue growth, the Group remains confident in delivering positive adjusted EBITDA for FY 2024.

Looking further ahead, the macro-economic and market conditions continue to drive strong demand across both segments. There is an ever-growing need for medical imaging solutions that facilitate earlier and more accurate diagnosis. The position of CZT as the enabling technology for such solutions is widely recognised, with leading OEMs increasingly launching their CZT-based SPECT and CT scanners to the market. Kromek's recent agreement with a leading tier 1 OEM is representative of this trend and offers significant potential. As the only independent commercial producer of CZT at scale, the Group is extremely well placed within this market. At the same time, ongoing geopolitical conflict combined with the awareness of the threat to public health posed by pathogens will continue to drive demand for, and interest in, the Group's CBRN detection solutions. The Group remains extremely well placed to benefit from all of these market drivers.

As a result, the Board looks to the future with confidence.

Kromek Group plc
Group statement of comprehensive income

For the year ended 30 April 2023

	Note	2023 £'000	2022 £'000
Continuing operations			
Revenue	4	**17,309**	12,055
Cost of sales		**(8,374)**	(6,419)
Gross profit		**8,935**	5,636
Other operating income	5	**121**	1,410
Distribution costs		**(612)**	(551)
Administrative expenses		**(14,570)**	(12,208)
Change in fair value of derivative		**77**	-
Operating loss (before exceptional items)		**(6,049)**	(5,713)
Exceptional impairment reversal on trade receivables and amounts recoverable on contracts	8	**-**	132
Operating results (post exceptional items)		**(6,049)**	(5,581)
Finance income		**2**	34
Finance costs		**(1,245)**	(582)
Loss before tax	6	**(7,292)**	(6,129)
Tax	9	**1,192**	1,211
Loss for the year from continuing operations		**(6,100)**	(4,918)
Loss per share	10		
- basic (p)		**(1.4)**	(1.1)

The accompanying notes form part of these financial statements.

Kromek Group plc
Group statement of other comprehensive income
For the year ended 30 April 2023

	2023 £'000	2022 £'000
Loss for the year	**(6,100)**	(4,918)
Items that are or may be subsequently reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**(166)**	2,063
Total comprehensive loss for the year	**(6,266)**	(2,855)

The accompanying notes form part of these financial statements.

Kromek Group plc
Consolidated statement of financial position
As at 30 April 2023

	Note	2023 £'000	2022 £'000
Non-current assets			
Goodwill	11	**1,275**	1,275
Other intangible assets	12	**30,554**	28,375
Property, plant and equipment	13	**9,831**	10,944
Right-of-use assets		**3,758**	3,874
		45,418	44,468
Current assets			
Inventories	14	**10,894**	10,503
Trade and other receivables		**5,529**	6,429
Current tax assets	9	**940**	942
Cash and bank balances		**1,097**	5,081
		18,460	22,955
Total assets		**63,878**	67,423
Current liabilities			
Trade and other payables		**(7,436)**	(7,855)
Borrowings	15	**(8,318)**	(5,716)
Derivative financial instruments	16	**(517)**	-
Lease obligation		**(405)**	(375)

		(16,676)	(13,946)
Net current assets		**1,792**	9,009
Non-current liabilities			
Deferred income		**(1,021)**	(1,131)
Lease obligation		**(4,089)**	(4,161)
Borrowings	15	**(568)**	(749)
		(5,678)	(6,041)
Total liabilities		**(22,354)**	(19,987)
Net assets		**41,524**	47,436
Equity			
Share capital		**4,319**	4,319
Share premium account		**72,943**	72,943
Merger reserve		**21,853**	21,853
Translation reserve		**1,897**	2,063
Accumulated losses		**(59,488)**	(53,742)
Total equity		**41,524**	47,436

The accompanying notes form part of these financial statements.

The financial statements of Kromek Group plc (registered number 08661469) were approved by the Board of Directors and authorised for issue on 21 July 2023. They were signed on its behalf by:

Arnab Basu MBE
Chief Executive Officer

Kromek Group plc
Consolidated statement of changes in equity
For the year ended 30 April 2023

	Share capital £'000	**Share premium account £'000**	**Merger reserve £'000**	**Translation reserve £'000**	**Retained losses £'000**	**Total equity £'000**
Balance at 1 May 2021	**4,319**	**72,943**	**21,853**	**-**	**(49,060)**	**50,055**
Loss for the year	-	-	-	-	(4,918)	(4,918)

Exchange difference on translation of foreign operations	-	-	-	2,063	-	2,063
Total comprehensive gain/(loss) for the year	-	-	-	2,063	(4,918)	(2,855)
Credit to equity for equity-settled share-based payments	-	-	-	-	236	236
Balance at 30 April 2022	**4,319**	**72,943**	**21,853**	**2,063**	**(53,742)**	**47,436**
Loss for the year	-	-	-	-	(6,100)	(6,100)
Exchange difference on translation of foreign operations	-	-	-	(166)	-	(166)
Total comprehensive loss for the year	-	-	-	(166)	(6,100)	(6,266)
Credit to equity for equity-settled share-based payments	-	-	-	-	354	354
Balance at 30 April 2023	**4,319**	**72,943**	**21,853**	**1,897**	**(59,488)**	**41,524**

The accompanying notes form part of these financial statements.

Kromek Group plc

Consolidated statement of cash flows

For the year ended 30 April 2023

	Note	2023 £'000	2022 £'000
Net cash generated from/(used in) operating activities	17	**197**	(3,530)
Investing activities			

Interest received		**2**	34
Purchases of property, plant and equipment	13	**(269)**	(651)
Purchases of patents and trademarks	12	**(183)**	(179)
Capitalisation of development costs	12	**(4,821)**	(5,619)
Net cash used in investing activities		**(5,271)**	(6,415)
Financing activities			
New borrowings		**1,100**	760
Proceeds from the issue of convertible loan notes	16	**2,840**	-
Payment of borrowings		**(1,258)**	(1,340)
Payment of lease liability		**(692)**	(646)
Interest paid		**(703)**	(340)
Net cash generated from/(used in) financing activities		**1,287**	(1,566)
Net decrease in cash and cash equivalents		**(3,787)**	(11,511)
Cash and cash equivalents at beginning of year		**5,081**	15,602
Effect of foreign exchange rate changes		**(197)**	990
Cash and cash equivalents at end of year		**1,097**	5,081

The accompanying notes form part of these financial statements.

Kromek Group plc
Notes to the consolidated financial statements
For the year ended 30 April 2023

1. General information

Kromek Group plc is a company incorporated and domiciled in the United Kingdom under the Companies Act 2006. These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.

The Group prepares its consolidated financial statements in accordance with UK-adopted IFRS.

The Board is currently evaluating the impact of the adoption of all other standards, amendments and interpretations but does not expect them to have a material impact on the Group's operation or results.

2. Significant accounting policies

Basis of preparation

The Group's financial statements have been prepared in accordance with IFRS and International Financial Reporting Interpretations Committee ("IFRIC").

The financial statements have been prepared on the historical cost basis modified for assets recognised at fair value on acquisition. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the results and net assets of the Group and entities controlled by the Group (its subsidiaries) made up to 30 April each year. Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to results of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses, and profits are eliminated on consolidation.

Going concern

As at 30 April 2023, the Group had net current assets of £1.8m (30 April 2022: £9.0m) and cash and cash equivalents of £1.1m (30 April 2022: £5.1m) as set out in the consolidated statement of financial position. The Group made a loss before tax of £7,292k in the year (2022: £6,129k).

The Directors have prepared detailed forecasts of the Group's financial performance over the next twelve months from the date of these financial statements. Given the rapidly changing macroeconomic landscape and the Group's forecast financial performance for the next twelve months, management also prepared a financial forecast based on a sensitised and severe but plausible scenario. It should be noted that in each scenario, the Board has specifically excluded any significant upsides from these scenarios or mitigating cost reductions.

The Group has a £5.0m revolving credit facility ("RCF") with HSBC. The expiry date of this facility was 11 March 2023, although the bank has extended this date to 31 August 2023. In both the original and the severe but plausible scenario forecasts, the Directors indicate that this facility will be replaced by alternative borrowing and additional financing will be available to the Group. In addition, post year end, the Group successfully concluded a placing, subscription and open offer which raised £7.4m net of fundraising costs. Accordingly, the Board has concluded that it is almost certain that the required mitigating financing will be secured, allowing the Group to repay the RCF by the agreed payment date. The Board has received a confirmation of financial support from one of the Group's largest shareholders, in the event that refinancing the debt takes longer than expected and the HSBC facility needs to be repaid prior to a new facility being in place. As a consequence, the Board is confident that the Group will have sufficient resources and working capital to meet its present and foreseeable obligations for a period of at least twelve months from approval of these financial statements. Accordingly, the Board continues to adopt the going concern basis in preparing the Group financial statements.

Business combinations

The Group financial statements consolidate those of the Company and its subsidiary undertakings. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or

indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial information of subsidiaries is included from the date that control commences until the date that control ceases. Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial information.

Acquisitions on or after 1 May 2010

For acquisitions on or after 1 May 2010, 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 (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, the negative goodwill 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.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units ("CGUs") expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit ("CGU") is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

Contracts with customers

The Group recognises revenue in line with IFRS 15 'Revenue from contracts with customers'. Revenue represents income derived from contracts for the provision of goods and services by the Group to customers in exchange for consideration in the ordinary course of the Group's activities.

The Board disaggregates revenue by sales of goods or services, grants and contract customers. Sales of goods and services typically include the sale of product on a run rate or ad-hoc basis. Grants include technology development with parties such as Innovate UK as detailed above. Customer contracts represents agreements that the Group has entered into that typically span a period of more than 12 months.

Performance obligations

Upon approval by the parties to a contract, the contract is assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer, and they are separately identifiable in the contract.

Transaction price

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. Variable consideration, such as price escalation and early settlements, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative standalone selling prices. Given the bespoke nature of many of the Group's products and services, which are designed and/or manufactured under contract to the customer's individual specifications, there are sometimes no observable standalone selling prices. Instead, standalone selling prices are typically estimated based on expected costs plus contract margin consistent with the Group's pricing principles or based on market knowledge of selling prices relating to similar product.

Revenue and profit recognition

Revenue is recognised as performance obligations are satisfied as control of the goods and services is transferred to the customer.

For each performance obligation within a contract, the Group determines whether it is satisfied over time or at a point in time. The Group has determined that the performance obligations of the majority of its contracts are satisfied at a point in time. Performance obligations are satisfied over time if one of the following criteria is satisfied:

- § the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs;
- § the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- § the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

For each performance obligation to be recognised over time, the Group recognises revenue using an input method, based on costs incurred in the period. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making suitable

allowances for technical and other risks. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Group has determined that this method faithfully depicts the Group's performance in transferring control of the goods and services to the customer.

If the over-time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment. Kromek's standard terms of delivery are FCA Delivery Location (Incoterms 2020), unless otherwise stated.

The Group's contracts that satisfy the over-time criteria are typically product development contracts where the customer simultaneously receives and consumes the benefit provided by the Group's performance. In some specific arrangements, due to the highly specific nature of the contract deliverables tailored to the customer requirements and the breakthrough technology solutions that Kromek provides, the Group does not create an asset with an alternative use but retains an enforceable right to payment and recognises revenue over time on that basis.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

Contract modifications

The Group's contracts are sometimes amended for changes in customers' requirements and specifications. A contract modification exists when the parties to the contract approve a modification that either changes existing, or creates new, enforceable rights and obligations. The effect of a contract modification on the transaction price and the Group's measure of progress towards the satisfaction of the performance obligation to which it relates, is recognised in one of the following ways:

(a) prospectively as an additional, separate contract;

(b) prospectively as a termination of the existing contract and creation of a new contract; or

(c) as part of the original contract using a cumulative catch up.

The majority of the Group's contract modifications are treated under either (a) (for example, the requirement for additional distinct goods or services) or (b) (for example, a change in the specification of the distinct goods or services for a partially completed contract), although the facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract-by-contract and may result in different accounting outcomes.

Costs to obtain a contract

The Group expenses pre-contract bidding costs that are incurred regardless of whether a contract is awarded. The Group does not typically incur costs to obtain contracts that it would not have incurred had the contracts not been awarded.

Costs to fulfil a contract

Contract fulfilment costs in respect of over-time contracts are expensed as incurred. No such costs have been incurred in the year under review or in previous years. Contract fulfilment costs in respect of point-in-time contracts are accounted for under IAS 2, Inventories.

Sale of inventories

Inventories include raw materials, work-in-progress and finished goods recognised in accordance with IAS 2 in respect of contracts with customers that have been determined to fulfil the criteria for point-in-time revenue recognition under IFRS 15. Also included are inventories for which the Group does not have a contract. This is often because fulfilment costs have been incurred in expectation of a contract award. The Group does not typically build inventory to stock. Inventories are stated at the lower of cost, including all relevant overhead and net realisable value. The Group continued to adopt the policy of valuing its recyclable material. In accordance with the standard, this is valued at the lower of cost and net realisable value, less the cost required to bring the material back into use.

Contract receivables

Contract receivables represent amounts for which the Group has an unconditional right to consideration in respect of unbilled revenue recognised at the balance sheet date and comprises costs incurred plus attributable margin. The Group does not plan, anticipate or offer extended payment terms within its contractual arrangements unless express payment interest charges are applied and represent a value over and above that contracted or invoiced with the customer.

Contract liabilities

Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

Leases

The Group recognises a right-of-use ("ROU") asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU or the end of the lease term. The estimated useful lives of the ROU assets are determined on the same basis as those of property and equipment. In addition, the ROU is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise fixed payments.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in profit or loss if the carrying amount of the ROU has been reduced to zero.

The Group has elected not to recognise ROU assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low value assets, including IT equipment and leased cars. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Foreign currencies

The individual results of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company and the presentation currency for the consolidated financial statements. The Directors have applied IAS 21 The Effects of Changes in Foreign Exchange Rates and have concluded that the inter-company loans held by Kromek Limited substantially form part of the net investment in Kromek USA (Kromek Inc, eV Products, Inc. and Nova R&D, Inc.), and so any gain or loss arising on the inter-company loan balances are recognised as other comprehensive income in the period.

In preparing the results of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the average exchange rate for the month to which the transaction relates. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the statement of financial position date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity. On consolidation, the results of overseas operations are translated into pounds sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the statement of financial position date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in other comprehensive income and are credited/(debited) to the retranslation reserve.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants towards job creation and growth are normally recognised as income over the useful economic life of the capital expenditure to which they relate.

Government grants are recognised in the income statement so as to match them with the related expenses that they are intended to compensate. Grants that relate to capital expenditure are offset against related depreciation costs. Where grants are received in advance of the related expenses, they are initially recognised in the balance sheet and released to match the related expenditure. Non-monetary grants are recognised at fair value.

Operating result

Operating loss is stated as loss before tax, finance income and costs.

Exceptional items

Exceptional items are those items that, in the judgement of management, need to be disclosed separately by virtue of their nature, size or incidence. Exceptional items, such as impairment reversals, have been classified separately in order to draw them to the attention of the reader of the accounts and, in the opinion of the Board, to show more accurately the underlying results of the Group.

Retirement benefit costs

The Group operates two defined contribution pension schemes for UK employees, one of which is an auto-enrolment workplace pension scheme established following the UK Pensions Act 2008. The employees of the Group's subsidiaries in the US are members of a state-managed retirement benefit scheme operated by the US Government.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. For these schemes, the assets are held separately from those of the Group in independently administered funds. Payments made to US state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. The UK R&D tax credit is calculated using the current rules as set out by HMRC and is recognised in the income statement during the period in which the R&D programmes occurred.

i) Current tax

The tax credit is based on the taxable loss for the year. Taxable loss differs from net loss as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 at the date of the statement of financial position.

ii) Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Consolidated Statement of Financial Position and the corresponding tax bases used in the computation of taxable profit and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, 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.
The carrying amount of deferred tax assets is reviewed at each statement of financial position 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 asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised, based on tax laws and rates that have been enacted or substantively enacted at the date of the statement of financial position. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income. 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.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is recognised so as to write off the cost or valuation of assets (other than land and properties under construction) less their residual values over their useful lives, using the straight-line method, on the following bases:

Plant and machinery	6% to 25%
Fixtures, fittings and equipment	15%
Computer equipment	25%
Lab equipment	6% to 25%

The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset, and is recognised in income.

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's product development is recognised only if all of the following conditions are met:

§ the technical feasibility of completing the intangible asset so that it will be available for use or sale;

§ its intention to complete the intangible asset and use or sell it;

§ its ability to use or sell the intangible asset;

§ how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

§ the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

§ its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Research expenditure is written off as incurred. Development expenditure is also written off, except where the Directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the Group is expected to benefit. This period normally equates to the life of the products to which the development expenditure relates. Where expenditure relates to developments for use rather than direct sales of product, the cost is amortised straight-line over a 2-15-year period. Assets that have been developed are not amortised until they are available for use and commercial sale. Provision is made for any impairment.

Amortisation of the intangible assets recognised on the acquisitions of Nova R&D, Inc. and eV Products, Inc. are recognised in the income statement on a straight-line basis over their estimated useful lives of between five and fifteen years.

Patents and trademarks

Patents and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

Impairment of tangible and intangible assets, excluding goodwill

At each statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate of 10.25% (2022: 11.35%) that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. See note 11 for further detail.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. The Group continue to adopt a policy of valuing recyclable material. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated in the statement of financial position at standard cost, which approximates to historical cost determined on a first in, first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Work in progress costs are taken as production costs, which include an appropriate proportion of attributable overheads.

Provision is made for obsolete, slow moving or defective items where appropriate. This is reviewed by operational finance at least every six months. Given the nature of the products and the gestation period of the technology, commercial rationale necessitates that this provision is reviewed on a case-by-case basis.

Provisions for liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Such provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money. Provisions are not recognised for future operating losses.

Financial instruments

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at Fair Value Through Profit or Loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost; Fair Value through Other Comprehensive Income (FVOCI) - debt investment; FVOCI - equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

§ It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
§ Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents comprise cash balances and call deposits.

(b) Subsequent measurement and gains and losses

Financial assets at FVTPL - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost - these assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities and equity

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) They include no contractual obligations upon the Group 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 Group; and

(b) Where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group exchanging a fixed amount of cash or other financial assets 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. Where the instrument so classified takes the legal form of the Group's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy.

Convertible loan notes

The convertible loan issued by the Group is a hybrid financial instrument, whereby a debt host liability component and an embedded derivative liability component was determined at initial recognition. The conversion option did not satisfy the fixed for fixed equity criterion (fixed number of shares and fixed amount of cash). Conversion features that are derivative liabilities are accounted for separately from the host instrument. The embedded derivative is accounted for as a financial instrument through profit or loss and is initially measured at fair value, and changes therein are recognised in profit or loss. The debt host liability is accounted for at amortised cost. In the case of a hybrid financial instrument, IFRS 9 requires that the fair value of the embedded derivative is calculated first and the residual value (residual proceeds) is assigned to the host financial liability. The initial recognition of the embedded derivative conversion feature has been recognised as a liability on the balance sheet with any changes to the fair value of the derivative recognised in the income statement. It has been fair valued using a Black Scholes simulation which was performed at the transaction date and the period end date.

The debt host liability will be accounted for using the amortised cost basis with an effective interest rate of 16%. The Group will recognise the unwinding of the discount at the effective interest rate, until the maturity date, the carrying amount at the maturity date will equal the cash payment required to be made.

Intra-Group financial instruments

Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Group considers these to be insurance arrangements and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

(iii) Impairment

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The Group measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as twelve-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset may have increased if it is more than 120 days past due. This is assessed on a case-by-case basis, taking into consideration the commercial relationship and historical pattern of payments.

The Group considers a financial asset to be at risk of default when:

§ The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
§ The financial asset is more than 120 days past due, subject to management discretion and commercial relationships.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

Twelve-month ECLs are the portion of ECLs that result from default events that are possible within 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

Credit losses are measured and assessed on an individual balance by balance basis. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses. The general approach incorporates a review for any significant increase in counterparty credit risk since inception.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit impaired. A financial asset is "credit impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. If there is recovery of the financial asset, a reversal will be recognised in the profit and loss.

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date and spread over the period during which the employees become unconditionally entitled to the options, which is based on a period of employment of three years from grant date. In accordance with IFRS 2, from a single entity perspective, Kromek Group plc recognises an increase in investment and corresponding increase in equity to represent the settlement.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. The vesting date is determined based on the date an employee is granted options, usually three years from date of grant. At each statement of financial position date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions and taking into account the average time in employment across the year. The impact of the

revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

Cash

Cash, for the purposes of the statement of cash flows, comprises cash in hand and term deposits repayable between one and twelve months from balance sheet date, less overdrafts repayable on demand.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of 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 ongoing 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 current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements 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.

Development costs

As described in note 2, Group expenditure on development activities is capitalised if it meets the criteria as per IAS 38. Management have exercised and applied judgement when determining whether the criteria of IAS 38 is satisfied in relation to development costs. As part of this judgement process, management establish the future Total Addressable Market relating to the product or process, evaluate the operational plans to complete the product or process and establish where the development is positioned on the Group's technology road map and asses the costs against IAS 38 criteria. This process involves input from the Group's Chief Technical Officer plus the operational, financial and commercial functions and is based upon detailed project cost analysis of both time and materials.

Performance obligations arising from customer contracts

As described in note 2, the Group recognises revenue as performance obligations are satisfied when control of the goods and services is transferred to the customer. Management have exercised and applied judgment in determining what the performance obligations are and whether they are satisfied over time or at a point in time. In applying this judgement, management considers the nature of the overall contract deliverable, legal form of the contract and economic resources required for the performance obligation to be satisfied. Management disaggregate revenues by sales of goods and services, revenue from development grants (such as Innovate UK) and revenue from contract customers. Typically, revenue from the sales of goods and services is recognised at a point in time. Revenue from development grants and contract customers are recognised either over time or at a point in time depending on the characteristics of the specific contract when applying IFRS15.

Cash Generating Units

Management have exercised judgement in determining the number of CGUs. As set out in note 11, An asset's CGU is the smallest identifiable group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. An asset or group of assets must be identified as a cash-generating unit where an active market exists for the output produced by that asset or group of assets, even if some or all of the output is used internally. This is because the asset or group of assets could generate cash inflows that would be largely independent of the cash inflows from other assets or group of assets. The smallest identifiable group of assets identified by management can be split into three markets: Advanced Imaging, CBRN and Biological Threat Detection. CGUs are not necessarily consistent with the way management monitors the business. Management continues to oversee and monitor the business as two separate operating segments - UK and US and as three separate CGUs as noted above.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

i) Development costs

The key source of estimation uncertainty relates to the estimation of the asset's recoverable amount, which involves assumptions in relation to future uncertainties including discount rates and growth rates. For further details, see note 11.

As disclosed in note 12, development costs are capitalised in accordance with the accounting policy noted above. These capitalised assets are amortised over the period during which the Group is expected to benefit.

ii) Contract revenue

This policy requires forecasts to be made of the outcomes of long-term contracts, which include assessments and judgements on changes in expected costs. A change in the estimate of total forecast contract costs would impact the stage of completion of those contracts and the level of revenue recognised thereon, which could have a material impact on the results of the Group.

iii) R&D Tax credit

The R&D tax credit is calculated using the current rules as prescribed by HMRC. The estimation is based on the actual UK R&D projects that qualify for the scheme that have been carried out in the period. Management estimate the tax credit on a prudent basis and then obtain additional professional input from the Company's tax advisers prior to submission of the claim to HMRC. The Group has assumed 100% of the R&D tax credit is recoverable. If only 95% of the claim were to be accepted by HMRC, this would have the effect of reducing the tax receivable and corresponding tax credit by £47k to £893k.

iv) Recoverability of receivables and amounts recoverable on contract ("AROC")

Management judges the recoverability at the balance sheet date and makes a provision for impairment where appropriate. The resultant provision for impairment represents management's best estimate of losses incurred in the portfolio at the balance sheet date, assessed on the customer risk scoring and commercial discussions. Further, management estimate the recoverability of any AROC balances relating to customer contracts. This estimate includes an assessment of the probability of receipt, exposure to credit loss and the value of any potential recovery. Management base this estimate using the most recent and reliable information that can be reasonably obtained at any point of review. A material change in the facts

and circumstances could lead to a reversal of impairment proportional to the expected cash inflows supported by this information.

v) Impairment reviews

Management conducts annual impairment reviews of the Group's non-current assets on the consolidated statement of financial position. This includes goodwill annually, development costs where IAS 36 requires it, and other assets as the appropriate standards prescribe. Any impairment review is conducted using the Group's future growth targets regarding its key markets of nuclear detection, medical imaging and security screening. The current carrying value of this class of assets is £45,418k as set out on the Group's consolidated statement of financial position. Sensitivities are applied to the growth assumptions to consider any potential long-term impact of current economic conditions. Provision is made where the recoverable amount is less than the current carrying value of the asset. Further details as to the estimation uncertainty and the key assumptions are set out in note 11.

vi) Calculation of share-based payment charges

The charge related to equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date they are granted, using an appropriate valuation model selected according to the terms and conditions of the grant. The simplest option pricing model is the Black-Scholes model, which tends to be suitable for simple forms of share awards, in particular where there are no market-based performance conditions. More complex share schemes require the use of a more complex model such as the Monte Carlo Model. Judgement is applied in determining the most appropriate valuation model and estimates are used in determining the inputs to the model. The Group have engaged a third-party expert in FY23 to value the LTIPs granted in year using the Monte Carlo Model.

vii) Convertible loan notes

The Group issued £2.8m of convertible loan notes during the year. The convertible loan is a hybrid financial instrument, whereby a debt host liability component and an embedded derivative liability component was determined at initial recognition. The conversion option did not satisfy the fixed for fixed equity criterion (fixed number of shares and fixed amount of cash).

For convertible notes with embedded derivative liabilities, the fair value of the embedded derivative liability is determined first and the residual amount is assigned to the debt host liability.

The embedded derivative has been fair valued using a Black Scholes simulation which was performed at the transaction date and the period end date. The future expected market share price of the Group and the volatility of the share price are the key estimates that are critical in the determination of the fair value of the embedded derivative and subsequently the debt host liability of the convertible loan notes.

4. Operating segments

Products and services from which reportable segments derive their revenues

For management purposes, the Group is organised into two geographical business units from which the Group currently operates (US and UK) and it is these operating segments for which the Group is providing disclosure. Whilst there are two operating segments (US and UK), the Group recognises three CGUs (CBRN, medical imaging and Biological Threat Detection) on the basis that operating segments can consist of

multiple CGUs. Both operating segments serve the three principal key markets. However, typically, the US business unit focuses principally on Advanced Imaging and the UK focuses on CBRN and Biological Threat Detection. However, this arrangement is flexible and can vary based on the geographical location of the Group's customer.

The chief operating decision maker is the Board of Directors, which assesses the performance of the operating segments using the following key performances indicators: revenues, gross profit and operating profit. The amounts provided to the Board with respect to assets and liabilities are measured in a way consistent with the financial statements.

The turnover, profit on ordinary activities and net assets of the Group are attributable to two business segments. The first segment relates to the development of digital colour X-ray imaging enabling direct materials identification as well as developing a number of detection products in the industrial and consumer markets. The second segment relates to the development of a technology platform, as described above, which aims to identify airborne pathogens.

Analysis by geographical area

A geographical analysis of the revenue from the Group's customers, by destination, is as follows:

	2023 £'000	**2022 £'000**
United Kingdom	**3,944**	2,033
North America	**6,110**	5,807
Asia	**2,071**	1,556
Europe	**5,031**	2,601
Other	**153**	58
Total revenue	**17,309**	12,055

The Group has aggregated its CGUs, being CBRN, Advanced Imaging and Biological Threat Detection, into two reporting segments being the operational business units in the UK and US. The UK operations comprise Kromek Group plc and Kromek Limited and the US operations comprise Kromek Inc, eV Products Inc, and Nova R&D Inc. The Board currently considers this to be the most appropriate aggregation due to the main markets that are typically addressed by the UK and US business units and the necessary skillsets and expertise.

A geographical analysis of the Group's revenue by origin is as follows:

Year ended 30 April 2023:

	UK Operations £'000	**US Operations £'000**	**Total for Group £'000**
Revenue from sales			
Revenue by segment:			
-Sale of goods and services	11,530	14,844	26,374
-Revenue from grants	226	-	226
-Revenue from contract customers	2,164	51	2,215
Total sales by segment	13,920	14,895	28,815
Removal of inter-segment sales	(8,529)	(2,977)	(11,506)
Total external sales	5,391	11,918	17,309

Segment result - operating loss before exceptional items	(1,881)	(4,168)	(6,049)
Interest received	2	-	2
Interest expense	(975)	(270)	(1,245)
Loss before tax	(2,854)	(4,438)	(7,292)
Tax credit	1,192	-	1,192
Loss for the year	(1,662)	(4,438)	(6,100)
Reconciliation to adjusted EBITDA:			
Net interest	973	270	1,243
Tax	(1,192)	-	(1,192)
Depreciation of PPE and right-of-use assets	1,004	899	1,903
Amortisation	1,558	1,333	2,891
Change in fair value of derivative	(77)	-	(77)
Share-based payment charge	354	-	354
Adjusted EBITDA	958	(1,936)	(978)
Other segment information			
Property, plant and equipment additions	42	227	269
Right-of-use assets	2,133	3,752	5,885
Depreciation of PPE and right-of-use assets	1,004	899	1,903
Release of capital grant	(44)	-	(44)
Intangible asset additions	2,761	2,243	5,004
Amortisation of intangible assets	1,558	1,333	2,891
Statement of financial position			
Total assets	35,687	28,191	63,878
Total liabilities	(16,433)	(5,921)	(22,354)

Year ended 30 April 2022:

	UK Operations £'000	**US Operations £'000**	**Total for Group £'000**
Revenue from sales			
Revenue by segment:			
-Sale of goods and services	9,036	9,013	18,049
-Revenue from grants	646	-	646
-Revenue from contract customers	1,227	245	1,472
Total sales by segment	10,909	9,258	20,167
Removal of inter-segment sales	(5,564)	(2,548)	(8,112)
Total external sales	5,345	6,710	12,055
Segment result - operating loss before exceptional items	(3,732)	(1,981)	(5,713)
Interest received	34	-	34
Interest expense	(348)	(234)	(582)
Exceptional items	-	132	132
Loss before tax	(4,046)	(2,083)	(6,129)
Tax credit	1,228	(17)	1,211
Loss for the year	(2,818)	(2,100)	(4,918)
Reconciliation to adjusted EBITDA:			
Net interest	314	234	548
Tax	(1,228)	17	(1,211)
Depreciation of PPE and right-of-use assets	1,010	741	1,751
Amortisation	1,548	1,021	2,569

Share-based payment charge	236	-	236
Exceptional items	-	(132)	(132)
Adjusted EBITDA	(938)	(219)	(1,157)
Other segment information			
Property, plant and equipment additions	124	527	651
Right-of-use assets	2,048	3,458	5,506
Depreciation of PPE and right-of-use assets	1,010	741	1,751
Release of capital grant	(44)	-	(44)
Intangible asset additions	4,199	1,599	5,798
Amortisation of intangible assets	1,548	1,021	2,569
Statement of financial position			
Total assets	39,494	27,929	67,423
Total liabilities	(13,376)	(6,611)	(19,987)

Inter-segment sales are charged on an arms-length basis.

No other additions of non-current assets have been recognised during the year other than property, plant and equipment, and intangible assets.

No impairment losses were recognised in respect of property, plant and equipment and intangible assets including goodwill.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. Segment loss represents the loss reported by each segment. This is the measure reported to the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance.

Revenues from major products and services

The Group's revenues from its major products and services were as follows:	**2023 £'000**	**2022 £'000**
Product revenue	**14,768**	9,935
Research and development revenue	**2,541**	2,120
Consolidated revenue	**17,309**	12,055

Information about major customers

Included in revenues arising from US operations are revenues of approximately £4,688k (2022: £2,178k) that arose from the Group's largest commercial customer. Included in revenues arising from UK operations are revenues of approximately £1,243k (2022: £955k) that arose from a major commercial customer.

5. Other Operating Income

	2023 £'000	**2022 £'000**
Coronavirus Job Retention Scheme	**-**	19
Miscellaneous	**121**	17
PPP loan forgiveness	**-**	1,374

Total other operating income	**121**	1,410

Miscellaneous income relates to work undertaken during the financial year on a duty saving project. An Advance Tariff Ruling application was granted, which resulted in a retrospective duty claim dating back three years.

Other operating income from the prior year comprised the forgiveness of PPP loans granted by the US Government and grants received from the Coronavirus Job Retention Scheme provided by the UK Government in response to COVID-19's economic impact on businesses.

6. Loss before tax for the year

Loss before tax for the year has been arrived at after charging/(crediting):

	2023 £'000	**2022 £'000**
Net foreign exchange (gains)/losses	**(98)**	155
Research and development costs recognised as an expense	**882**	1,308
Depreciation of property, plant and equipment	**1,910**	1,751
Release of capital grant	**(44)**	(44)
Amortisation of internally-generated intangible assets	**2,891**	2,569
Cost of inventories recognised as expense	**4,858**	3,003
Exceptional items - reversal of trade receivables and AROC (see note 8)	**-**	(132)
Staff costs (see note 7)	**11,166**	9,543

7. Staff costs

The average monthly number of employees (excluding non-executive directors) was:

	2023 Number	**2022 Number**
Directors (executive)	**3**	3
Research and development, production	**149**	133
Sales and marketing	**8**	5
Administration	**13**	13
	173	154

Their aggregate remuneration comprised:

	2023 £'000	**2022 £'000**
Wages and salaries	**9,418**	8,069
Social security costs	**824**	739
Pension scheme contributions	**570**	499
Share-based payments	**354**	236

	11,166	9,543

The total Directors' emoluments (including non-executive directors) was £933k (2022: £890k). The aggregate value of contributions paid to money purchase pension schemes was £26k (2022: £24k) in respect of four directors (2022: four directors). There has been no exercise of share options by the Directors in the period and therefore no gain recognised in the year (2022: nil).

The highest paid director received emoluments of £270k (2022: £270k) and amounts paid to money purchase pension schemes was £4k (2022: £4k).

Key management compensation:

	2023 £'000	**2022 £'000**
Wages and salaries and other short-term benefits	**1,096**	1,050
Social security costs	**117**	112
Pension scheme contributions	**33**	32
Share-based payment expense	**273**	146
	1,519	1,340

Key management comprise the Executive Directors, Non-Executive Directors and senior operational staff. There were three Executive Directors in 2023 (2022: three); four Non-Executive Directors in 2023 (2022: four); and two senior operational staff in 2023 (2022: two).

8. Exceptional Items

Exceptional items, booked to operating costs, comprised the following:

	2023 £'000	**2022 £'000**
Reversal of trade receivables and AROC	**-**	(132)
Total exceptional items	**-**	(132)

The Group has reversed £nil in 2023 (2022: £132k) in relation to items impaired in a prior year. The impairment (recognised in FY2020) related to two separate contracts with specific customers in Asia who were identified as having a significantly elevated credit risk. The assessment carried out by management suggested delays in delivery due to travel restriction and subsequent doubt over expected future cash flow, increasing the likelihood of credit default by these specific debtors in the next 12 months due. A charge of £13,062k was presented in FY2020 as an exceptional item arising as a result of COVID-19 in accordance with the Group's accounting policy, as it was considered to be one-off in nature, size and incidence. It represented a full write down of invoiced debtors and AROC. The amounts have been fully written down as management have concluded that any collateral is not considered to be material. No adjustment or reversal to the impairment calculated in 2020, specific to one of the contracts, has been included in 2022 and 2023 on the basis that the recoverability of this receivable remains uncertain.

9. Tax

Recognised in the income statement

	2023 £'000	2022 £'000
Current tax credit:		
UK corporation tax on losses in the year	**940**	942
Adjustment in respect of previous periods	**252**	286
Foreign taxes paid	**-**	(17)
Total current tax	**1,192**	1,211
Deferred tax:		
Origination and reversal of timing differences	**-**	-
Adjustment in respect of previous periods	**-**	-
Total deferred tax	**-**	-
Total tax credit in income statement	**1,192**	1,211

The main rate of UK corporation tax for the financial year was 19.49% (2022: 19%) whilst the US federal corporate tax rate is 21%. The deferred tax asset at 30 April 2023, which has not been recognised, has been calculated at 19.49% (2022: 19%).

Reconciliation of tax credit

The charge for the year can be reconciled to the profit in the income statement as follows:

	2023 £'000	2022 £'000
Loss before tax	**(7,292)**	(6,129)
Tax at the UK corporation tax rate of 19.49% (2022: 19%)	**1,422**	1,165
Non-taxable income/(expenses) not deductible	**36**	(184)
Effect of R&D	**396**	456
Effect of other tax rates/credits	**63**	124
Share scheme deduction under Part 12 CTA 2009	**-**	-
Unrecognised movement on deferred tax	**(1,251)**	(815)
Adjustment in respect of previous periods	**252**	286
Effects of overseas tax rates	**274**	179
Total tax credit for the year	**1,192**	1,211

There are no tax items charged to other comprehensive income.

The effect of R&D is the tax impact of capitalised development costs being deducted in the year in which they are incurred.

The rate of corporation tax for the year is 19.49% (2022: 19%). The other tax jurisdiction that the Group currently operates in is the US. Any deferred tax arising from the US operations is calculated at 27.59%, which represents the federal plus state tax rate.

10. Losses per share

As the Group is loss making, dilution has the effect of reducing the loss per share. The calculation of the basic earnings per share is based on the following data:

Losses	**2023 £'000**	**2022 £'000**
Losses for the purposes of basic and diluted losses per share being net losses attributable to owners of the Group	**(6,100)**	(4,918)

Number of shares	**2023 Number**	**2022 Number**
Weighted average number of ordinary shares for the purposes of basic losses per share	**431,851,820**	431,851,820
Effect of dilutive potential ordinary shares:		
Share options	**312,909**	350,556
Weighted average number of ordinary shares for the purposes of diluted losses per share	**432,164,729**	432,202,376

	2023	**2022**
Basic (p)	**(1.4)**	(1.1)

Basic earnings per share is calculated by dividing the loss attributable to shareholders by the weighted average number of ordinary shares in issue during the year. IAS 33 requires presentation of diluted EPS when a company could be called upon to issue shares that would decrease earnings per share or increase the loss per share. For a loss-making company with outstanding share options, net loss per share would be decreased by the exercise of options. Therefore, the anti-dilutive potential ordinary shares are disregarded in the calculation of diluted EPS.

11. Intangible Assets including Goodwill

	£'000
Cost	
At 1 May 2022 and 30 April 2023	1,275
Accumulated impairment losses	
At 1 May 2022 and 30 April 2023	-
Carrying amount	
At 30 April 2023 and 30 April 2022	**1,275**

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

CGU	**Goodwill £'000**	**Intangibles £'000**
Advanced Imaging	1,275	13,813
CBRN	-	7,218
Biological Threat Detection	-	9,523
Total	**1,275**	**30,554**

The goodwill arose on the acquisition of Nova R&D, Inc. in 2010, and represents the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired.

Goodwill has been allocated to the Advanced Imaging CGU.

Impairment tests

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired, by comparing the carrying value of the goodwill to its value in use on a discounted cash flow basis.

The Group tests intangible assets with finite lives for impairment if an indicator exists. In undertaking the impairment test, management considered both internal and external sources of information. The impairment testing did not identify any impairments in each of the CGUs.

Forecast cash flows

Management has prepared cash flow forecasts for 10 years (CBRN/Biological Threat Detection) and 15 years (Advanced Imaging) plus a perpetuity. This exceeds the five years as set out in the standard but has been used on the basis that the entity is in the early stage of its maturity and will not have reached steady state after five years. Management have visibility over contracts in place and in the pipeline that enable it to forecast accurately and the cash flows are based on the useful economic life of the 'know how', which is considered to be the essential asset.

Advanced Imaging

The key assumptions to the value in use calculations are set out below:

- *Growth rate.* The 2023 model includes a prudent revenue growth in years 1 and 2 (see below for comparatives). This growth rate comprises both capacity increases as a result of increases in raw material to finished product efficiencies and price increases, factoring in existing contracts and those in the pipeline and is reflective of historical growth rates as well as and the Company's share of the overall markets the Advanced Imaging CGU operates in. No growth is assumed after 10 years.
- *Discount rates.* Management have derived a pre-tax discount rate of 8.85% (2022: 11.35%) using the latest market assumptions for the risk-free rate, the equity premium and the net cost of debt, which are all based on publicly available sources, as well as adjustments for forecasting risk for which management considered the historical growth of the entity as well as the visibility of cash flows from a contracted perspective, which are all based on publicly available sources. The discount rate is lower than that used in 2022. The key drivers of this change are the changes in market assumptions for US corporate bond yields and risk-free rates.

The Challenge Model Base Case incorporates the following into the Advanced Imaging forecast:

- Revised year 1 and year 2 cashflows to match the severe but plausible budget conducted as part of the Going Concern review.
- Modelled a smoother increase in revenues from the year 1 and year 2 budgets to year 15 whilst taking into consideration potential capacity constraints.

CBRN

§ *Growth rate.* The 2023 model includes a prudent growth rate of 25% per annum which is reflective of recent growth in this particular sector of the business. This growth rate considers existing contracts and those in the pipeline and is reflective of historical growth rates as well as and the Company's share of the overall markets the CBRN CGU operates in. No growth is assumed after 10 years.

§ *Discount rates.* Management have derived a pre-tax discount rate of 10.92% (2022: 10.50%) using the latest market assumptions for the risk-free rate, the equity premium and the net cost of debt, which are all based on publicly available sources, as well as adjustments for forecasting risk for which management considered the historical growth of the entity as well as the visibility of cash flows from a contracted perspective. The discount rate is higher than that used in 2022. The key drivers of this change are the changes in market assumptions for UK corporate bond yields and risk-free rates.

The Challenge Model Base Case scenarios incorporates the following into the CBRN forecast:

§ Revised year 1, 2 and 3 cashflows to match the severe but plausible budget conducted as part of the Going Concern review.

§ Modelled a smoother increase in revenues from the year 1 and year 2 budgets to year 10.

Biological Threat Detection

§ *Growth rate.* The 2023 model is based on management's assumption of future programme revenue and product delivery. The forecast revenue consists of known revenue opportunities across four key areas. For prudency additional upside revenue from other known opportunities has been excluded.

§ *Discount rates.* Management have derived a pre-tax discount rate of 10.92% (2022: 10.50%) using the latest market assumptions for the risk-free rate, the equity premium and the net cost of debt, which are all based on publicly available sources, as well as adjustments for forecasting risk for which management considered the historical growth of the entity as well as the visibility of cash flows from a contracted perspective.

The Challenge Model Base Case scenarios incorporates the following into the Biological Threat Detection forecast:

§ Modelled a smoother increase in revenues from the year 1 and year 2 budgets to year 10.

Sensitivities

The headroom in the base case models for each CGU are noted below:

	Advanced Imaging Headroom	CBRN Headroom	Biological Threat Detection Headroom
Base model	£20,268k	£15,999k	£28,103k
Combination of Discount Rate +2% and Challenge model	£15,064k	£12,290k	£23,134k
Combination of Discount Rate -2% and Challenge model	£26,297k	£20,391k	£33,954k

The table below sets out the headroom in the challenge base model for each CGU:

	Advanced Imaging Headroom	CBRN Headroom	Biological Threat Detection Headroom
Challenge base model	£11,718k	£2,286k	£18,780k
Combination of Discount Rate +2% and Challenge model	£6,032k	£125k	£15,681k
Combination of Discount Rate -2% and Challenge model	£18,674k	£4,860k	£22,366k

The Directors have reviewed the recoverable amount of the CGU and do not consider there to be any impairment in 2023 or 2022

12. Other intangible assets

	Development costs £'000	Patents, trademarks & other intangibles £'000	Total £'000
Cost			
At 1 May 2022	35,880	7,913	43,793
Additions	4,821	183	5,004
Exchange differences	4	1	5
At 30 April 2023	40,705	8,097	48,802
Amortisation			
At 1 May 2022	9,296	6,122	15,418
Charge for the year	2,325	566	2,891
Exchange differences	(46)	(15)	(61)
At 30 April 2023	11,575	6,673	18,248
Carrying amount At 30 April 2023	**29,130**	**1,424**	**30,554**
At 30 April 2022	26,584	1,791	28,375

The Group amortises capitalised development costs on a straight-line basis over a period of 2-15 years rather than against product sales directly relating to the development expenditure. Any impairment of development costs are recognised immediately through the profit and loss.

Patents and trademarks are amortised over their estimated useful lives, which is on average 10 years.

The carrying amount of acquired intangible assets arising on the acquisitions of Nova R&D, Inc. and eV Products, Inc. as at the 30 April 2023 was £182k (2022: £357k), with amortisation to be charged over the remaining useful lives of these assets which is between 3 and 13 years.

The amortisation charge on intangible assets is included in administrative expenses in the consolidated income statement.

Further details on impairment testing are set out in note 11.

13. Property, plant and equipment

	Lab equipment £'000	Computer equipment £'000	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
Cost or valuation					
At 1 May 2022	210	1,463	18,621	619	20,913
Additions	-	34	226	9	269
Exchange differences	-	-	2	-	2
At 30 April 2023	210	1,497	18,849	628	21,184
Accumulated depreciation and impairment					
At 1 May 2022	75	1,189	8,358	347	9,969
Charge for the year	42	118	1,182	54	1,396
Exchange differences	-	(3)	(8)	(1)	(12)
At 30 April 2023	117	1,304	9,532	400	11,353
Carrying amount At 30 April 2023	**93**	**193**	**9,317**	**228**	**9,831**
At 30 April 2022	135	274	10,263	272	10,944

14. Inventories

	2023 £'000	2022 £'000
Raw materials	**2,204**	3,554
Work-in-progress	**8,321**	6,304
Finished goods	**369**	645
	10,894	10,503

The cost of inventories recognised as an expense during the year in respect of continuing operations was £4,858k (2022: £5,006k).

The write-down of inventories to net realisable value amounted to £1,226k (2022: £852k). The reversal of write-downs amounted to £271k (2022: £94k).

15. Borrowings

	2023 £'000	2022 £'000
Secured borrowing at amortised cost		
Revolving credit facility and capex facility	**5,000**	4,500
Other borrowings	**1,357**	1,965
Convertible loan notes (see note 16)	**2,529**	-
	8,886	6,465
Total borrowings		
Amount due for settlement within 12 months	**8,318**	5,716
Amount due for settlement after 12 months	**568**	749

The Group has a £5.0m RCF with HSBC, the repayment date for which has been extended from 11 March 2023 to 31 August 2023. Post year end, the Group deposited £4.5m with HSBC over which the bank has a legal charge in the event that the RCF is not repaid by 31 August 2023. At the date of this report, the Group are finalising the terms of an alternative borrowing facility to replace the HSBC RCF and the Board are confident that this facility will be secured to repay the RCF by 31 August 2023.

Other borrowings comprise a loan with the landlord in the US in respect of the facility occupied by eV Products, Inc. This loan is repaid in equal instalments on a monthly basis and attracts interest at 7.50% per annum. At 30 April 2023, the total loan due to the landlord was £0.2m (2022: £0.4m). Of this, £0.2m is due within 12 months (2022: £0.2m) and £nil (2022: £0.2m) is due after 12 months.

The Group's US operations were eligible to apply for an Economic Injury Disaster Loan. A loan of £0.1m was approved and secured in June 2020. A further loan of £0.4m was approved and secured in August 2021. This loan attracts interest at a rate of 3.75% per annum and the maturity date is 30 years from the date of the loan note.

The Group secured an additional £0.5m loan in September 2022 and a £0.1m loan in February 2023. These were to aid with working capital requirements. Both loans were repaid post year end.

Convertible loan notes of £2.8m were securing during the year. This is discussed further in note 16.

Finance lease liabilities are secured by the assets leased. The borrowings are at a fixed interest rate with repayment periods not exceeding five years.

The weighted average interest rates paid during the year were as follows:

	2023 %	2022 %
Revolving credit facility	6.90	2.80
Other borrowing facilities	3.40	6.60

16. Convertible Loan Notes

During the year, the Group issued convertible loan notes to the value of £2.84m at an interest rate of 8% per annum, with interest accruing monthly.

The convertible loan is a hybrid financial instrument, whereby a debt host liability component and an embedded derivative liability component was determined at initial recognition. The conversion option did not satisfy the fixed for fixed equity criterion (fixed number of shares and fixed amount of cash) and hence these instruments are not considered to contain an equity element.

For convertible notes with embedded derivative liabilities, the fair value of the embedded derivative liability is determined first and the residual amount is assigned to the debt host liability. The initial recognition of the embedded derivative conversion feature has been recognised as a liability on the balance sheet with any changes to the fair value of the derivative recognised in the income statement. It has been fair valued using a Black Scholes model which was performed at the transaction date and the period end date. The inputs into the Black-Scholes model at the year-end are as follows:

	2023
Weighted average share price	6.6p
Expected volatility	40.97%
Expected life	1 year
Risk-free rate	0.031
Expected dividend yields	0%

The debt host liability will be accounted for using the amortised cost basis with an effective interest rate of 16%. The Group will recognise the unwinding of the discount at the effective interest rate, until the maturity date, the carrying amount at the maturity date will equal the cash payment required to be made.

	Embedded derivative £'000	**Convertible loan note £'000**	**Total £'000**
Initial recognition	594	2,249	2,840
Unwinding of discount	-	280	280
Change in fair value	(77)	-	(77)
	517	2,529	3,043

17. Notes to the cash flow statement

	2023 £'000	**2022 £'000**
Loss for the year	**(6,100)**	(4,918)
Adjustments for:		
Finance income	**(2)**	(34)
Finance costs	**1,245**	582
Change in fair value of derivative	**(77)**	-
Income tax credit	**(1,192)**	(1,211)
Depreciation of property, plant and equipment and ROU	**1,903**	1,751
Amortisation of intangible assets	**2,891**	2,569
Share-based payment expense	**354**	236
PPP loan forgiveness	**-**	(1,443)
Operating cash flow before movements in working capital	**(978)**	(2,468)
Increase in inventories	**(391)**	(4,301)
Decrease in receivables	**900**	215
(Decrease)/increase in payables	**(529)**	1,741

Cash used in operations	**(998)**	(4,813)
Income taxes received	**1,195**	1,283
Net cash generated from/(used in) operating activities	**197**	(3,530)

Cash and cash equivalents

	2023 £'000	**2022 £'000**
Cash and bank balances	**1,097**	5,081

Cash and cash equivalents comprise cash and term bank deposits repayable between one and twelve months from balance sheet date, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

18. Events after the balance sheet date

Post year end, the Company successfully announced a placing, subscription and open offer to raise £8m before expenses. The Company raised £7m through the issue of 140,000,000 placing shares and an additional £1m through an open offer, which resulted in the issue of 20,564,372 shares. Net proceeds post fundraising costs amount to £7.4m.

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