MXC Capital Limited

("MXC" or the “Company")

Final Results for the Year Ended 31 August 2016

MXC, the technology focused merchant bank, is pleased to announce its audited final results for the year ended 31 August 2016, representing a year of progress.

Highlights

- Underlying trading EBITDA* of £3.1 million (2015: £1.0 million), £1.2 million (2015: £0.3 million) on a consolidated basis**

- Growth in NAV per share over the year of 11% (2015: 34%); over two years of 49%

- NAV per share growth reflects balance between recent and mature investments in portfolio

- Gross revenues from Capital Markets and Advisory businesses for the year of £6.2 million, £4.6 million on a consolidated basis (2015: £2.1 million)

- Net assets of £80.7 million as at 31 August 2016 (31 August 2015: £49.9 million)

- £31.5 million of investments and loans made during the year across six businesses; portfolio now eleven investments, six of which are quoted

- £3.8 million of capital returns to shareholders announced during the year

Peter Rigg, Chairman of MXC, said:

“I am pleased to report a year of steady progress with further strengthening of the business and its portfolio of investments. MXC benefitted from the increasing number of investments in its portfolio and a higher level of activity in corporate finance.

We have a promising pipeline of opportunities which will allow us to continue to drive the growth of our investee companies, as well as provide us with completely new investment prospects to consider. I look forward to the future with confidence”.

** Underlying trading EBITDA comprises the trading EBITDA** of the Capital Markets and Advisory businesses pre-consolidation; an element of the results from both businesses is eliminated on consolidation*

*** earnings from trading activities before interest, tax, depreciation, amortisation, restructuring and non-recurring costs, share-based payments and realised and unrealised gains on investments*

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About MXC Capital (www.mxccapital.com)

MXC is a specialist merchant bank 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

I am pleased to report a year of steady progress at MXC with further strengthening of the business and its portfolio of investments. Whilst equity markets were more volatile in the second half of the year, MXC benefitted from the increasing number of investments in its portfolio and a higher level of activity in corporate finance.

During the period, we successfully raised £7.0 million of new equity as part of a wider £13.0 million funding package to support our growth. We made new investments totalling £31.5 million into four quoted and two private businesses whilst at the same time continuing to support the growth of our existing portfolio.

I am delighted that during the year under review, having realised gains of £7.6 million on a disposal, we were able to announce capital returns of £3.8 million to shareholders via a tender offer mechanism in line with the Company's policy of distributing realised gains while retaining sufficient capital for our investment pipeline.

Balance Sheet

Our balance sheet was further strengthened during the year with net assets at 31 August 2016 of £80.7 million (2015: £49.9 million), including the £7.0 million of new equity raised. We ended the year with sufficient liquidity to continue to support our further investment activities with net cash of £9.8 million and an available banking facility of £6.0 million. Post year end we distributed £3.0 million, following which MXC had £12.8 million of net funding to support its investing activities. It will remain our policy to seek additional funding to invest in larger opportunities as they arise.

Tender Offers

The Company made its first tender offer in February of £0.8 million and a further £3 million was returned in September, post the year end. These capital returns together represented 3.5% of the Company's market capitalisation as at 31 August 2016.

Investment portfolio

We invested £31.5 million across four public and two private businesses during the year.

The four public companies were:

- Tax Systems plc, a leading provider of tax technology and solutions, capitalised at £56 million*
- CORETX Holdings plc, a mid-market network, cloud and IT managed services business, capitalised at £60 million*
- adept4 plc, an IT as a Service provider focusing on providing SME customers with cloud, connectivity and desktop support services, capitalised at £15 million*
- Castleton Technology plc, a software and IT infrastructure solutions business focused on serving the social housing and wider public sector, capitalised at £50 million*

** Market capitalisations as at 31 August 2016*

In a clear demonstration of our team's capability, we acted as lead adviser and cornerstone investor on the IPOs of CORETX Holdings plc and Tax Systems plc. Both flotations were well received with impressive rosters of institutional investors contributing to oversubscribed fundraisings.

We also successfully concluded two new private investments:

- Sagacity Solutions Limited, a data solutions company specialising in data cleansing and compliance services
- CoInvestor Limited, an electronic investment platform providing access to growth capital, tax efficient equity and income opportunities

The restructuring and repositioning of adept4 plc is of note. This was an underperforming asset which our team repositioned as a cloud based IT services provider to the SME market through three disposals and five acquisitions, all completed in short order. Having corner-stoned a fundraising to support this strategy, we are pleased that all who participated have registered a substantial paper gain.

I am also happy to report that one of our early 'fast growth' private investments – Avar Communications Limited – successfully raised Series B funding at a substantially higher valuation than our original investment.

Since the year end, on November 7, one of our portfolio businesses, Redcentric plc ("Redcentric"), announced that an internal audit committee review had discovered accounting misrepresentations likely to significantly reduce the company's net assets and thereby increase its net debt. At time of writing, the extent of the problem is still unclear. Despite this set back, we strongly believe in the fundamental quality of Redcentric's business. Accordingly, on 7 and 8 November, MXC purchased 8.1 million shares in Redcentric and now holds 5.6% of Redcentric's equity. Together with the options and warrants we hold in Redcentric, this represents a 10.5% stake in the company.

Corporate Finance

Our Corporate Finance business had another busy year advising on twelve transactions in the period. The mix of transactions included M&A alongside debt and equity advisory roles but most notable were the two IPOs that we originated and led.

Our Corporate Finance capability continues to differentiate MXC from others through our ability to support our investee companies with technology sector specialist advice, from acquisition strategies and financings through to investor relations. We ended the year with seven retained clients (2015: five).

Advisory

Advisory represents the revenue generated by our operating partners and the management fees charged to MXC Guernsey for providing investment advisory services. Our gross revenue in this division for the period was £2.2 million. In a private equity model, these fees would be paid to an external manager whereas in MXC's case these revenues are retained within the Group for the benefit of shareholders.

In August, Paul Gibson joined us as an operating partner and subsequently invested in the Company. Paul has had a highly successful career in the TMT sector having held senior board level positions in both operational and financial capacities, the most recent being Chief Operating Officer of Advanced Computer Software plc prior to its acquisition by Vista Equity Partners for £725 million.

MXC now has seriously impressive bench strength with five highly experienced operating partners, who work closely with the management teams of our investee companies. Their experience is at board level and their skills include strategic direction, operational expertise, sales focussed growth and business re-engineering. They have exemplary track records of value creation in the technology sector. This hands-on strength, combined with the broad experience of our Advisory Board, sets MXC apart.

Outlook

This has been a year of crossover in our portfolio, which included the realisation of a maturing investment, capital distributions to shareholders and substantial investment in fresh opportunities. As a result, our one year growth in NAV per share slowed to 11% compared with 34% for the previous year. The growth in our NAV per share over the two years was 49%.

I am pleased to report that we have a healthy pipeline of opportunities which will allow us to continue to drive the growth of our investee companies, as well as provide us with completely new investment prospects to consider. Whilst the economic and political background remains somewhat uncertain, I am confident that the MXC team will continue to prosper in its area of focus, technology. I remain confident in our future prospects and am grateful for the continuing support of our shareholders.

Peter Rigg

Chairman

Market Overview from the Investment Advisor Ian Smith, Founder of MXC and Member of MXC Advisory Board

Our financial year to 31 August 2016 was another very active one for the team at MXC. In what has been a noticeably quieter period in the market due to Brexit and general political uncertainty, MXC led twelve transactions in our core sector of technology during the year under review. On the basis that to bring that number of transactions to completion we had to analyse very many more, this gives an indication of the breadth of our coverage of the sector.

Our technology merchant bank model is serving us well. However, our focus has narrowed somewhat. We have always said that we would not focus on start-ups, ecommerce and the harder to predict consumer end of the technology sector, preferring companies with proven cash flow and earnings. As a result, we have principally targeted B2B software and IT managed services businesses, where we have a particular expertise. That said, we'll remain opportunistic.

It is worth noting where we are in our investment cycle: we realised one of our investments during the year (£10.4 million) whilst investing some £31.5 million in new opportunities. Our slower NAV per share growth during the year reflects the balance between recent and mature investments in our portfolio. We would expect our recent investments to begin to contribute to NAV growth in the coming year.

The availability of low price debt continues to define our market and asset prices have continued to increase. What would have attracted a market multiple of 7 to 8 times five years ago, in many cases today would expect a double digit multiple. We ask ourselves whether these companies are measurably better quality than they were three to five years ago or is it that the market has simply re-rated. I believe it is the latter, with ever larger funds chasing fewer reliable, cash generating assets.

Recent investments in the managed services sector have been completed with multiples in the 11 to 13 range. Of course, that is pre-synergy which would bring these multiples down, but those synergies are never guaranteed - they still need to be delivered. We like the characteristics of the managed services sector and we will continue to focus on this area.

Whilst the competition for assets has increased, it has not stopped us investing. That said, we are not shy to be priced out of deals where we are uncomfortable with the rating or are not keen to use heavy leverage. It is worth noting that the returns that MXC has generated, yielding a three-year IRR of 47%, have been achieved in largely publicly quoted businesses with much lower levels of leverage than is the norm in private equity backed situations. Despite our self-imposed disciplines, twelve transactions in twelve months is going some and our pipeline is as strong as ever.

MXC has accelerated returns in its investee companies by focusing on M&A activity that augments organic growth through both revenue and cost synergies. We continue to take the difficult decisions in integrating our companies and shaping them for future growth, not always easily done alongside the cycle of public company reporting.

The process of investing in a cash shell and then managing it into a publicly traded company with a substantial business is an example which demonstrates well the value the MXC model creates. In December last year we led investors into a cash shell called Eco City Vehicles plc ("ECV"). By July this year, despite the market turbulence post the Brexit vote, we delivered the IPO of Tax Systems plc via the cash shell. A £73 million deal, Tax Systems plc is a promising company with a high level of recurring income to build on. We bid for the business via a competitive process, which we do not normally do since, as in this case, the more obvious home for this company might have been private equity. However, we were successful in our bid and led the acquisition of the business by ECV, introducing a new management team in place of the retiring owners. I believe that what distinguished MXC in the process was our ability to move quickly, partner as a principal with the vendors in preparing their company for an IPO and introducing new shareholders. In short, managing the transaction from start to finish.

Our business model is to cornerstone a company with our funds by taking a stake of up to 29.9% alongside providing management support. We are prepared to invest substantial amounts of our own capital and provide our management resource for the longer term. I think MXC is quite unusual in this way, creating the opportunities, preparing them and bringing them to market and then supporting them in the role of significant investor with our bench of experienced management, our operating partners.

MXC attracts first class talent because of our deal flow and track record. Our hands-on operating partner bench strength has grown during the year and will continue to do so. Each operating partner has significant experience – "been there and done it" – with demonstrable success in sourcing, buying, building and exiting. This core ingredient in our model is rare enough but becomes, I believe, unique when you add that our operating partners are prepared to risk their own capital.

We apply speed and efficiency to our process by having our own corporate finance business to execute our transactions and give advice on an ongoing basis. Our interests are directly aligned with those of the other shareholders through our sizeable investment.

The special spark at the heart of MXC is our increasing ability to deliver deal flow. This is our "golden currency". I see our model gaining pace as we combine that deal flow with our experience in the public market, our acute focus on operational improvement and the speed of our funding. I have not felt more excited about the opportunities ahead for MXC and for our shareholders.

Directors' Finance Review

Investments:

The Group has continued to grow its portfolio in the year, investing £31.5 million of equity and loan capital across six businesses. In addition, the acquisition of MXC Holdings Limited ("MXCH") added investments valued at £20.4 million to the Group's portfolio. At 31 August 2016, the investment portfolio was valued at £62.8 million as shown in the table below:

	Original Cost	Fair value at 1 September 2015	Investment in year	On acquisition of MXCH at fair value	Increase/ (decrease) in fair value in year	Fair value/ proceeds on disposal	**Fair value at 31 August 2016**	Total unrealised gain on investments as at 31 August 2016	Total gain on investments realised in year to 31 August 2016
	£000	£000	£000	£000	£000	£000	**£000**	£000	£000
Castleton Technology plc	4,605	10,521	135	385	629	-	**11,670**	7,065	-
adept 4 plc*	2,598	466	2,087	87	1,830	-	**4,470**	1,872	-
365 Agile Group plc	1,333	3,314	-	-	(2,286)	-	**1,028**	(305)	-
Coretx Holdings plc **	12,900	-	12,900	-	1,720	-	**14,620**	1,720	-
Tax Systems plc***	10,054	-	10,054	-	1,765	-	**11,819**	1,765	-
Redcentric plc	2,843	-	-	10,558	(31)	(10,440)	**87**	63	7,621
Private companies	5,365	-	4,850	515	1,677	-	**7,042**	1,677	-
Total investments	39,698	14,301	30,026	11,545	5,304	(10,440)	**50,736**	13,857	7,621
Warrants	-	1,792	-	8,840	1,392	-	**12,024**	12,024	-
Total investments and warrants	39,698	16,093	30,026	20,385	6,696	(10,440)	**62,760**	25,881	7,621

*formerly Pinnacle Technology Group plc; name changed on 14 June 2016.
**formerly Castle Street Investments plc; name changed on 12 April 2016.
***formerly Eco City Vehicles plc; name changed on 26 July 2016.

In the prior year's consolidated financial statements, the investments were classified as available-for-sale financial assets. During the year ended 31 August 2016, management made a comprehensive assessment of MXC's investments. Given the relative size of the Group's holdings in its investee companies, particularly following the investments made in the period, the board considered that the more appropriate treatment and classification for the investments is at fair value through profit or loss. The investments must be designated at fair value through profit or loss on initial recognition and therefore the prior year consolidated financial statements have been restated to reflect the more applicable accounting treatment in accordance with IAS 8. Accordingly, the unrealised gains and losses recognised in other comprehensive income and reported within the fair value reserve within equity in the 2015 consolidated financial statements are now presented as part of the profit and loss account. The retained earnings, the fair value reserve and the profit and loss have therefore been restated as detailed in note 11.

As shown in the table above, during the year the Group disposed of most of its shareholding in Redcentric plc for proceeds of £10.4 million, generating a profit on disposal of £7.6 million. This investment was acquired by the Group as part of the purchase of MXCH, which is accounted for under the provisions of IFRS 3. This means that the net assets of MXCH are stated at their fair values at the date of the acquisition, and, as most of the gain in the Redcentric plc shareholding occurred in MXCH before its acquisition by MXC, the profit on disposal is not reflected in the consolidated profit and loss account for the year.

Income Statement:

The results for the year reflect income and profit generation from each element of the Group's merchant banking model: its investments, its corporate finance practice and its newly established advisory business. Together these delivered consolidated revenue for the year of £4.6 million (2015: £2.1 million), demonstrating the steady growth of the Group now all restructuring has been completed. The analysis of revenues and profits by segment is shown in note 3 to the financial statements.

The unrealised gains in the year on the movement in the fair value of the Group's investment portfolio was £6.7 million (2015: £9.9 million), with EBITDA (earnings before interest, tax, depreciation and amortisation) generated for the period of £4.8 million (2015: £14.95 million, which included a one-off profit on disposal of an asset of £5.4 million).

The Board measures the underlying trading performance of the Group based on a measure of EBITDA stated before realised and unrealised gains or losses in the value of its investments and certain non-trading costs such as share-based payments and restructuring costs, to show the results from trading activities ('Trading EBITDA'). The Trading EBITDA for the year to 31 August 2016 was £1.2 million (2015: £0.3 million). The Trading EBITDA is stated after the elimination on consolidation of revenues charged by the corporate finance and advisory businesses to other group companies, which those businesses undertook in lieu of third party mandates. Allowing for these revenues, on an unconsolidated basis the Trading EBITDA of the corporate finance and advisory businesses was £3.1 million in the period (2015: £1.0 million).

During the year, the Group incurred restructuring and other one-off costs of £0.4 million (2015: £0.6 million) and a non-cash share-based payments charge of £2.6 million (2015: £nil). This charge is in relation to the share incentive scheme implemented in September 2015 and a further non-cash charge will accrue over the next two years. After accounting for these costs the operating profit for the year was £4.7 million (2015: £14.9 million).

After net interest costs and taxation, the reported profit was £3.8 million (2015: £14.8 million).

Balance Sheet and Cash:

In September 2015, the Company completed the acquisition of MXCH for a net consideration of £18.3 million, settled by the issue of shares in the Company. As shown in the table above, the fair value of MXCH's investments on acquisition was £20.4 million. After accounting for borrowings and other liabilities of MXCH, provisional goodwill of £5.6 million has been recognised in these financial statements. See note 6 for further details.

The fair value of the Group's investments and warrants at 31 August 2016 was £62.8 million (2015: £16.1 million, excluding those investments held by MXCH) as detailed in the above table. Further details are shown in note 8. In addition to this, at the period end the Group had convertible loan notes outstanding from

Castleton Technology plc with a fair value of £1.7 million. Net assets at the end of the period were £80.7 million (2015: £49.9 million).

The Group's cash flow from operating activities in the period was £0.7 million (2015: outflow of £0.8 million). Equity investments of £30.0 million were made in the year, whilst proceeds of £10.4 million were received in respect of the sale of MXC’s investment in Redcentric plc. Loan advances, net of repayments, were £1.2 million and £0.5 million was incurred meeting the Group’s borrowing obligations, with a further £0.2 million spent on tangible fixed assets. £0.8 million was returned to shareholders by way of a tender offer in March and a placing in May raised £7.0 million net of costs. After accounting for the net overdraft of £4.0 million in MXCH on acquisition, the net cash balance at 31 August 2016 was £9.8 million (2015: £28.4 million). The Group has access to a further £6 million via its banking facilities.

Distribution and Capital Returns policy

In line with the Board’s commitment to distribute up to 20% of realised gains on MXC’s portfolio to shareholders, a further £3.0 million was returned to shareholders by way of a tender offer in September 2016.

Consolidated statement of profit or loss

for the year ended 31 August 2016

	Notes	**2016** £000	Restated[1] 2015 £000
Revenue	3	**4,573**	2,094
Realised profit on disposal of assets		**-**	5,385
Movement in fair value of investments	8	**6,696**	9,903
Cost of sales		**(70)**	(66)
Gross profit		**11,199**	17,316
Other income		**234**	-
Administrative expenses		**(6,775)**	(2,368)
EBITDA[2]		**4,821**	14,951
Trading EBITDA[3]		**1,150**	267
Restructuring and non-recurring costs included within administrative expenses		**(435)**	(604)
Share-based payments charge		**(2,590)**	-
Movement in fair value of investments	8	**6,696**	9,903
Realised profit on disposal of assets		**-**	5,385
Depreciation		**(139)**	(3)
Amortisation of intangible assets		**(24)**	-
Operating profit		**4,658**	14,948
Finance income		**91**	23
Finance costs		**(219)**	-
Profit on ordinary activities before taxation		**4,530**	14,971
Tax charge on profit on ordinary activities	4	**(701)**	(161)
Profit for the year attributable to owners of the parent company		**3,829**	14,810
Earnings per share			
Basic earnings per share	5	**0.12p**	0.71p
Diluted earnings per share	5	**0.11p**	0.69p

[1]comparative figures have been restated to reflect the treatment of unrealised movements in the fair value of investments. For further details see note 11.
[2]earnings before interest, tax, depreciation, amortisation
[3]earnings from trading activities before interest, tax, depreciation, amortisation, restructuring and non-recurring costs, share-based payments and realised and unrealised gains on investments.

Consolidated statement of comprehensive income
for the year ended 31 August 2016

	2016 £000	Restated[1] 2015 £000
Profit for the financial year	**3,829**	14,810
Items that will be reclassified subsequently to profit or loss		
Available-for-sale financial assets, gains arising during the year	**-**	610
Less: reclassification for gains included in profit	**-**	(439)
Other comprehensive income for the year, net of tax	**-**	171
Total comprehensive income for the year attributable to owners of the parent company	**3,829**	14,981

[1]comparative figures have been restated to reflect the treatment of unrealised movements in the fair value of investments. For further details see note 11.

Consolidated statement of financial position

as at 31 August 2016

	Notes	31 August 2016 £000	Restated[1] 31 August 2015 £000
Non-current assets			
Intangible assets	7	**11,573**	6,000
Property, plant and equipment		**333**	8
Financial assets at fair value through profit or loss	8	**62,760**	16,093
Loans receivable		**1,790**	-
		76,456	22,101
Current assets			
Trade and other receivables		**684**	1,020
Cash and cash equivalents		**11,232**	28,447
		11,916	29,467
Total assets		**88,372**	51,568
Current liabilities			
Trade and other payables		**(2,416)**	(1,661)
Income tax payable		**(2,086)**	-
Borrowings		**(1,508)**	-
Other financial liabilities		**(211)**	-
		(6,221)	(1,661)
Non-current liabilities			
Borrowings		**(132)**	-
Other financial liabilities		**(1,001)**	-
Deferred tax liability	4	**(294)**	-
		(1,427)	-
Total liabilities		**(7,648)**	(1,661)
Net assets		**80,724**	49,907
Equity			
Share premium		**61,936**	37,538
Share-based payments reserve		**3,350**	760
Merger reserve		**(23,712)**	(23,712)
Retained earnings		**39,150**	35,321
Total equity attributable to the owners of the parent		**80,724**	49,907

[1]comparative figures have been restated to reflect the treatment of unrealised movements in the fair value of investments. For further details see note 11.

Consolidated statement of changes in equity

for the year ended 31 August 2016

	Share premium £000	Investment in own shares £000	Fair value reserve £000	Share-based payments reserve £000	Merger reserve £000	Retained earnings £000	Total £000
Balance at 1 September 2014	**15,012**	**(16)**	**(171)**	**760**	**(23,712)**	**20,527**	**12,400**
Profit for the year	-	-	-	-	-	14,810	14,810
Other comprehensive income							
Available-for-sale financial assets, gains arising during the year	-	-	610	-	-	-	610
Reclassification for gains included in profit	-	-	(439)	-	-	-	(439)
Total comprehensive income for the year	**-**	**-**	**171**	**-**	**-**	**14,810**	**14,981**
Transactions with owners							
Issue of share capital	22,950	-	-	-	-	-	22,950
Issue costs	(424)	-	-	-	-	-	(424)
Reduction in value of investment in own shares	-	16	-	-	-	(16)	-
	22,526	**16**	**-**	**-**	**-**	**(16)**	**22,526**
Balance at 31 August 2015 (restated[(1)])	**37,538**	**-**	**-**	**760**	**(23,712)**	**35,321**	**49,907**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**3,829**	**3,829**
Transactions with owners							
Issue of share capital	25,355	-	-	-	-	-	25,355
Costs of share issue	(104)	-	-	-	-	-	(104)
Share-based payments charge	-	-	-	2,590	-	-	2,590
Purchase of own shares, net of costs	(853)	-	-	-	-	-	(853)
	24,398	**-**	**-**	**2,590**	**-**	**-**	**26,988**
Balance at 31 August 2016	**61,936**	**-**	**-**	**3,350**	**(23,712)**	**39,150**	**80,724**

[(1)]comparative figures have been restated to reflect the treatment of unrealised movements in the fair value of investments. For further details see note 11.

Consolidated statement of cash flows
for the year ended 31 August 2016

	Note	2016 £000	Restated[1] 2015 £000
Cash flows from operating activities			
Cash generated from/(consumed in) operations	9	**1,522**	(834)
Corporation tax paid		**(830)**	-
Net cash flows from/(used in) operating activities		**692**	(834)
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		**(3,967)**	444
Payments to acquire property, plant and equipment		**(226)**	(10)
Purchase of investments		**(30,026)**	(16,544)
Proceeds from disposal of investments		**10,440**	17,739
Interest received		**46**	23
Loans advanced		**(1,500)**	-
Loans repayments received		**260**	-
Net cash flows (used in)/from investing activities		**(24,973)**	1,652
Cash flows from financing activities			
Net proceeds from issue of equity		**6,951**	16,526
Net costs of purchase of own shares		**(853)**	-
Interest paid		**(219)**	-
Borrowings and other liabilities repaid		**(283)**	-
Net cash flows from financing activities		**5,596**	16,526
Net (decrease)/increase in cash and cash equivalents in the year		**(18,685)**	17,344
Cash and cash equivalents at beginning of year		**28,447**	11,103
Cash and cash equivalents at end of year		**9,762**	28,447
Comprising:			
Cash and cash equivalents		**11,232**	28,447
Overdraft		**(1,470)**	-
		9,762	28,447

[1]comparative figures have been restated to reflect the treatment of unrealised movements in the fair value of investments. For further details see note 11.

Notes to the consolidated financial statements

The results for the year to 31 August 2016 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 2016 but is derived from those financial statements.

The auditors, Grant Thornton Limited, have reported on the accounts for the years ended 31 August 2016 and 31 August 2015; 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.

Restatement of prior-period financial statements
In the consolidated financial statements for the year ended 31 August 2015, the Group's investments were classified as available-for-sale financial assets. During the current period, management made a comprehensive assessment of its investments. Given the relative size of the Group's holdings in its investee companies, particularly following the investments made in the period, the board considered that it was not appropriate to class the investments as available-for-sale. The Group is thought to exercise significant influence over its investees, and as such they meet the criteria to be associates. In the opinion of the directors, the subsidiary companies holding the associates 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 available under IAS 28 and has designated such investments as fair value through profit or loss on initial recognition. The investments must be designated at fair value through profit or loss on initial recognition and therefore the prior period consolidated financial statements have been restated to reflect the more applicable accounting treatment in accordance with IAS 8. Accordingly, the unrealised gains and losses recognised in other comprehensive income and reported within the fair value reserve within equity in the 2015 consolidated financial statements are now presented as part of the profit and loss account. The retained earnings, the fair value reserve and the profit and loss have therefore been restated to reflect this position in accordance with IAS 1. The Group held no investments at

1 September 2014 therefore there is no requirement to provide restated the figures at that date in the Consolidated Statement of Financial Position. A summary of the effect of the restatements is shown in note 11.

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, 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.

2 Accounting policies

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. In the previous year, a business combination 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. In the current year, the business combination was a transaction in the scope of IFRS 3 and the Group's policy to apply the acquisition method was followed.

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.

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

Investments
Investments of the Group include equity securities (certain of which are associates), warrants and loan notes. 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. Warrants, being derivatives, are by default FVTPL since they classify as held for trading. Loan notes 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 and carried at the lower of their original value and recoverable amounts. 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 and loan notes 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 asset 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 profit and loss account.

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 profit and loss account.

Equity

Equity comprises the following:

- Share premium, representing the fair value of consideration received for shares, net of expenses of the share issue;
- Investment in own shares, representing the fair value of shares held in treasury by the Company;
- Fair value reserve, representing the movement in fair value of financial assets designated as available-for-sale;
- 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 merchant banking 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 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 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 listed and unlisted securities and warrants measured at fair value. The fair value of these investments is estimated at the reporting period end, under methods detailed in note 8. 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, in accordance with the accounting policy. 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. The Group provides for deferred tax on the fair value of certain of the Group's investments. The deferred tax liability is therefore an estimate which would vary if the fair value of the underlying investments changed.

(viii) Recoverability of loan notes
The Group has an outstanding loan note receivable. The directors do not believe there are any signs of impairment in respect of the loan notes at the reporting period end. Given the quantum of the

loan notes and the timescales until redemption the recoverability of these loan notes 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 CODMs assesses the performance of the operating segments based on the Trading EBITDA* generated by each segment.

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 and providing operational and strategic guidance to clients. This division was newly established during the year ended 31 August 2016 and therefore the comparative segmental analysis does not include details for this segment.

Central – all other activities of the Group in performing its principal activity of the provision of merchant banking services, including the management of its investments, are considered together by the CODM.

Results for the year ended 31 August 2016

	Capital Markets £000	Advisory £000	Central £000	Inter-segment transactions £000	Total £000
Revenues:					
Third party	3,861	704	8	-	4,573
Inter-segment	120	1,492	-	(1,612)	-
Total revenue	**3,981**	**2,196**	**8**	**(1,612)**	**4,573**
Trading EBITDA*	**2,656**	**416**	**(1,922)**	**-**	**1,150**
Restructuring costs	-	-	(435)	-	(435)
Share-based payments charge	(1,113)	(1,477)	-	-	(2,590)
Depreciation	(1)	(51)	(87)	-	(139)
Amortisation of intangible assets	(24)	-	-	-	(24)
Movement in fair value of investments	-	-	6,696	-	6,696
Operating profit	**1,518**	**(1,112)**	**4,252**	**-**	**4,658**
Finance costs	-	(10)	(209)	-	(219)
Finance income	-	-	91	-	91
Profit before taxation	**1,518**	**(1,122)**	**4,134**	**-**	**4,530**
Other segment information					
Segment non-current assets	5,976	-	70,480	-	76,456
Segment current assets	4,739	2,694	9,782	(5,299)	11,916
Segment liabilities	(1,005)	(2,319)	(9,623)	5,299	(7,648)

*earnings from trading activities before interest, tax, depreciation, amortisation, restructuring and non-recurring costs, share-based payments and realised and unrealised gains on investments.

During the year revenues from the following customers were greater than 10% of total revenue:

	Capital Markets 2016 £000	**Advisory 2016 £000**	Total 2016 £000
Tax Systems plc	**2,033**	**107**	2,140
Coretx Holdings plc	**1,073**	**107**	1,180
Adept4 plc	**364**	**159**	523

Results for the year ended 31 August 2015

	Capital Markets £000	**Central £000**	**Total £000**
Revenue – third party	1,998	96	2,094
Realised profit on disposal of assets	-	5,385	5,385
Trading EBITDA*	**1,020**	**(753)**	**267**
Restructuring costs	-	(604)	(604)
Depreciation	(1)	(2)	(3)
Movement in fair value of investments	-	9,903	9,903
Realised profit on disposal of assets	-	5,385	5,385
Operating profit	**1,019**	**13,929**	**14,948**
Finance income	-	23	23
Profit before taxation	**1,019**	**13,952**	**14,971**
Other segment information			
Segment non-current assets	6,001	16,100	22,101
Segment current assets	1,692	27,775	29,467
Segment liabilities	(420)	(1,241)	(1,661)

*earnings from trading activities before interest, tax, depreciation, amortisation, restructuring and non-recurring costs, share-based payments and realised and unrealised gains on investments.

During the year revenues from the following customers, all of which were generated by the Capital Markets segment, were greater than 10% of total revenue:

	2015 £000
Accumuli plc	754
Castleton Technology plc	663
Redcentric plc	320
365 Agile Group plc	303

4 Taxation

(a) Tax on profit on ordinary activities

	2016	2015
	£000	£000
Current tax		
Current year charge	**1,920**	-
Adjustment in respect of prior periods	**20**	-
	1,940	-
Deferred tax		
Reversal of temporary differences	**(1,239)**	161
Total tax charge	**701**	161

The Company is taxed in Guernsey at the standard rate of 0%.

(b) Reconciliation of the total income tax charge

	2016	2015
	£000	£000
Profit on ordinary activities before taxation	**4,530**	14,971
Tax using the applicable Guernsey income tax rate of 0% (2015: 0%)	**-**	-
UK corporation tax rate of 20% (2015: 20.58%) payable on UK profits/(losses)	**2,010**	156
Utilisation of tax losses	**(90)**	(156)
Prior year adjustment to current income tax	**20**	-
Deferred tax (credit)/charge re temporary differences	**(1,239)**	161
Total tax charge	**701**	161

(c) Deferred tax liability

	£000
At 31 August 2014 and 31 August 2015	-
Temporary difference in respect of fair value of investments	1,533
Credit to income statement	(1,239)
At 31 August 2016	294

5 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 the year is:

	2016 Number	2015 Number
Weighted average shares used to calculate basic EPS	**3,186,355,864**	2,088,266,583
Dilutive impact of share incentives	**238,940,391**	48,338,440
Weighted average shares used to calculate diluted EPS	**3,425,296,255**	2,136,605,023

6 Business Combinations

On 24 September 2015, the Company acquired the entire share capital of MXC Holdings Limited ('MXCH'), an investment holding company. The acquisition was satisfied by the issue of shares in MXC Capital Limited with a fair value of £18.3 million, being the mid-market price of the Company's shares on that date. The principal reason for the acquisition was to unify the MXC Group's organisation, management and investment interests into a single structure beneath an AIM quoted company, thereby aligning the interests of all of the shareholders of the Company and MXC Holdings. The directors concluded that this is not a common control transaction and hence it is in scope for IFRS 3. The consideration was settled via the issue of equity.

From the date of acquisition to 31 August 2016, the portion of MXCH and its subsidiaries ('MXCH Group') held within continuing activities generated revenue of £0.8 million and a loss before taxation of £0.1 million. As MXCH was acquired close to the start of the year, the revenue and profit before tax if MXCH had been consolidated for the full year would not be materially different. Acquisition costs incurred in the current year amount to £206,000. These costs are included in Administrative expenses in the statement of profit or loss.

The total provisional goodwill arising from the acquisition is the difference between the fair value of consideration less the provisional fair value of assets acquired:

	£000
Fair value of purchase consideration	18,300
Less fair value of assets acquired:	
Investments	(11,545)
Warrants	(8,840)
Property, plant and equipment	(202)
Trade and other receivables	(669)
Cash and cash equivalents	(326)
Trade and other payables	493
Current tax liabilities	976
Borrowings	4,461
Other financial liabilities	1,415
Deferred tax liability	1,534
Goodwill	5,597

On the acquisition of MXCH, the directors assessed the business acquired to identify any intangible assets. Other than through the sale of its investments, which have already been allocated a fair value on acquisition by the Group as shown in the table above, the MXCH Group does not generate positive cash flows or profits as a stand-alone entity and is therefore not considered by the Board to have any separable intangible assets. The entire excess of consideration over net assets has therefore been allocated as goodwill. This goodwill is attributable to the synergies from continuing operations and the benefits the Group will receive from the knowledge, ability and reputation of the staff of the MXCH Group.

7 Intangible assets

	Goodwill £000	Customer contracts and related relationships £000	Total £000
Cost			
At 1 September 2014	-	-	-
Business combinations	5,927	73	6,000
At 31 August 2015	**5,927**	**73**	**6,000**
Business combinations	5,597	-	5,597
At 31 August 2016	**11,524**	73	**11,597**
Amortisation			
At 1 September 2014 and 31 August 2015	-	-	-
Charge for the year	-	24	24
At 31 August 2016	**-**	**24**	**24**
Net book value			
At 31 August 2016	**11,524**	**49**	**11,573**
At 31 August 2015	5,927	73	6,000

8 Investments

	Listed company investments £000	Private company investments £000	Warrants £000	Total £000
Cost				
At 1 September 2014	-	-	-	-
Additions	6,190	-	-	6,190
Movement in fair value	8,111	-	1,792	9,903
At 31 August 2015	**14,301**	**-**	**1,792**	**16,093**
Additions	25,176	4,850	-	30,026
Business combinations	11,029	516	8,840	20,385
Disposals	(10,440)	-	-	(10,440)
Movement in fair value	3,627	1,677	1,392	6,696
At 31 August 2016	**43,693**	**7,043**	**12,024**	**62,760**

The Group's investments at 31 August 2016 relate to equity securities and warrants held in both AIM listed 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

	2016 £000	2015 £000
Profit on ordinary activities before taxation	**4,530**	14,971
Adjustments for:		
Movement in fair value of investments	**(6,696)**	(9,903)
Profit on disposal of assets held for sale	**-**	(5,385)
Depreciation	**139**	3
Amortisation	**24**	-
Share-based payment charge	**2,590**	-
Net finance income/(charges)	**128**	(23)
Decrease/(increase) in trade and other receivables	**635**	(960)
Increase in trade and other payables	**172**	463
Cash generated from operations	**1,522**	(834)

10 Subsequent events

Purchase of shares

At a General Meeting on 12 September 2016, the Company's resolution to purchase 83,399,424 Ordinary Shares by tender offer at a price of 3.6p per share was approved. The shares were subsequently purchased by the Company and cancelled.

Issue of shares
On 22 September 2016 the Company issued 33,333,333 new Ordinary shares at a price of 3.0p each. In October 2016 a further 20,000,000 Ordinary shares were issued at a price of 1.0p each to satisfy the exercise of share options by former employees.

Post year end announcement by investee company
The Group holds 8,692,988 warrants in Redcentric plc ('Redcentric'). At 31 August 2016 these warrants were included in the Group's Balance sheet at a fair value of £8.9 million.

On 7 November 2016, Redcentric announced to its investors that an internal review by its Audit Committee, in relation to its interim results for the six months ended 30 September 2016, had discovered misstated accounting balances in Redcentric's balance sheet. The board of Redcentric has commenced a forensic review of Redcentric's current and historic balance sheets. At the date of approval of MXC's consolidated financial statements, that review is still ongoing.

As a result of this announcement, Redcentric's share price has suffered a significant fall, which may have a material impact on the fair value of the warrants the Group holds in Redcentric. Given the current volatility of Redcentric's share price, caused by both the announcement itself and also by the uncertainty arising from the lack of detail available whilst the Redcentric board completes its investigation, it is too early to be able to estimate the financial effect of this event on the fair value of the Group's warrants in Redcentric – both in terms of the intrinsic value and also in respect of the achievement of the vesting conditions attached to the warrants. The Group expects to be able to assess the impact in its results for the half year ending 28 February 2017, once the full extent of the misstatements is identified by Redcentric and is subsequently factored in to its share price.

Investment Portfolio

On 7 and 8 November 2016, the Group invested £4.9 million in increasing its investment in Redcentric plc.

11 Restatement of 2015 financial statements

As detailed in note 1, in the consolidated financial statements for the year ended 31 August 2015, the Group's investments were classified as available-for-sale financial assets. During the current period, management made a comprehensive assessment of its investments. Given the relative size of the Group's holdings in its investee companies, particularly following the investments made in the period, the board considered that the more appropriate treatment and classification for the investments is at fair value through profit or loss. The investments must be designated at fair value through profit or loss on initial recognition and therefore the prior period consolidated financial statements have been restated to reflect the more applicable accounting treatment in accordance with IAS 8. Accordingly, the unrealised gains and losses recognised in other comprehensive income and reported within the fair value reserve within equity in the 2015 consolidated financial statements are now presented as part of the profit and loss account. The retained earnings, the fair value reserve, the profit and loss and earnings per share have therefore been restated.

A summary of the effect of the restatements is shown below:

Impact on Consolidated statement of profit or loss	Year to 31 August 2015 £000
Profit for the period as previously reported	4,907
Investments designated as fair value through profit and loss	9,903
Profit for the period as restated	14,810

Impact on equity	Year to 31 August 2015 £000
Fair value reserve as previously reported	9,903
Investments designated as fair value through profit and loss	(9,903)
Fair value reserve as restated	-

	Year to 31 August 2015 £000
Retained earnings as previously reported	25,418
Investments designated as fair value through profit and loss	9,903
Retained earnings as restated	35,321

Impact on Other comprehensive income	Year to 31 August 2015 £000
Other comprehensive income for the period as previously reported	10,074
Investments designated as fair value through profit and loss	(9,903)
Other comprehensive income for the period as restated	171

Impact on earnings per share	Year to 31 August 2015 pence
Basic earnings per share as previously reported	0.23p
Effect of investments designated as fair value through profit and loss	0.48p
Basic earnings per share as restated	0.71p

	Year to 31 August 2015 pence
Diluted earnings per share as previously reported	0.23p
Investments designated as fair value through profit and loss	0.46p
Diluted earnings per share as restated	0.69p

There was no impact on the Consolidated statement of cash flows as a result of the restatement.