**MXC Capital Limited**

**("MXC", the “Company" or the “Group”)**

**Final Results for the Year Ended 31 August 2018**

MXC, the technology focused merchant bank, announces its audited final results for the year ended 31 August 2018.

## Summary


- Strong balance sheet, net assets of £63.9 million as at 31 August 2018 (31 August 2017: £68.8 million)

- Net asset value per share as at 31 August 2018 of 1.90 pence with the underlying portfolio and liquid assets* valued at 1.61 pence per share

- Trading EBITDA loss** of £1.2 million (2017: loss of £1.6 million)

- Notable milestones during the year include:

    - Launch of the joint venture with Liberty Global plc;

    - Appointment as consultant to Ravenscroft Limited in relation to its role as investment manager to the GIF Technology and Innovation Cell;

    - Sale of a 25% stake in MXCUK, the holding company of MXC’s transactional businesses, which completed post year end; and

    - Final exit from Castleton Technology plc, generating a 3.3x return over the period of our investment

- Significant further capital invested into existing and new companies within the Group’s portfolio

- Post period end establishment of an Employee Benefit Trust to purchase MXC shares in the market in order to satisfy existing and future share incentive awards thereby reducing future shareholder dilution


**Peter Rigg, Chairman of MXC, said:**

“The period under review has seen significant developments for MXC including our new partnerships with Ravenscroft Limited in relation to GIF Technology and Innovation Cell and the joint venture with Liberty Global plc. Both of these are testament to our expertise in the sector. They not only provide investment opportunities but regular fee income and the opportunity to share in more of the profit than is the case with our public investments. We believe this is an important change in the focus of our business.

I am grateful for the hard work, initiative and creativity of the MXC team during the year and, as ever, for the continuing support of our shareholders. The Board looks to the future with confidence.”

* *underlying portfolio and liquid asset value represents cash balances plus audited valuation of the Company's portfolio based on closing mid-market prices at 31 August 2018 with privately held assets valued at input cost, the latest fundraising valuation or average market multiples*

*** earnings from trading activities before interest, tax, depreciation, amortisation, non-recurring and exceptional items, share-based payments and movements in fair value of investments*

The information communicated in this announcement is inside information for the purposes of Article 7 of Regulation 596/2014.


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**About MXC Capital (www.mxccapital.com)**

MXC is a specialist technology adviser and investor with a track record of investing in and advising companies in the TMT sector. We bring together a deep knowledge of technology, first-hand experience of managing companies in the sector, an ability to make meaningful investments and a highly experienced corporate advisory team in support, all of which we combine to grow shareholder value.

## Chairman's Statement

This year has seen a shift in our focus from investment in public companies to working with and investing alongside third parties, predominantly in the unlisted sector. Examples of this were the sale of our stake in Castleton Technology plc ("Castleton") and our entry into partnership with Liberty Global plc ("Liberty"), and then with Ravenscroft Limited ("Ravenscroft") in relation to GIF Technology & Innovation Cell (the "GIF"). These partnerships mean that in addition to the return on our own investment in a transaction we can also be rewarded by a level of profit share and fee income on the overall transaction, so providing the opportunity for enhanced returns to our shareholders.

As ever, we remain committed to our existing public investments, as evidenced by the purchase of 5.4 million more shares in Tax Systems plc ("Tax Systems") during the year and the purchase of a further 11.3 million shares in Adept4 plc ("Adept4") post year end. In addition, we have provided support for IDE Group Holdings plc ("IDE") both financially and on an operational level.

**Balance Sheet**

Our balance sheet remains healthy with net assets at 31 August 2018 of £63.9 million (2017: £68.8 million) including £12.4 million of cash with no borrowings. This gives us the flexibility to make further investments while avoiding the inefficiency of carrying too much capital. The major movement in the year was a £5.0 million diminution in the value of our investments; the majority of this decrease was attributable to our investment in IDE which was partially offset by an increase in the value of our stake in Castleton.

**Investment portfolio**

£14.9 million of further equity and loan capital investments were made during the year, including:

- £4.9 million which was used to purchase further shares in Tax Systems to take our holding to 25.6%. We are now the largest shareholder in the company;
- Initial investments into the joint venture with Liberty and the GIF; and
- £3.5 million invested into IDE to support the company's cashflow requirements, taking our holding to 43%.

We have also made smaller investments into several private companies during the year. As with our other investments, we continue to work with the management of these companies in order to help develop their strategies and maximise value.

**Corporate Finance and Advisory**

Significant resources were invested during the year in securing the agreements with Ravenscroft and Liberty and in building the respective investment pipelines. Both of these partnerships began to generate corporate finance and advisory revenues for the Group during the second half of the financial year.

The fees from our transactional businesses flow to MXC Capital (UK) Limited ("MXCUK"). Post year end, we completed the sale of 25% of this company to Ravenscroft for £2.25 million. The investment represents a deepening of MXC's relationship with Ravenscroft, which we believe will help to grow and drive further value within MXCUK, as well as providing additional opportunities for our investment business. We continue to assess the strategic options for this valuable part of our business.

**Board & management changes**

On 1 December 2017 Ian Smith, co-founder of MXC, joined the Board as Chief Executive Officer to help lead the strategic development of the Company. At the same time, Marc Young stepped down from the Board and subsequently left the Group to run one of MXC's private investee companies. We are grateful to Marc for his past contribution and we wish him every success in his new role. There have also been changes at an Advisory Board level, with Martin Chapman taking the role of Chairman of the Advisory Board following Alex Sandberg's departure.

**Employee Benefit Trust**

Following the share buyback programme undertaken in the previous financial year, the decision was made to set up an employee benefit trust ("EBT") which was established post year end following completion of the investment by Ravenscroft into MXCUK. The purpose of the EBT is to buy MXC shares in the market to be held to satisfy existing and future share incentivisation awards, so reducing any future dilution for shareholders. The EBT has been funded by way of a loan from MXC and as at 26 November 2018 has purchased circa 6% of the issued share capital of the Company.

**Outlook**

The period under review has seen significant developments for MXC including our new partnerships with Ravenscroft in relation to the GIF and the joint venture with Liberty. Both of these are testament to our expertise in the sector. They not only provide investment opportunities but regular fee income and the opportunity to share in more of the profit than is the case with our public investments, as detailed in the CEO's Report which follows. We believe this is an important change in the focus of our business.

I am grateful for the hard work, initiative and creativity of the MXC team during the year and, as ever, for the continuing support of our shareholders. The Board looks to the future with confidence.

**Peter Rigg**
**Chairman**

## CEO's Report

The year to 31 August 2018 represented a turning point for MXC with four notable milestones;

- Launch of the joint venture with Liberty;
- Our appointment as consultant to Ravenscroft in relation to its role as investment manager to the GIF;
- Our sale of a 25% stake in MXCUK, the holding company of MXC's transactional businesses, which completed post year end; and
- Our final exit from Castleton.

The traditional route to market for MXC and its investments has been the public markets. However, what had become clear was that MXC and its shareholders could achieve a higher return on capital by working and investing alongside others, often in the unlisted sector. This model means that not only would MXC generate a return from its own capital invested in a transaction, but, by way of carried interest, could also share in the overall profit of that transaction. Furthermore, by providing advisory and professional services, MXC will also generate fees for providing such expertise alongside our capital. To that end, during this financial year, MXC was appointed as consultant to Ravenscroft in relation to the GIF and entered into a joint venture with Liberty. In both of these cases MXC was selected because of our expertise, demonstrable track record and because we were prepared to invest alongside our partners.

These fledgling relationships are expected to deliver combined fee income in excess of £1 million a year to the Group. Additionally, our profit share of 10% or more on joint investments compares very favourably with the 5% that we have usually received from our investments in public companies, typically by way of warrants.

The fees from these first two initiatives flow through MXCUK, the holding company of MXC's transactional businesses, which is where the majority of fees generated by MXC reside. It was this company in which Ravenscroft took a 25% stake, valuing the equity at a minimum of £9 million. This value is not fully recognised within the net asset value of MXC and is unrecognised for shareholders. MXCUK now has high levels of recurring revenue and we are considering strategic options that will realise the current and potential future value inherent in the entity.

Castleton was borne out of what was left in Redstone plc, a turnaround that began in August 2010. At that time Redstone had just posted an £8 million EBITDA loss and across bank loans, investors' loans and creditor stretch was significantly in debt. Two of the members of the current MXC team successfully restructured this business over the course of the next few years and then demerged the managed service side of the business to form a new company which became Redcentric plc. Following the subsequent disposal of Redstone's infrastructure solutions business, a small company generating a few million pounds of revenue was left. This was renamed Castleton and MXC set about enacting a strategy to roll up small software and managed services companies in the social housing sector into Castleton, which resulted in 8 acquisitions. The outcome today is a strong and successful company with excellent organic growth and cash conversion. Having been invested in Castleton since inception, and with a 3.3x return on our capital over 3 years, we took the decision to sell down our stake during the year and at the end of August sold our last remaining shares. Castleton was in fact the fourth buy and build from scratch completed by members of MXC which, in total, were built to a combined valuation of £230 million.

Part of the proceeds from the disposal of our Castleton shares was used to increase our holding in Tax Systems to 25.6%. We now have three public investments, being Tax Systems, IDE and Adept4.

There is no escaping the fact that both IDE and Adept4 have thus far been poor investments for MXC. In response to this, and in order to drive stronger performance, MXC management has now moved to take a much stronger operational position within these businesses. In respect of IDE, we are fully engaged and have demonstrated significant financial commitment to the turnaround, now owning 43% of the equity of that business. It is our intention to right the wrongs of the past and we are working hard to recover our lost value. One of the things we have learned from these situations is that where we are a minority investor in public market companies we have insufficient ability to influence the strategy of our investments and maximise their value, hence the shift towards investing and working alongside other investment partners in the unlisted sector as described above.

**Summary**

Aside from our underperforming investments in IDE and Adept4 detailed above, this has been a positive year for MXC. The Company has significant cash resources, has developed a proven way to leverage its balance sheet whilst also generating strong, recurring fee income and has delivered yet another profitable exit. The MXC board believes that additional partnerships like the ones entered into this year will become available to us in the future. I am confident that the continuing development of our strategy and the efforts of the MXC team will deliver real shareholder returns from this point forwards.

**Ian Smith**
**CEO**

## Financial Review

**Trading Results**

The results for the year reflect trading from each element of the Group's business model: its investments, its corporate finance practice and its advisory business.

**Revenue**

Together, these divisions delivered consolidated revenue for the year of £1.0 million (2017: £1.1 million). The analysis of revenue and trading by segment is shown in note 3 to the financial statements. Significant resources were invested during the year in securing the agreements with Ravenscroft in relation to the GIF and with Liberty and in building the respective investment pipelines. Both of these arrangements are now generating revenue for the Group.

**Movement in value of investments**

The Group prepares its accounts in accordance with IFRS as adopted by the EU, accounting for its investments under IAS 28. This accounting standard mandates that all changes to the fair value of investments are shown in profit or loss, irrespective of whether those changes are considered short-term or permanent. The Group's profit or loss for any given period is, therefore, directly affected by the period-end share price of its investee companies, which, given the nature of the Group's investee companies, can be quite volatile, especially in the early stages of investment. The Group suffered a fall in the fair value of its investment portfolio in the year of £5.0 million (2017: fall of £11.2 million), which is directly reflected in the consolidated statement of profit or loss. The movement in the value of investments is detailed in the investments table below.

**Administrative expenses**

Administrative expenses were incurred in the running of all Group entities and include the cost of the Board and its advisers, including the fees associated with maintaining the AIM listing. Total administrative expenses for the year were £4.0 million (2017: £5.2 million). The Group's share incentives, implemented in September

2015, have now largely vested and therefore the share-based payments charge in the year reduced to £0.4 million (2017: £2.3 million). Excluding this non-cash charge and exceptional staff bonuses paid during the year, underlying administrative expenses fell by £0.5 million from £2.9 million in 2017 to £2.4 million in 2018. This fall predominantly relates to a reduction in staff numbers and a move to less expensive office premises.

During the year, as a result of the Group's disposal of its entire shareholding in Castleton, carried interest in the sum of £1.2 million (including related social security costs) became payable to employees of MXC by way of a bonus. This bonus was targeted principally at employees most responsible for the investment's success and is not related to the trading performance of the Group during the year. It is therefore considered as exceptional in nature.

**Trading EBITDA**

As any changes in the fair value of the Group's investment portfolio at any given point in time can affect profit or loss significantly, the Board measures the underlying trading performance of the Group excluding the gains or losses on its investments. This is based on a measure of EBITDA (earnings before interest, tax, depreciation and amortisation) before movements in the value of its investments and before certain non-trading items such as share-based payments and one-off or exceptional items ("Trading EBITDA"). The Trading EBITDA loss for the year to 31 August 2018 was £1.2 million (2017: £1.6 million). In addition, the Board also measures performance based on the Trading EBITDA stated after one-off gains on the sale of investments acquired for short-term trading where such disposals have been made ("Adjusted EBITDA"), as was the case in the previous financial year. Adjusted EBITDA loss in 2018 was £1.2 million (2017: £1.7 million profit), with the previous year's profit resulting from the disposal of short-term investments.

Trading EBITDA, together with revenue, cash balances and the value of the Group's investments are the principal financial key performance indicators used by the Board in monitoring the performance of the business.

**Loss for the year attributable to owners of the parent company**

After all costs (including the changes in the fair value of investments), together with a tax credit of £0.4 million (2017: £nil) primarily in relation to the release of a deferred tax provision, the reported Group loss for the year was £7.6 million (2017: £11.8 million).

**Investments**

As detailed above, this financial year saw MXC sign agreements with Liberty and Ravenscroft in relation to the GIF, with the Group making its maiden investments into the resultant investment vehicles. MXC continues to develop its pipeline of potential co-investments with both of these entities and expects to make further investments in the near-term.

Including the above, during the year the Group made investments into five private companies and two quoted companies, totalling £14.3 million. In addition, loan notes with a value of £0.6 million were converted to equity. Proceeds of £21.5 million were raised from the disposal of investments and the exercise of options, the most notable being the disposal of the Group's entire holding in Castleton. In total, over the period of the investment, a realised profit of £14.6 million was generated from MXC's investment in Castleton, a 3.3x return.

At the year end, the Group had outstanding loan capital of £0.5 million and its investment portfolio was valued at £41.1 million as shown in the table below:

| | Fair value at 1 September 2017 | Investment cost | Change in fair value | Disposal/ exercise proceeds | **Fair value at 31 August 2018** |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | **£000** |
| Castleton Technology plc | 13,314 | 633 | 5,332 | (19,279) | **-** |
| Adept4 plc | 2,767 | - | (1,802) | - | **965** |
| IDE Group Holdings plc | 14,405 | 3,456 | (11,296) | (257) | **6,308** |
| Tax Systems plc | 12,161 | 4,882 | 2,374 | - | **19,417** |
| Redcentric plc | 150 | - | (2) | (148) | **-** |
| Private companies | 7,745 | 5,931 | - | (193) | **13,483** |
| Total investments | 50,542 | 14,902 | (5,394) | (19,877) | **40,173** |
| Warrants | 2,186 | - | 421 | (1,662) | **945** |
| Total investments and warrants | 52,728 | 14,902 | (4,973) | (21,539) | **41,118** |

**Cash flow**

The Group's cash outflow from operating activities in the period was £1.9 million (2017: £2.6 million). Investments with a cash cost of £14.3 million were made in the year and proceeds from the sale of investments of £21.5 million were received. £2.3 million was received from the GIF in relation to its investment in 50% of MXC JV Limited (see below) and £0.3 million was spent servicing the Group's borrowings. The cash balance at the end of the period was £12.4 million (2017: £5.1 million).

**Net assets**

Net assets at the end of the year were £63.9 million (2017: £68.8 million). Of this, £61.6 million (2017: £68.8 million) was attributable to equity holders of the Company and £2.35 million (2017: £nil) was attributable to a non-controlling interest. The non-controlling interest arose as a result of the investment by the GIF in MXC JV Limited, a subsidiary of the Group which holds the investment in the joint venture with Liberty. The proceeds of this investment were used towards the consideration for the initial acquisition by the joint venture. Further details of the non-controlling interest are given in note 10.

# Consolidated Statement of Profit or Loss

*for the year ended 31 August 2018*

| | Notes | 2018 £000 | 2017 £000 |
|---|---|---|---|
| Revenue | 3 | **1,034** | 1,089 |
| Realised profit on disposal of short-term investments | 8 | **-** | 3,324 |
| Movement in fair value of investments | 8 | **(4,973)** | (11,242) |
| Cost of sales | | **(67)** | (41) |
| **Gross loss** | | **(4,006)** | (6,870) |
| Other income | | **40** | 281 |
| Administrative expenses | | **(3,951)** | (5,194) |
| **Trading EBITDA(1)** | | **(1,241)** | (1,644) |
| Realised profit on disposal of short-term investments | 8 | **-** | 3,324 |
| **Adjusted EBITDA(2)** | | **(1,241)** | 1,680 |
| Non-recurring income included within other income | | **-** | 280 |
| Exceptional costs | 4 | **(1,221)** | - |
| Share-based payments charge | | **(373)** | (2,329) |
| Movement in fair value of investments | 8 | **(4,973)** | (11,242) |
| Depreciation | | **(84)** | (148) |
| Amortisation of intangible assets | 7 | **(25)** | (24) |
| **Operating loss** | | **(7,917)** | (11,783) |
| Finance income | | **34** | 81 |
| Finance costs | | **(56)** | (106) |
| **Loss on ordinary activities before taxation** | | **(7,939)** | (11,808) |
| Tax credit on loss on ordinary activities | 5 | **381** | 6 |
| **Loss and total comprehensive income for the year attributable to owners of the parent company** | | **(7,558)** | (11,802) |
| **Loss per share** | | | |
| Basic loss per share | 6 | **(0.22)p** | (0.35)p |
| Diluted loss per share | 6 | **(0.22)p** | (0.35)p |

(1) earnings from trading activities before interest, tax, depreciation, amortisation, non-recurring and exceptional items, share-based payments and realised and unrealised movements in fair value of investments.

(2) earnings from trading activities before interest, tax, depreciation, amortisation, non-recurring and exceptional items, share-based payments and unrealised movements in fair value of investments.

# Consolidated Statement of Financial Position

***as at 31 August 2018***

| | Notes | **31 August 2018 £000** | 31 August 2017 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 7 | **11,416** | 11,441 |
| Property, plant and equipment | | **148** | 185 |
| Financial assets at fair value through profit or loss | 8 | **41,118** | 52,728 |
| Loans receivable | | **182** | 735 |
| | | **52,864** | 65,089 |
| **Current assets** | | | |
| Trade and other receivables | | **1,044** | 775 |
| Cash and cash equivalents | | **12,433** | 5,075 |
| | | **13,477** | 5,850 |
| **Total assets** | | **66,341** | 70,939 |
| **Current liabilities** | | | |
| Trade and other payables | | **(1,506)** | (664) |
| Income tax payable | | **-** | (15) |
| Borrowings | | **(19)** | (45) |
| Other financial liabilities | | **(194)** | (188) |
| | | **(1,719)** | (912) |
| **Non-current liabilities** | | | |
| Borrowings | | **(59)** | (88) |
| Other financial liabilities | | **(619)** | (813) |
| Deferred tax liability | 5 | **-** | (347) |
| | | **(678)** | (1,248) |
| **Total liabilities** | | **(2,397)** | (2,160) |
| **Net assets** | | **63,944** | 68,779 |
| **Equity** | | | |
| Share premium | | **59,464** | 59,464 |
| Share-based payments reserve | | **6,052** | 5,679 |
| Merger reserve | | **(23,712)** | (23,712) |
| Retained earnings | | **19,790** | 27,348 |
| **Equity attributable to the owners of the parent** | | **61,594** | 68,779 |
| Non-controlling interest | 10 | **2,350** | - |
| **Total equity** | | **63,944** | 68,779 |

## Consolidated Statement of Changes in Equity

*for the year ended 31 August 2018*

| | Share premium £000 | Share-based payments reserve £000 | Merger reserve £000 | Retained earnings £000 | Non-controlling interest £000 | Total £000 |
|---|---|---|---|---|---|---|
| **Balance at 1 September 2016** | **61,936** | **3,350** | **(23,712)** | **39,150** | **-** | **80,724** |
| **Loss and total comprehensive loss for the year** | **-** | **-** | **-** | **(11,802)** | **-** | **(11,802)** |
| **Transactions with owners** | | | | | | |
| Issue of share capital | 1,200 | - | - | - | - | 1,200 |
| Share-based payments charge | - | 2,329 | - | - | - | 2,329 |
| Purchase of own shares, net of costs | (3,672) | - | - | - | - | (3,672) |
| | **(2,472)** | **2,329** | **-** | **-** | **-** | **(143)** |
| **Balance at 31 August 2017** | **59,464** | **5,679** | **(23,712)** | **27,348** | **-** | **68,779** |
| **Loss and total comprehensive loss for the year** | **-** | **-** | **-** | **(7,558)** | **-** | **(7,558)** |
| **Transactions with owners** | | | | | | |
| Share-based payments charge | **-** | **373** | **-** | **-** | **-** | **373** |
| **Changes in ownership interests** | | | | | | |
| Sale of NCI in subsidiary without a change in control | **-** | **-** | **-** | **-** | **2,350** | **2,350** |
| **Balance at 31 August 2018** | **59,464** | **6,052** | **(23,712)** | **19,790** | **2,350** | **63,944** |

## Consolidated Statement of Cash Flows
*for the year ended 31 August 2018*

| | Note | **2018** | 2017 |
|---|---|---|---|
| | | **£000** | £000 |
| **Cash flows from operating activities** | | | |
| Cash used in operations | 9 | **(1,850)** | (2,649) |
| Corporation tax (received)/paid | | **10** | (2,012) |
| **Net cash flows used in operating activities** | | **(1,840)** | (4,661) |
| **Cash flows from investing activities** | | | |
| Payments to acquire property, plant and equipment | | **(49)** | (2) |
| Disposal of property, plant and equipment | | **6** | - |
| Purchase of investments | | **(14,269)** | (6,780) |
| Proceeds from disposal of investments | | **21,539** | 8,894 |
| Loans advanced | | **(122)** | (275) |
| Loans repayments received | | **39** | 1,003 |
| **Net cash flows from investing activities** | | **7,144** | 2,840 |
| **Cash flows from financing activities** | | | |
| Proceeds from sale of NCI in subsidiary | | **2,350** | - |
| Net proceeds from issue of equity | | **-** | 1,200 |
| Net costs of purchase of own shares | | **-** | (3,672) |
| Interest paid | | **(56)** | (106) |
| Borrowings and other liabilities repaid | | **(240)** | (288) |
| **Net cash flows from/(used in) financing activities** | | **2,054** | (2,866) |
| **Net increase/(decrease) in cash and cash equivalents in year** | | **7,358** | (4,687) |
| Cash and cash equivalents at beginning of year | | **5,075** | 9,762 |
| **Cash and cash equivalents at end of year** | | **12,433** | 5,075 |

## Notes to the consolidated financial statements

The results for the year to 31 August 2018 have been extracted from the audited consolidated financial statements, which are expected to be published on the Group's website (www.mxccapital.com) shortly.

The financial information set out above does not constitute the Company's statutory financial statements for the year to 31 August 2018 but is derived from those financial statements. The full accounts contain a detailed statement of the accounting policies which have been used to prepare this summary and remained unchanged from the prior year. Extracts of key accounting policies applied by the Group are reproduced below.

The auditors, Grant Thornton Limited, have reported on the accounts for the years ended 31 August 2018 and 31 August 2017; their reports in both years were (i) unqualified; (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under The Companies (Guernsey) Law, 2008.

### 1 General information

MXC Capital Limited (the "Company") is a company incorporated and domiciled in Guernsey, whose shares are publicly traded on the AIM division of the London Stock Exchange. The registered office is 1st & 2nd Floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, Guernsey, GY1 1EW and the principal place of business is Guernsey.

**Basis of preparation**
The consolidated financial statements have been prepared in accordance with applicable International Financial Reporting Standards as issued by the International Accounting Standards Board and adopted by the European Union ("IFRS").

These financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability or expense. The detailed measurement bases and principal accounting policies of the Company and its subsidiaries (the "Group") are set out below. The accounting policies have been applied consistently throughout the Group for the purposes of the preparation of these consolidated financial statements. The presentational currency of the Group and functional currency of the Company is Sterling. The consolidated financial statements have been rounded to the nearest thousand.

**Going concern**
These consolidated financial statements have been prepared on a going concern basis. The Group meets its day-to-day working capital requirements through its existing cash reserves which are sufficient to meet currently maturing obligations as they fall due. The directors have reviewed the Group's financial projections and, given the cash balances the Group holds and its investments in liquid securities, are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

**Basis of consolidation**
Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, until the effective date of disposal, as applicable.

The consolidated financial statements consolidate those of the Company and its subsidiary undertakings drawn up to 31 August each year. All subsidiaries have a reporting date of 31 August.

The Group applies the acquisition method in accounting for business combinations, with the exception of a business combination in 2015 which was regarded to be outside the scope of IFRS 3 and, as such, management used judgement in determining the appropriate accounting treatment. Under the circumstances, merger accounting was deemed suitable.

Under the acquisition method, the cost of acquisition is measured as the aggregate of the consideration transferred by the Group to obtain control of a subsidiary, which is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group. Acquisition costs are expensed as incurred. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests where it is considered material to do so.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

## 2 Accounting policies

**Exceptional costs**
Costs which are material either because of their size or their nature, are highlighted separately on the face of the Consolidated Statement of Profit or Loss. The separate reporting of exceptional costs helps provide a better picture of the Group's underlying performance. Items which may be included within the exceptional category include, inter alia, acquisition and restructuring costs and other particularly significant or unusual items.

Exceptional items are excluded from the headline profit measures used by the Group and are highlighted separately in the income statement as management believe that they need to be considered separately to gain an understanding of the underlying profitability of the trading businesses.

**Investments**
Investments of the Group include equity securities, warrants and loans.

Equity securities classed as investments are designated as fair value through profit and loss ("FVTPL") on initial recognition, as is allowed by the relevant standard for a group of financial assets, financial liabilities or both that is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

Certain subsidiaries of the Company hold investments in investees which are classed as associates and joint ventures as the subsidiary companies are deemed to hold significant influence over these investees. In the opinion of the directors, these subsidiary companies operate akin to venture capital companies and therefore the Group has taken advantage of the exemptions from applying the equity method to account for associates and joint ventures available under IAS 28 and has designated such investments as FVTPL on initial recognition.

Warrants, being derivatives, are by default FVTPL since they classify as held for trading. Loans are classified as loans and receivables.

**Intangible assets and impairment**

***(i) Goodwill***

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. Goodwill is carried at cost less accumulated impairment losses. The Group determines whether goodwill is impaired on at least an annual basis. This requires an estimation of the 'value in use' of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires the directors to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

***(ii) Customer contracts***

On acquisition of a subsidiary the directors assess the business acquired to identify any intangible assets. Customer contracts meet the criteria for recognition as intangible assets as they are separable from each other and have a measurable fair value, being the amount for which an asset would be exchanged between knowledgeable and willing parties in an arm's length transaction. The fair value of customer contracts is calculated using the discounted cash flows arising from existing customer contracts and relationships based on both contracted and anticipated future fees. Customer contracts are amortised over their estimated useful lives of 3 years on a straight-line basis.

***(iii) Impairment of intangibles and goodwill***

In assessing impairment, management estimates the recoverable amount of each asset or cash generating units based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

**Financial assets**

Financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. They are assigned to the categories described below on initial recognition, depending on the purpose for which they were acquired. The designations of financial assets are re-evaluated at every reporting date at which a choice of classification or accounting treatment is available, and are as follows:

***(i) Loans and receivables***

Trade and other receivables are recognised initially at fair value less any transaction costs and subsequently amortised cost less any provision for impairment. Any transaction costs are taken to profit or loss. Provision is made where there is evidence that the balances will not be recovered in full. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows.

The Group's loans receivable comprise loans which are initially recognised at fair value and stated at amortised cost at each reporting period end. Interest calculated using the effective interest method is recognised in profit or loss within finance income. Provision is made where there is evidence that the balances will not be recovered in full.

***(ii) Financial assets at fair value through profit or loss***

The Group's equity investments are designated as at fair value through profit or loss on initial recognition. Any transaction costs are taken to profit or loss. Gains or losses arising from revaluation of the investments at each reporting period are recognised directly in the Group's Consolidated Statement of Profit or Loss.

The Group's warrants are classified as held for trading. Gains or losses arising from revaluation of the warrants at each reporting period are recognised directly in the Group's Consolidated Statement of Profit or Loss.

**Equity**

Equity comprises the following:

- Share premium, representing the fair value of consideration received for shares, net of expenses of the share issue;
- Share-based payments reserve, representing the cost of equity-settled share-based payments until such share options and awards are exercised or lapse;
- Merger reserve, representing the excess of the Company's cost of investment over the nominal value of MXC Capital (UK) Limited's shares acquired using the principles of predecessor value method accounting;
- Retained earnings, representing the aggregate of all current and prior period retained profits and losses.

**Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and judgements and their underlying assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenue and expenses during the periods presented. Actual results may differ significantly from the estimates, the effect of which is recognised in the period in which the facts that give rise to the revision become known. The following paragraphs detail the critical accounting estimates and judgements the Group believes to have the most significant impact on the annual results under IFRS.

***(i) Definition of business activities***

The Board has exercised judgement in relation to the definition of its business activities. The Board has assessed the Company's business model in detail against the criteria set out in IFRS 10 and is of the opinion that, although certain of its subsidiaries are investment holding companies, the Company itself does not meet the definition of an 'Investment Company' under IFRS 10, due to its broader advisory and corporate finance proposition. All subsidiaries of the Company, including those which are investment holding companies, are therefore consolidated into the Group financial statements as described elsewhere in these accounting policies.

### *(ii) Accounting for investments*
Certain subsidiaries of the Company hold investments in investees which are classed as associates and joint ventures as the subsidiary companies are deemed to hold significant influence over these investees. In the opinion of the directors, these subsidiary companies operate akin to venture capital companies and therefore the Group has taken advantage of the exemptions from applying the equity method to account for associates and joint ventures available under IAS 28 and has designated such investments as fair value through profit or loss on initial recognition. In the opinion of the board this gives a true and fair view of the Group's operations and financial position to shareholders.

### *(iii) Fair value measurement of investments*
The Group holds investments in the form of quoted and unquoted securities and warrants measured at fair value. The fair value of these investments is estimated at the reporting period end. Estimated fair values may vary from actual prices that would be achieved in an arm's length transaction at the reporting date.

### *(iv) Fair value measurement of share-based payments*
The fair value of the Group's share-based payments is a significant estimate. Estimated fair values may vary from actual prices that would be achieved in an arm's length transaction at the reporting date.

### *(v) Impairment assessment*
The Group tests annually whether goodwill and intangible assets have suffered any impairment. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

### *(vi) Estimated valuation of intangibles*
On acquisition of a new business, the Group identifies intangible assets. This calculation involves estimates about future revenues, costs, cash flows and the cost of capital for the Group. It also involves estimating the life of customer relationships.

### *(vii) Estimated of deferred tax liability*
The fair value of the Group's investments is estimated at the reporting period end, as detailed above. As at 31 August 2017, the Group provided for deferred tax on the fair value of certain of the Group's investments. The deferred tax liability was therefore an estimate which would vary if the fair value of the underlying investments changed. There is no deferred tax liability provided at 31 August 2018.

### *(viii) Recoverability of loans and loan notes ("loans")*
The Group has outstanding loans receivable. The directors do not believe there are any signs of impairment in respect of the loans at the reporting period end. Given the quantum of the loans and the timescales until redemption the recoverability of these loans is a significant estimate.

## 3 Segmental analysis

Operating segments are reported in a manner consistent with the internal reporting to the Chief Operating Decision Makers ('CODM'). The CODM has been identified as the Board of Directors.

The Board is responsible for strategic decision making and for assessing the performance of the operating segments. The operating segments are defined by distinctly separate product offerings or markets. The CODM assesses the performance of the operating segments based on the Trading EBITDA[(1)] generated by each segment. Assets and liabilities per segment are not monitored by the CODM and therefore that analysis is not provided below.

All revenue originates in the United Kingdom or Guernsey. Third party revenue is detailed in the segmental analysis below as are charges for professional services rendered between the Group's operating segments. Recharges of costs between segments are excluded from the revenue analysis below, in line with the internal reporting to the CODM. The Group is comprised of the following main operating segments:

**Capital Markets segment –**the Group's FCA regulated corporate finance and related services division.

**Advisory segment –** the Group's advisory and consultancy division, responsible for originating and advising on investment opportunities for the Group, and for providing operational and strategic guidance to clients.

**Central** – all other activities of the Group in performing its principal activity of advisor to and investor in technology companies, including the management of its investments, are considered together by the CODM.

**Results for the year ended 31 August 2018**

| | Capital Markets £000 | Advisory £000 | Central £000 | Inter-segment transactions £000 | Total £000 |
|---|---|---|---|---|---|
| **Revenues:** | | | | | |
| Third party | 409 | 625 | - | - | 1,034 |
| Inter-segment | - | 1,029 | - | (1,029) | - |
| **Total revenue** | **409** | **1,654** | **-** | **(1,029)** | **1,034** |
| **Trading EBITDA[1]** | **(350)** | **908** | **(1,799)** | **-** | **(1,241)** |
| Realised profit on disposal of short-term investments | **-** | **-** | **-** | **-** | **-** |
| **Adjusted EBITDA[2]** | (350) | 908 | (1,799) | - | (1,241) |
| Exceptional costs | (259) | (549) | (413) | - | (1,221) |
| Share-based payments charge | (126) | (247) | - | - | (373) |
| Depreciation | - | (32) | (52) | - | (84) |
| Amortisation of intangible assets | (25) | - | - | - | (25) |
| Movement in fair value of investments | - | - | (4,973) | - | (4,973) |
| **Operating (loss)/profit** | **(760)** | **80** | **(7,237)** | **-** | **(7,917)** |
| Finance costs | - | (3) | (53) | - | (56) |
| Finance income | - | - | 34 | - | 34 |
| **(Loss)/profit before taxation** | **(760)** | **77** | **(7,256)** | **-** | **(7,939)** |

(1) earnings from trading activities before interest, tax, depreciation, amortisation, non-recurring and exceptional items, share-based payments and realised and unrealised movements in fair value of investments.
(2) earnings from trading activities before interest, tax, depreciation, amortisation, non-recurring and exceptional items, share-based payments and unrealised movements in fair value of investments.

During the year revenue from four of the Group's customers each represented more than 10% of total revenue. Revenue related to those customers was £273,000, £220,000, £186,000 and £107,000 respectively. The revenue in respect of each of these customers was generated from both the Capital Markets and Advisory segments.

**Results for the year ended 31 August 2017**

| | Capital Markets £000 | Advisory £000 | Central £000 | Inter-segment transactions £000 | Total £000 |
|---|---|---|---|---|---|
| **Revenues:** | | | | | |
| Third party | 495 | 594 | - | - | 1,089 |
| Inter-segment | - | 1,137 | - | (1,137) | - |
| **Total revenue** | **495** | **1,731** | **-** | **(1,137)** | **1,089** |
| **Trading EBITDA(1)** | **(363)** | **591** | **(1,872)** | **-** | **(1,644)** |
| Realised profit on disposal of short-term investments | - | - | 3,324 | - | 3,324 |
| **Adjusted EBITDA*** | **(363)** | **591** | **1,452** | **-** | **1,680** |
| Non-recurring income | - | - | 280 | - | 280 |
| Share-based payments charge | (1,214) | (1,115) | - | - | (2,329) |
| Depreciation | - | (56) | (92) | - | (148) |
| Amortisation of intangible assets | (24) | - | - | - | (24) |
| Movement in fair value of investments | - | - | (11,242) | - | (11,242) |
| **Operating loss** | **(1,601)** | **(580)** | **(9,602)** | **-** | **(11,783)** |
| Finance costs | - | (14) | (92) | - | (106) |
| Finance income | - | - | 81 | - | 81 |
| **Loss before taxation** | **(1,601)** | **(594)** | **(9,613)** | **-** | **(11,808)** |

(1) earnings from trading activities before interest, tax, depreciation, amortisation, non-recurring items, share-based payments and realised and unrealised movements in fair value of investments.
(2) earnings from trading activities before interest, tax, depreciation, amortisation, non-recurring items, share-based payments and unrealised movements in fair value of investments.

During the year ended 31 August 2017 revenue from four of the Group's customers each represented more than 10% of total revenue. Revenue related to those customers was £322,000, £232,000, £196,000 and £153,000 respectively. The revenue in respect of each of these customers was generated from both the Capital Markets and Advisory segments.

## 4 Exceptional costs

During the year staff bonuses were awarded totalling £1,221,000, including the related social security expense. The bonuses were paid as a result of the profit realised by MXC on the exit of the investment in Castleton Technology plc during the year rather than as a result of the trading performance of the

Group. Given this and the size of the total bonus expense, it is therefore considered exceptional in nature.

## 5 Taxation

(a) Tax on loss on ordinary activities

| | 2018 | 2017 |
|---|---|---|
| | £000 | £000 |
| **Current tax** | | |
| Current year charge | **-** | 25 |
| Adjustment in respect of prior periods | **(34)** | (84) |
| | **(34)** | (59) |
| **Deferred tax** | | |
| Movement in provision re fair value of investments | **(347)** | 53 |
| **Total tax credit** | **(381)** | (6) |

The Company is eligible for exemption from taxation in Guernsey under the provision of the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989, and has paid the annual exemption fee of £1,200.

(b) Reconciliation of the total income tax charge

| | 2018 | 2017 |
|---|---|---|
| | £000 | £000 |
| Loss on ordinary activities before taxation | **(7,939)** | (11,808) |
| UK corporation tax rate of 19.0% (2017: 19.6%) payable on UK profit/(loss) | **-** | 25 |
| Prior year adjustment to current income tax | **(34)** | (84) |
| Deferred tax (credit)/charge re temporary differences | **(347)** | 53 |
| **Total tax credit** | **(381)** | (6) |

(c) Deferred tax liability

| | £000 |
|---|---|
| At 1 September 2016 | 294 |
| Charge to income statement | 53 |
| **At 31 August 2017** | 347 |
| Credit to income statement | (347) |
| **At 31 August 2018** | - |

## 6 Earnings per share

Earnings per share ("EPS") is based on the profit or loss attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year. The weighted average number of ordinary shares in issue during 2018 and 2017 is:

| | **2018 Number** | 2017 Number |
|---|---|---|
| Weighted average shares used to calculate basic and diluted EPS | **3,360,167,484** | 3,351,367,484 |

In 2018 and 2017, the weighted average number of ordinary shares for the purpose of calculating the basic and diluted measures is the same. This is because the outstanding share incentives would have the effect of reducing the loss per ordinary share and therefore would be anti-dilutive under the terms of IAS 33.

## 7 Intangible assets

| | **Goodwill £000** | **Customer contracts and related relationships £000** | **Total £000** |
|---|---|---|---|
| **Cost** | | | |
| At 1 September 2016 | 11,524 | 73 | 11,597 |
| Adjustment in respect of prior year business combination | (108) | - | (108) |
| **At 31 August 2017 and 2018** | **11,416** | **73** | **11,489** |
| **Amortisation** | | | |
| At 1 September 2016 | - | 24 | 24 |
| Charge for the year | - | 24 | 24 |
| **At 31 August 2017** | **-** | **48** | **48** |
| Charge for the year | - | 25 | 25 |
| **At 31 August 2018** | **-** | **73** | **73** |
| **Net book value** | | | |
| **At 31 August 2018** | **11,416** | **-** | **11,416** |
| At 31 August 2017 | 11,416 | 25 | 11,441 |

## 8 Investments

| | Quoted company investments £000 | Private company investments £000 | Warrants £000 | Total £000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 September 2016 | 43,693 | 7,043 | 12,024 | 62,760 |
| Additions | 6,680 | 100 | - | 6,780 |
| Disposals | (8,801) | (93) | - | (8,894) |
| Movement between categories | (155) | 155 | - | - |
| Realised gain on short-term investments | 3,324 | - | - | 3,324 |
| Movement in fair value of investments | (1,945) | 541 | (9,838) | (11,242) |
| **At 31 August 2017** | **42,796** | **7,746** | **2,186** | **52,728** |
| Additions | 8,970 | 5,932 | - | 14,902 |
| Disposals of investments and exercise of warrants | (19,684) | (193) | (1,662) | (21,539) |
| Movement in fair value of investments | (5,392) | - | 419 | (4,973) |
| **At 31 August 2018** | **26,690** | **13,485** | **943** | **41,118** |

The Group's investments at 31 August 2018 relate to equity securities and warrants held in both AIM quoted and private companies. These investments are accounted for at fair value through profit or loss and presented as financial assets at fair value through profit or loss in the Consolidated Statement of Financial Position.

## 9 Net cash flows from operating activities

| | **2018 £000** | 2017 £000 |
|---|---|---|
| Loss on ordinary activities before taxation | **(7,939)** | (11,808) |
| Adjustments for: | | |
| Realised gain on disposal of short-term investments | **-** | (3,324) |
| Movement in fair value of investments | **4,973** | 11,242 |
| (Profit)/loss on disposal of PPE | **(40)** | 2 |
| Depreciation | **84** | 148 |
| Amortisation | **25** | 24 |
| Share-based payment charge | **373** | 2,329 |
| Net finance charges | **22** | 25 |
| (Increase)/decrease in trade and other receivables | **(255)** | 187 |
| Increase/(decrease) in trade and other payables | **907** | (1,474) |
| Cash used in operations | **(1,850)** | (2,649) |

## 10 Subsidiary with material non-controlling interests

The Group includes one subsidiary, MXC JV Limited, with material non-controlling interests (“NCI”). At 31 August 2018 the NCI held 50% of the ownership interests and none of the voting rights of MXC JV Limited. MXC JV Limited, a Guernsey based company, was incorporated during the current financial year therefore there is no comparative information to disclose. The accumulated NCI at 31 August 2018 was £2,350,000. The majority of the losses in MXC JV Limited were incurred prior to the creation of the NCI therefore it is not considered material to allocate any losses to the NCI for the period. No dividends were paid to the NCI.

Summarised financial information for MXC JV Limited, before intragroup eliminations, is set out below:

| | **2018** |
|---|---|
| | **£000** |
| Revenue | **-** |
| Loss and total comprehensive income for the year | **(35)** |

| | **2018** |
|---|---|
| | **£000** |
| Non-current assets | **4,700** |
| Current assets | **1** |
| Total assets | **4,701** |
| Current liabilities | **(36)** |
| Net assets | **4,665** |
| Equity attributable to owners of the parent | **2,315** |
| Non-controlling interests | **2,350** |
| | **4,665** |

| | **2018** |
|---|---|
| | **£000** |
| Net cash used in investing activities | **(4,700)** |
| Net cash from financing activities | **4,700** |

## 11 Subsequent events

In September 2018, MXC Guernsey Limited, a subsidiary of the Company, completed the sale of 25% of the share capital of a subsidiary company, MXC Capital (UK) Limited, for £2.25 million.

Also in September 2018, MXC Guernsey Limited established an Employee Benefit Trust (the “EBT”) to buy ordinary shares of no par value in the capital of the Company (“Ordinary Shares”) in the market to be held to satisfy existing and future share incentivisation awards for the benefit of employees and certain directors of MXC. The EBT has been initially funded by way of a loan of £3 million (with an interest rate of 2% above the Bank of England base rate) from MXC Guernsey Limited, with further funding to be provided as and when appropriate. Oak Trust (Guernsey) Limited, as trustee of the EBT, has absolute discretion and independence in respect of all trading decisions it may make in respect of the purchase of Ordinary Shares.