

TANFIELD GROUP PLC FINANCIAL STATEMENTS

TANFIELD GROUP PLC REPORT AND FINANCIAL STATEMENTS 2020

Registered in England & Wales

Company number 04061965



TANFIELD GROUP PLC FINANCIAL STATEMENTS

REPORT AND FINANCIAL STATEMENTS 2020

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DIRECTORS AND ADVISORS

DIRECTORS

NON-EXECUTIVE

D Robinson
M Groak

Chairman
Non-Executive Director

SECRETARY

D Robinson

REGISTERED OFFICE AND ADVISORS

REGISTERED OFFICE

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STRATEGIC REPORT

CHAIRMAN'S STATEMENT

The Company's main investment, Snorkel International Holdings LLC ("Snorkel International"), was, like many businesses, impacted by the Covid-19 pandemic resulting in the first annual reduction in sales for several years. The Board continues to closely monitor performance and is hopeful that 2021 will see increased sales levels, although it is not expected that 2021 will see a return to the pre Covid-19 sales levels. Following Tanfield's 51% joint venture partner Xtreme Manufacturing LLC ("Xtreme"), via its subsidiary SKL Holdings LLC ("SKL") and Snorkel International, filing a Summons and Complaint (the "US Proceedings") against the Company and its subsidiary HBWP Inc ("HBWP"), the Board remains disappointed that an amicable resolution has not been possible. The Board therefore continues to seek advice and vigorously defend its position.

The investment in Smith Electric Vehicles Corp. ("Smith") continues to be held at nil value.

NON-EXECUTIVES' REVIEW

Background

The Company is defined as an investment company with two passive investments. This definition resulted from the disposal of the controlling interest in Smith in 2009 and the formation of a joint venture between Tanfield and Xtreme relating to the Snorkel division in October 2013 (the "Joint Venture"). Tanfield currently owns 5.76% of Smith and 49% of Snorkel International.

OVERVIEW

Snorkel International

Tanfield continues to retain an investment in Snorkel International (currently valued at £19.1m, 2019: £19.1m) consisting of a 49% interest and a preferred interest position, incorporating a Priority Amount and a Preferred Return (collectively the "Preferred Interest"), which it has held since the Joint Venture was established in October 2013.

Since the injection of working capital following the Joint Venture, Snorkel achieved increased year on year sales levels however, during 2020 the impact of the Covid-19 pandemic saw the first reduction of sales. A summary of sales (unaudited) and the operating loss (unaudited), excluding depreciation is shown below:

Year	Sales	Increase/ (decrease)	Operating profit/ (loss) excluding depreciation
2020	\$110.8m	(50%)	(\$12.3m)
2019	\$220.8m	10%	\$0.3m
2018	\$200.5m	21%	\$2.9m
2017	\$165.8m	27%	\$1.6m
2016	\$130.5m	19%	(\$2.8m)
2015	\$109.9m	29%	(\$10.6m)
2014	\$85.3m	-	(\$14.9m)

Despite the ongoing impact of the Covid-19 pandemic, the Board is not aware of any market factors and have not been made aware of any specific reason why sales growth should not be achieved in 2021, when compared to 2020 sales, as the impact of the pandemic continues to subside.

In October 2019, the Board received the US Proceedings, in which Xtreme, via its subsidiary SKL and Snorkel International, allege that Tanfield has refused to comply with its contractual obligations by not agreeing to sign over its interest in Snorkel International for £nil consideration. It is the Board's belief that the intent of Tanfield, its non-conflicted directors at the time and its shareholders, as well as the contractual terms, require that the Preferred Interest is paid to the Company before its 49% holding in Snorkel International can be acquired. Notwithstanding that, in the Board's opinion, payment of the Preferred Interest is a clear requirement described in the Circular that was distributed to shareholders in advance of shareholders approving the contemplated transaction, Xtreme allege that this was not their intent or understanding of the contemplated transaction despite both they, and their advisers, reviewing and commenting on the Circular prior to its distribution. They also allege that they do not believe payment of the Preferred Interest is a requirement of the contractual agreements.

The position of Xtreme, which is the premise of the US Proceedings, is that while they accept that Tanfield received a 49% interest in Snorkel International and an adjusted priority amount of \$22.5m (adjusted from the headline \$50m value detailed in the Circular, and with interest accruing) in exchange for contributing the entire Snorkel division, including all its assets and intellectual property, to the Joint Venture, and gave Xtreme a 51% controlling interest, they allege that because Snorkel International, under Xtreme's control, failed to achieve a 12 month EBITDA of \$25m prior to 30 September 2018, that Tanfield's \$22.5m adjusted Priority Amount, plus accrued interest, simply disappeared; allowing Xtreme to acquire Tanfield's 49% interest for £nil consideration.

Accordingly, in summary, it is alleged by Xtreme that the terms of the transaction were such that after (a) Tanfield contributed all of the assets and intellectual property of its Snorkel division to the Joint Venture, which Snorkel's own tax returns declare as having a net fair market value of \$45.5m, (b) Tanfield conceded management control of the Snorkel division to Xtreme, (c) Xtreme ran the business as it saw fit for approximately 5 years and Snorkel International failed to achieve an annualized \$25m EBITDA, (d) Tanfield's value disappears completely and Xtreme can take 100% ownership of Snorkel International without paying any consideration to Tanfield.

The Board vigorously deny that this was the intent of the parties, or the meaning of the contractual agreements. It would have made absolutely no commercial sense to contribute the considerable value, trade and assets of the Snorkel division, which both parties agreed from the outset was fundamentally a viable company, while also relinquishing control of the division, to then receive no consideration for the considerable value contributed to the Joint Venture, because the controlling party failed to achieve the target. The Board therefore continues to seek advice and vigorously defend its position.

STRATEGIC REPORT (Continued)

Despite the allegations, which the Board believe are without merit, the Board is currently of the opinion that the investment in Snorkel International will result in a return to shareholders in the future, but would like to draw your attention to the "Valuation of Snorkel International holding" below and the critical accounting estimates and key judgments on pages 19 and 20 which further explain the potential risks.

As a result of the issues arising from the US Proceedings, Tanfield also sought to preserve its position against Ward Hadaway, the Company's former solicitor, as, depending on the outcome of the US Proceedings, the Company may need to hold the firm to account for its role in and/or advice to Tanfield in relation to the Joint Venture transfer. Due to statutory time limitation issues, and because a suitable Standstill Agreement - which would have fully protected the Company - could not be agreed, it became necessary for the Company to issue and serve a claim against Ward Hadaway in the English High Court (the "UK Proceedings") in order to ensure that the Company's rights were fully protected pending the outcome of the US Proceedings.

Both proceedings have continued to progress during 2020 however, due to Covid-19 and other factors, delays were unavoidable. Further updates in relation to progress and timing will be provided as and when appropriate. The outcome of the US Proceedings, if completed before the UK Proceedings, may have a direct and material impact on the UK Proceedings, including the quantum of any claim.

Valuation of Snorkel International holding: £19.1 million (2019: £19.1 million)

On 30 September 2018 the fixed terms of the agreement came to an end. In summary, if the trailing 12 month EBITDA had reached \$25m by 30 September 2018, this would have triggered payment of the Preferred Interest, valued at £19.1m, which once paid, would have allowed the Company to exercise its put option, compelling the purchase / sale of Tanfield's remaining holding in Snorkel International. As a \$25m trailing 12 month EBITDA was not reached by the deadline, the put option expired. Tanfield retains a 49% interest in Snorkel International and, in the Board's opinion, the Preferred Interest, but it can no longer compel Xtreme to pay the Preferred Interest and acquire its 49% interest. The Board therefore remains of the opinion that the Preferred Interest is the minimum payment required under the terms of the contractual agreements for Xtreme to acquire Tanfield's interest and that this is therefore an appropriate basis for determining the value the investment is to be carried at.

As the US Proceedings have been brought against Tanfield, it is evident that Don Ahern, the owner of Xtreme, wishes to own 100% of Snorkel International. However, based on statements within the US Proceedings, it is evident that Don Ahern does not believe he should have to pay anything in order to acquire Tanfield's 49% of Snorkel International. One possible outcome is that Tanfield continues to hold its 49% interest for the foreseeable future however, the Board does not believe such a scenario would be in the best interest of shareholders given the action taken by Don Ahern against the Company and, should it become necessary, would consider options that may assist in moving from this position.

Due to the risks involved with the ongoing different opinions regarding the contractual agreements, it is possible the actual realisation of value could be less, or more, than the current valuation. A number of factors could influence the valuation of Snorkel International between now and a potential realisation date, including the outcome of all relevant legal proceedings, Xtreme's negotiating stance and the exchange rate at the time of any realisation.

Due to these inherent uncertainties, the Board is unable to determine whether the actual outcome will be less than the current valuation of £19.1m, which it believes is underpinned by the value of the Preferred Interest, so feel the valuation of £19.1m should be maintained. This valuation has been assessed against various criteria, including exchange rate fluctuations. The Board would like to draw the reader's attention to the critical accounting estimates and key judgments on pages 19 and 20 which further explain the uncertainty and to the Auditors' report on pages 10 to 12 in which it is also highlighted.

Smith

In October 2014 Smith completed a restructuring exercise that saw it convert debt to equity. As a result of this, they informed the Company that its equity shareholding had reduced from 24% to 5.76% (excluding warrants).

Since then, Smith has sought to raise funds which would allow it to implement its strategic plan. To date, no significant fundraise has been completed and the Board of Tanfield does not foresee this happening in the immediate future.

Valuation of Smith holding

In 2015, the Board of Directors carried out a review of the investment in Smith resulting in a decision to impair the investment value to £nil.

The Board understand that Smith has not been trading in recent years and as Smith are unable to provide any certainty on its future, the Board maintains its opinion that the investment value should be held at £nil.

Strategy of Tanfield Board of Directors in relation to its Investments

The Board believes its investment in Snorkel International will result in a return of value to shareholders but cannot predict the timeframe for such a return. With regard to Smith, due to the ongoing uncertainty, the Board is unable to say, at this time, whether it will result in a return of value to shareholders. The Directors will update shareholders should this view change.

The strategy of the Company in relation to these investments is to return as much as possible of any realised value to shareholders as events occur and circumstances allow, subject to compliance with any legal requirements associated with such distributions. The Board will continue to fulfil its obligation to its shareholders in seeking to optimise the value of its investments.

The investments are defined as passive investments and in line with this definition Tanfield does not hold Board seats in either Snorkel International or Smith. There is no limit on the amount of time the existing investments may be held by the Company.

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STRATEGIC REPORT (Continued)

Finance expense and income

Interest cost of £100k was incurred in the period (2019: £nil) and interest income of £nil (2019: £1k) was received on bank balances.

Loss from operations

The loss from operations before tax was £697k (2019: £317k), the most significant difference compared to the prior year being £100k of interest cost (2019: £nil) and an increase in legal fees due to the ongoing US Proceedings and UK Proceedings.

Loss per share

Loss per share from continuing operations was 0.43 pence (2019: 0.20 pence). No dividend has been declared (2019: £nil).

Cash

At 31 December 2020, the Company had cash of £0.5m (2019: £0.1m) and approximately £0.8m as at the date of this report. £0.5m of cash is held on deposit with the English Court as security in relation to the UK Proceedings.

Risks and uncertainties

Loan note instruments totalling £1.7m were put in place during 2020 with £1.5m of notes currently issued. Having discussed matters with the Company's shareholders, the directors believe that, if required, the Company should be able to source sufficient working capital, in the form of further loans, to provide the resources to allow it to continue for a period of 12 months from the date of this report. However, there is no guarantee if and when a realisation of value from one of the investments will happen, or of the costs associated in securing a realisation, and the Board will closely monitor progress. It recognises that its investments have a level of risk associated with them and is somewhat reliant on their continued performance within their markets.

The ongoing global Covid-19 pandemic is continuing to impact the performance of the investment in Snorkel International but signs are that Snorkel's markets are starting to recover. However, at this stage, it is not possible to estimate how long it will be until the pandemic no longer impacts the performance of Snorkel. The Board note that any impact would likely be limited to timing and currently do not believe that it should alter what it believes to be the minimum contractual value.

Section 172: Companies Act Statement

The Board takes seriously its duties towards a wide range of stakeholders and acts in a way to ensure that its decision making promotes the success of the Company for the benefit of these stakeholders in accordance with Section 172. The Board's ability to do this is as a result of the Company status – as an investment Company it has no employees or customers and its activities have no impact on the wider community and environment. The statements below provide further information as to how the directors have had regard to the relevant matters.

The likely consequences of decisions in the long term. As discussed earlier in this report, the sole aim of the Board is to maximise the return to shareholders through its investment holdings. This is of necessity a short-term focus, and the financial outcome will determine the future position and strategy of the Company.

The need to foster the Company's business relationships with suppliers and the desirability of the Company to maintain a reputation for high standards of business conduct. Engagement with suppliers is a key part of the business as the Board looks to bring a resolution to its investment position. Therefore, we are selective in the suppliers we chose to work with, demonstrating the Board's commitment to maintaining high standards of business conduct and professionalism.

The need to act fairly between members of the Company. Responsibility for investor relations rests with the Chairman. The Board is committed to communicating openly with shareholders to ensure that its strategy and performance are clearly understood.

The Annual General Meeting is the principal forum for shareholders, and we encourage all shareholders to attend (where appropriate, subject to Covid-19 restrictions) and participate. The notice of the meeting is sent at least 21 days before the meeting. The Chairman of the Board and other directors, where possible, are present and are available to answer questions raised by shareholders. The Board ensure regular communications are made to all shareholders via periodic RNS announcements.

KPI's

The Board do not use any KPI's to monitor the performance of the business.

Approved by the Board of Directors and signed on behalf of the Board



Daryn Robinson
Chairman
11 June 2021

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DIRECTORS' REPORT

The directors submit their report and the financial statements of Tanfield Group Plc for the year ended 31 December 2020. Tanfield Group Plc is a public listed company incorporated and domiciled in England and quoted on AIM.

PRINCIPAL ACTIVITIES

The Company's principal activity is that of an investment company.

INVESTING POLICY

The holdings in Snorkel International Holdings LLC and Smith Electric Vehicles Corp. are passive investments. It is the intention that where distributions or realisations of such holdings are made (or there is a receipt of marketable securities) that these are distributed to shareholders, subject to compliance with any legal requirements associated with such distributions. There is presently no anticipated limit on the amount of time the holdings are to be held by the Company. The Company does not have and will not make any cross holdings and does not have a policy on gearing.

RESULTS AND DIVIDENDS

The financial result for the year to 31 December 2020 reflects the principal activity of the company being that of an investment company.

Turnover for the year was £nil (2019: £nil). The operating loss in the year of £597k (2019: £318k) arose from operating costs.

The statement of financial position shows total assets at the end of the year of £19.6m (2019: £19.3m). Net Current Assets were £0.5m (2019: £0.1m) with cash balances of £0.5m (2019: £0.1m). Having discussed matters with the Company's shareholders, the directors believe that, if required, the Company should be able to source sufficient working capital, in the form of further loans, to provide the resources to allow it to continue for a period of 12 months from the date of this report. Note 19 provides details of further loans already provided since the year end.

No dividend has been paid or proposed for the year (2019: £nil). The loss of £697k (2019: £317k) has been transferred to reserves.

FINANCIAL INSTRUMENTS

The Company's financial instruments comprise cash, non-current investments, current receivables, current payables arising from its operations and borrowings. The principal financial instruments used by the Company during the year are cash balances raised from borrowings. The Company has not established a formal policy on the use of financial instruments but assesses the risks faced by the Company as economic conditions and the Company's operations develop.

DIRECTORS

The present membership of the Board is set out on page 2.

All directors have the right to acquire shares in the company via the exercise of options granted under the terms of their service contracts, copies of which may be inspected by shareholders upon written application to the company secretary. Details of the directors' options to acquire shares are set out in the Directors' Remuneration Report on page 8.

POLICY ON PAYMENT OF CREDITORS

It is Company policy to agree and clearly communicate the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based on the timely receipt of an accurate invoice. The Company supports the CBI Prompt Payers Code. A copy of the code can be obtained from the CBI at Centre Point, 103 New Oxford Street, London WC1A 1DU.

Trade creditor days based on trade payables at 31 December 2020 were 37 days (2019: 72 days).

SUBSTANTIAL SHAREHOLDINGS

On 31 December 2020 the following held substantial shares in the company. No other person has reported an interest of more than 3% in the ordinary shares.

	No.	%
HSBC GLOBAL CUSTODY NOMINEE	54,117,147	33.2%
CHASE NOMINEES LIMITED	36,746,672	20.7%
AURORA NOMINEES LIMITED	19,450,971	11.9%
VIDACOS NOMINEES LIMITED	12,734,252	7.8%
THE BANK OF NEW YORK (NOMINEES)	12,507,684	7.7%
LYNCHWOOD NOMINEES LIMITED	5,446,346	3.3%

DIRECTORS' INTEREST IN CONTRACTS

No director had a material interest at any time during the year in any contract of significance, other than a service contract, with the Company or any of its subsidiary undertakings.

AUDITOR

A resolution to reappoint RSM UK Audit LLP as auditor will be put to the members at the annual general meeting. RSM UK Audit LLP has indicated its willingness to continue in office.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors in office on the date of approval of the financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the directors has confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

DIRECTORS INDEMNITY

Every Director shall be indemnified by the Company out of its own funds.

Approved by the Board of Directors and signed on behalf of the Board



Daryn Robinson
Chairman
11 June 2021

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CORPORATE GOVERNANCE

All members of the board believe strongly in the value and importance of good corporate governance and in our accountability to all of Tanfield's stakeholders, including shareholders and suppliers.

Changes to AIM rules on 30 March 2018 require AIM companies to apply a recognised corporate governance code by 28 September 2018.

The corporate governance framework which the company operates, including board leadership and effectiveness, board remuneration, and internal control is based upon practices which the board believes are proportional to the size, risks, complexity and operations of the business and is reflective of the company's values. Of the two widely recognised formal codes, we have therefore decided to adhere to the Quoted Companies Alliance's (QCA) Corporate Governance Code for small and mid-size quoted companies (revised in April 2018 to meet the new requirements of AIM Rule 26).

Tanfield is a passive investment company with investments in Snorkel International and Smith. It is the intention that where distributions or realisations are made that these are distributed to shareholders, subject to compliance with any legal requirements associated with such distributions.

The Board is mindful of and monitors its corporate risks. The main risks the business faces are that the investments may not achieve their operational goals, resulting in no realisation event and the potential for disputes with the controlling shareholders as to the terms of a realisation event should one occur. As a passive investment company, the Board is not able to influence the decision making or strategy of the investment companies and so its ability to mitigate some risks is limited.

The Company operates as a passive investment company and has put in place a board structure that can best provide the strategic advice, leadership and continuity required. The board structure consists of two non-executive directors, Daryn Robinson and Martin Groak, both sitting on the PLC Board. Due to the nature of the business, executive directors and an operational Board are not deemed necessary and therefore the non-executive directors are deemed not to be independent. During the year 8 board meetings, all fully attended, took place.

The Board considers the Board composition in terms of skills, experience and balance. Its committees seek external expertise and advice where required. With only two Board members, due to the limited activities of the Company, Board cohesion is paramount and this is regularly reviewed. The Board members have held roles and directorships in other publicly listed companies where they have gained a wealth of financial and public market experience which collectively has provided them with the balance of skills and expertise to deliver the business strategy.

The Board considers evaluation of its committees and individual directors to be an integral part of corporate governance to ensure it has the necessary skills, experience and abilities to fulfil its responsibilities. To ensure the skills and knowledge of the Board are kept up to date, it works with its Nominated Advisor & Broker, Auditor and Solicitor to ensure that any relevant new or amended accounting standards and interpretations, AIM rules or Companies Act legislation are fully understood and implemented.

The Board recognises that a corporate culture based on sound ethical values and behaviours is an asset. In accordance with the Company's stated social responsibilities it endeavours to conduct its business in an ethical, professional and responsible manner. As the Company has no control over operational matters relating to its investments, it is unable to influence the values and behaviours directly but it supports a culture of dealings with both shareholders and investee companies with integrity and respect.

The QCA Code is constructed around ten broad principles and a set of disclosures. The QCA has stated what it considers to be appropriate arrangements and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures. We have considered how we apply each principle to the extent that the board judges these to be appropriate in the circumstances, and we provide a full explanation of the approach taken in relation to each in the details of our approach to Corporate Governance which can be found on the Company's website www.tanfieldgroup.com/about#governance. The board considers that it does not depart from any of the principles of the QCA Code.

Going Concern

The directors are satisfied that the Company has access to adequate resources to continue for a period of 12 months from the date of this report. For this reason, they continue to adopt the going concern basis in preparing the financial statements.



Daryn Robinson,
Chairman
11 June 2021

TANFIELD GROUP PLC FINANCIAL STATEMENTS

DIRECTORS' REMUNERATION REPORT

Remuneration committee

The company has established a Remuneration Committee which is constituted in accordance with the recommendations of the QCA Code. The members of the committee during the year were D Robinson and M Groak and the committee was chaired by D Robinson.

Remuneration policy

There were four main elements of the remuneration packages for directors:

- Basic annual salary (including directors' fees) and benefits;
- Annual bonus payments;
- Share option incentives; and
- Pension arrangements.

Basic salary

The basic salary of the directors is reviewed annually having regard to the commitment of time required and the level of fees in similar companies. Non-Executive Directors are employed on renewable fixed term contracts not exceeding three years.

Annual bonus

The committee established the objectives which must be met for each financial year if a cash bonus was to be paid. The purpose of the bonus was to reward directors for achieving above average performance which also benefits shareholders.

Remuneration review

Directors emoluments for the financial year were as follows:

	Salary 2020 £000's	Pension 2020 £000's	Total 2020 £000's	Salary 2019 £000's	Pension 2019 £000's	Total 2019 £000's
M Groak	20	-	20	20	-	20
D Robinson	61	2	63	52	2	54
Total	81	2	83	72	2	74

Directors share options held at 31 December 2020 were as follows:

	31 December 2019	Granted/ (Lapsed)	Exercised	31 December 2020	Option price per share ^a	Date from which normally exercisable	Expiry Date
M Groak	100,000	(100,000)	-	-	27p	02/02/2015	02/02/2020
D Robinson	100,000	(100,000)	-	-	27p	02/02/2015	02/02/2020
Total	200,000	(200,000)	-	-			

^a On 31 December 2020 the market price of the ordinary shares was 2.54p. The range during 2020 was 1.45p to 4.79p

Approval

This report was approved by the board of directors and authorised for issue on 11 June 2021 and signed on its behalf by:



Daryn Robinson
Chairman

Share options

The directors had options granted to them under the terms of the Share Option Scheme which, as at the date of this report, have expired. Share options were awarded as set out in the table below. No new share options have been granted as at the date of this report.

Pension arrangements

Some directors were members of a money purchase pension scheme to which the company contributed.

Directors interests

The interests of directors holding office at the year end in the company's ordinary 5p shares at 31 December 2020 and 31 December 2019 are shown below:

	Number of shares	
	2020	2019
D Robinson	942,785	942,785
M Groak	40,000	40,000
Total	982,785	982,785

The directors, as a group, beneficially own 0.6% of the company's shares.

As at the date of this report, no director has any remaining right to acquire shares in the company via the exercise of options granted under the terms of their service contracts, copies of which may be inspected by shareholders upon written application to the company secretary.

TANFIELD GROUP PLC FINANCIAL STATEMENTS

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law and the AIM Rules of the London Stock Exchange the directors have elected to prepare the financial statements of the company in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The financial statements are required by law and international accounting standards in conformity with the requirements of the Companies Act 2006 to present fairly the financial position *and performance of the company*. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and accounting estimates that are reasonable and prudent;
- c. state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Tanfield Group Plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

REPORT OF THE INDEPENDENT AUDITOR

Independent auditor's report to the members of Tanfield Group Plc

Opinion

We have audited the financial statements of Tanfield Group PLC (the 'company') for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity Attributable to Equity Shareholders, the Cash Flow Statement and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to SME listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included a review of the forecasts prepared by management and the assumptions underpinning these, along with an assessment of the cash funding available to the company to meet its commitments as they become due.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Summary of our audit approach

- **Key audit matters** - Carrying value of non-current investments
- **Materiality** - Overall materiality: £409,000 (2019: £405,000), Performance materiality: £306,750 (2019: £304,000)
- **Scope** - Our audit procedures covered 100% of revenue, 100% of total assets and 100% of losses before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Carrying value of non-current investment

Key audit matter description

Included in the Statement of Financial Position are non current investments with a carrying value of £19.1m. This represents holdings of 5% and 49% respectively in Smith Electric Vehicles US Corp and Snorkel International Holdings LLC ('Snorkel'). Note 6 and the Accounting Policies of the financial statements describes the judgements made by the Board with regards to the need for an impairment to be booked in respect of each of these investments and, in particular, the significant uncertainty concerning the carrying value of the company's £19.1m investment in Snorkel International Holdings LLC. The investment in Smith Electric Vehicles US Corp has already been fully impaired.

The investment in Snorkel represents the sole significant asset held within the Statement of Financial Position of the company. As described on pages 19 and 20 there are significant uncertainties over the timing of any realisation, and the amount that might ultimately be realised on this investment, that could have a material effect on the recoverable amount. The realisation of this investment for either more or less than its carrying value could have a material impact on the financial statements.

The Board has limited financial and non-financial information upon which to calculate/base its estimate of the realisation value and timing thereof. The Critical Accounting Estimates and Key Judgements disclosures on pages 19 and 20 set out the basis of the Directors consideration of the fair value of the investment, based on its expected recoverable amount, and the assumptions made therein. The assessments and conclusion of the directors are based on the Investment Circular setting out the Proposed Transaction issued to Shareholders in September 2013, the legal advice obtained at the time and subsequent to that date along with the information received in respect of the financial performance and position of Snorkel. The assessment made by the Directors as to the sums falling due under the Investment Circular differs to the assessment made by Xtreme, which has led to the commencement of the initial stages of legal proceedings by Xtreme against the company to obtain control of the remaining 49% of Snorkel. The

REPORT OF THE INDEPENDENT AUDITOR (CONTINUED)

directors have concluded that the most appropriate basis for determining the carrying amount continues to be the amount represented by the Preferred Interest element, which was established at the time of the Transaction, and was the value the investment in Snorkel was impaired to following the expiry of the put option in 2018.

As explained in the Critical Accounting Estimates and Key Judgements section on pages 19 and 20, the timing of realisation and the sum to be realised are dependent on definitive clarification as to the legal position of the call option still held by Xtreme. The eventual amount realised is also dependent on the applicable rate of exchange at the time that the US\$ proceeds are converted into GBP.

As a result, there remains significant doubt over the timing and value at which this asset will be realised.

How the matter was addressed in the audit

Our audit work has considered the nature of the financial and other information held by management described above and in the public domain, the assumptions used by management to assess the estimated timing and realisable value of the investment, and such other audit evidence as was available, to form a view on the reasonableness of these assumptions, estimates and calculations. We have also re-performed the calculations undertaken by management of the expected realisable value based on the information used by management.

In carrying out our audit work we have considered and challenged the range of outcomes used by the directors, the conclusion the directors have reached about the reliability of any alternative valuation and the disclosures made in the financial statements, specifically in the Critical Accounting Estimates and Judgements disclosures and in Note 6. We also circularised the Company's legal advisors in both the UK and United States.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

- **Overall materiality** - £409,000 (2019: £405,000)
- **Basis for determining overall materiality** - 2% of total assets.
- **Rationale for benchmark applied** - Consistent with prior year, the company's principal activity continues to be that of an investment company. As such, we deemed total assets to be the key benchmark for users of the financial statements.
- **Performance materiality** - £306,750 (2019: £304,000).

- **Basis for determining performance materiality** - 75% of overall materiality.
- **Reporting of misstatements to the Audit Committee** - Misstatements in excess of £4,090 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The company has been subject to a full scope audit.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

REPORT OF THE INDEPENDENT AUDITOR (CONTINUED)

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the audit engagement team:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory framework that the company operates in and how the company is complying with the legal and regulatory framework;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

The most significant laws and regulations were determined as: International Accounting Standards in conformity with the Companies Act 2006 and the AIM listing rules. Additional audit procedures performed by the audit engagement team were:

- Review of the financial statement disclosures and testing these to supporting documentation.
- Completion of disclosure checklists to identify areas of non-compliance.
- Review of announcements made during the year via RNS.

The area that we identified as being susceptible to material misstatement due to fraud was: the risk of management override of controls. The audit procedures performed by the audit engagement team included:

- Testing the appropriateness of journal entries and other adjustments;
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and
- Evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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

RSM UK Audit LLP

ANDREW ALLCHIN FCA (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
1 St James' Gate, Newcastle upon Tyne, NE1 4AD
11 June 2021

TANFIELD GROUP PLC FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 £000's	2019 £000's
Revenue		-	-
Staff costs	1	(83)	(74)
Other operating income		18	23
Other operating expenses	3	(532)	(267)
Loss from operations		(597)	(318)
Finance expense	2	(100)	-
Finance income	2	-	1
Loss from operations before tax		(697)	(317)
Taxation	4	-	-
Loss & total comprehensive income for the year attributable to equity shareholders		(697)	(317)
Loss per share			
Loss per share from operations			
Basic and diluted (p)	5	(0.43)	(0.20)

TANFIELD GROUP PLC FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION (Company registration number 04061965)

AS AT 31 DECEMBER 2020

	Notes	2020 £000's	2019 £000's
Non current assets			
Non current Investments	6	19,100	19,100
		19,100	19,100
Current assets			
Trade and other receivables	8	24	23
Cash and cash equivalents	7	524	136
		548	159
Total assets		19,648	19,259
Non current liabilities			
Borrowings	10	1,100	-
		1,100	-
Current liabilities			
Trade and other payables	9	90	104
		90	104
Total liabilities		1,190	104
Equity			
Share capital	11	8,145	8,145
Share premium	11	17,336	17,336
Share option reserve	12	331	331
Special reserve		66,837	66,837
Merger reserve		1,534	1,534
Retained earnings		(75,725)	(75,028)
Total equity attributable to equity shareholders		18,458	19,155
Total equity and liabilities		19,648	19,259

The financial statements on pages 13 to 27 were approved by the board of directors and authorised for issue on 11 June 2021 and are signed on its behalf by:



Daryn Robinson
Chairman

TANFIELD GROUP PLC FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital	Share premium ^a	Share option reserve ^b	Merger reserve ^c	Special reserve ^d	Retained earnings ^e	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
At 1 January 2019	7,920	17,336	331	1,534	66,837	(74,711)	19,247
Comprehensive income							
Loss for the year	-	-	-	-	-	(317)	(317)
Total comprehensive income for the year	-	-	-	-	-	(317)	(317)
Transactions with owners in their capacity as owners:-							
Issuance of new shares (note 11)	225	-	-	-	-	-	225
At 31 December 2019	8,145	17,336	331	1,534	66,837	(75,028)	19,155
Comprehensive income							
Loss for the year	-	-	-	-	-	(697)	(697)
Total comprehensive income for the year	-	-	-	-	-	(697)	(697)
At 31 December 2020	8,145	17,336	331	1,534	66,837	(75,725)	18,458

^a The share premium account represents amounts subscribed for share capital in excess of nominal value, net of directly attributable share issue costs.

^b The share option reserve represents the cumulative share-based payment expense.

^c The merger reserve has arisen on the legal acquisition of subsidiary companies.

^d The special reserve relates to a previous reclassification of the share premium account.

^e The retained earnings represents the accumulated retained profits and losses less dividend payments.

TANFIELD GROUP PLC FINANCIAL STATEMENTS

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 £000's	2019 £000's
Loss from operations	(697)	(318)
Adjustment for:		
Finance costs	100	-
Changes in operating assets and liabilities / working capital:		
Increase in receivables	(1)	(12)
(Decrease) / increase in payables	(14)	52
Net cash used in operating activities	(612)	(278)
Cash flow from Investing Activities		
Interest received	-	1
Net cash from investing activities	-	1
Cash flow from financing activities		
Proceeds from issuance of ordinary shares net of costs	-	225
Proceeds from borrowings	1,000	-
Net cash generated by financing activities	1,000	225
Net (decrease)/increase in cash and cash equivalents	388	(52)
Cash and cash equivalents at the start of year	136	188
Cash and cash equivalents at the end of the year	524	136

TANFIELD GROUP PLC FINANCIAL STATEMENTS

ACCOUNTING POLICIES

(i) Basis of preparation of the financial statements

Tanfield Group Plc is a public company incorporated in England and quoted on AIM. These financial statements have been prepared on the going concern basis in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and liabilities measured at fair value.

The financial statements present the company accounts only and have not been consolidated as the adjustments made to the financial statements upon consolidation would be immaterial. The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest thousand.

The preparation of the financial statements requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed below in "Critical accounting estimates and key judgements".

(ii) Going concern

The financial statements have been prepared on the going concern basis, which assumes that the Company will continue to be able to meet its liabilities as they fall due for the foreseeable future. At 31 December 2020 the Company had cash balances of £0.5m and approximately £0.8m as at the date of this report, with £0.5m held on deposit with the English Court as security in relation to the UK Proceedings.

Having discussed matters with the Company's shareholders, the directors believe that, if required, the Company should be able to source sufficient working capital, in the form of further loans, to provide the resources to a) allow the Company to continue in operation for a minimum of 12 months and b) see the legal proceedings continue, possibly to a conclusion, during that period. It is not currently expected that the ongoing Covid-19 pandemic will impact on this. Having taken the uncertainties into account the Board believes it is appropriate to prepare the financial statements on the going concern basis.

The Directors do not believe that the ongoing global Covid-19 pandemic will have a direct impact on the Company's ability to continue as a going concern due to the nature of its activities as an investment company.

(iii) Foreign currencies

Transactions in currencies other than sterling, the presentational currency of the company, are recorded at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position date.

Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Gains and losses arising on retranslation are included in the income statement for the period, except for exchange differences on non-monetary assets and liabilities, which are recognised directly in profit and loss.

(iv) Retirement benefit cost

The company operates a defined contribution pension scheme and pays contributions to an externally administered pension plan. The company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the period in which they fall due.

(v) Share based payments

The Company issues equity-settled share-based payments to certain employees and has applied the requirements of IFRS2 "Share-based payments".

Equity settled share-based payments are measured at fair value at the date of the grant. Fair value is measured using a Black-Scholes model.

The fair value is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

(vi) Financial instruments

Recognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised on the Company's statement of financial position when the Company has become a party to the contractual provisions of the instrument.

Financial assets

Investments

Investments are included at fair value with fair value gains and losses recognised in profit or loss.

Trade and other receivables

Financial assets within trade and other receivables are initially recognised at fair value, which is usually the original invoiced amount and are subsequently carried at amortised cost less provisions made for impairment.

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

An impairment loss is recognised for the expected credit losses on receivables when there is an increased probability that the counterparty will be unable to settle an instrument's contractual cash flows on the contractual due dates, a reduction in the amounts expected to be recovered, or both.

Impairment losses and any subsequent reversals of impairment losses are adjusted against the carrying amount of the receivable and are recognised in profit or loss.

TANFIELD GROUP PLC FINANCIAL STATEMENTS

ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand less short-term bank overdrafts.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received.

Trade and other payables

Financial liabilities within trade and other payables are initially recorded at fair value, which is usually the original invoiced amount, and subsequently carried at amortised cost.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(vii) Segmental reporting

In accordance with IFRS 8 operating segments are determined on the basis of information reported to the chief operating decision-maker for decision-making purposes. The Company considers that it only has one segment and that the role of chief operating decision-maker is performed by the Tanfield Group Plc's board of directors.

(viii) Termination benefits

Termination benefits (leaver costs) are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to the affected employees leaving the Company.

Accounting standards, interpretations and amendments to published accounts

During the year ended 31 December 2020, the Company has applied the following standards and amendments for the first time:

- Definition of Material – amendments to IAS 1 and IAS 8
- Revised Conceptual Framework for Financial Reporting

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

New and amended standards and interpretations effective from 1 January 2021 not yet adopted by the Company.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

CRITICAL ACCOUNTING ESTIMATES AND KEY JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires management to exercise judgement in the process of applying the Company's accounting policies. We continually evaluate our estimates, assumptions and judgements based on the most up to date information available.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Investments

Smith

The status of the Company's holding in Smith Electric Vehicles US Corp was reviewed during the year. The Board previously advised that the company had ceased operations and did not feel that Smith had made sufficient progress towards achieving its plan of obtaining a public listing to maintain the previous valuation and had therefore decided to impair the investment in Smith to £nil. Subsequently, no progress has since been made that gives rise to an expectation of a realisation in value. As such, the Board is maintaining its view that the investment currently has nil value.

Nevertheless, the Board acknowledges that there is a chance the investment could result in a return to Shareholders and will continue to monitor the investment. Should progress be made in the future the valuation of the investment will be revisited.

Snorkel International

The status of the Company's holding in Snorkel International Holdings LLC was reviewed during the year. The Board has concluded that, while Tanfield continues to retain an investment in Snorkel International (currently valued at £19.1m), consisting of a 49% interest and the Preferred Interest, under the terms of the Joint Venture, they are unable to exercise significant influence over the activities and strategic direction of Snorkel International and therefore holding the investment as a trade investment, as opposed to applying equity accounting, continues to be the correct treatment.

Since the injection of working capital following the Joint Venture, Snorkel achieved increased year on year sales levels however, during 2020 the impact of the Covid-19 pandemic saw the first reduction of sales. A summary of sales (unaudited) and the operating loss (unaudited), excluding depreciation is shown below:

Year	Sales	Increase/ (decrease)	Operating profit/ (loss) excluding depreciation
2020	\$110.8m	(50%)	(\$12.3m)
2019	\$220.8m	10%	\$0.3m
2018	\$200.5m	21%	\$2.9m
2017	\$165.8m	27%	\$1.6m
2016	\$130.5m	19%	(\$2.8m)
2015	\$109.9m	29%	(\$10.6m)
2014	\$85.3m	-	(\$14.9m)

Despite the ongoing impact of the Covid-19 pandemic, the Board is not aware of any market factors and have not been made aware of any specific reason why sales growth should not be achieved in 2021, when compared to 2020 sales, as the impact of the pandemic continues to subside.

Under the terms of the Joint Venture, the level of financial information available to the Board to assess the fair value of the investment in Snorkel International is limited to quarterly historical financial information, incorporating a consolidated operating statement, balance sheet and cashflow.

In 2018, the Board impaired Tanfield's investment value in Snorkel International down to £19.1m, from the previous valuation of £36.3m. The valuation of £19.1m is based on the value of the Preferred Interest which is made up of the priority amount, set in 2013 based upon the assets of the Snorkel division contributed to the Joint Venture, plus the preferred return, being interest accruing on the priority amount. This is the basis of valuation that was set out in the Circular issued to Shareholders at the time of the Joint Venture. The Board have not included the effect of discounting for the timing of a future realisation as they do not believe this materially impacts on the valuation.

The previous valuation of £36.3m was originally calculated in 2013 and assumed the \$25m EBITDA trigger, compelling the payment of the Preferred Interest and the purchase of Tanfield's interest in Snorkel International by Xtreme, would be reached within the predefined period ending 30 September 2018. As Snorkel International, under Xtreme's control, failed to achieve the EBITDA trigger, Tanfield retains a 49% interest in Snorkel International and the Preferred Interest, but it can no longer compel Xtreme to pay the Preferred Interest and acquire its 49% interest.

In November 2018, the Board received a call option notice in which Xtreme, via its subsidiary SKL, requested to exercise a call option to acquire Tanfield's interest in Snorkel International. In the request, SKL stated that the option price to acquire Tanfield's holding was \$0 (nil) and that payment of the Preferred Interest was not required.

The Board did not agree with this statement and does not believe that the contractual agreements, or the Circular distributed to shareholders to fully explain the terms of the transaction - and thereby seek their authority to enter in to the transaction - allow for a call option whereby Xtreme can acquire Tanfield's interest in Snorkel International for a nil value. The Board therefore rejected the call option notice and sought to amicably resolve the dispute with Tanfield's 51% joint venture partner, Xtreme. As announced on 22 October 2019, Xtreme (via its subsidiary SKL and Snorkel International) filed the US Proceeding against Tanfield and its subsidiary HBWP.

CRITICAL ACCOUNTING ESTIMATES AND KEY JUDGEMENTS (continued)

The Board, however, caveat that a number of factors could influence the valuation and performance of Snorkel Xtreme's opinion of the contractual agreements which has resulted in the US Proceedings (see Strategic Report on pages 3 to 5 for further information), the outcome of the UK Proceedings and the ongoing global Covid-19 pandemic. Due to the risks involved with the ongoing different opinions regarding the contractual agreements, it is possible the actual realisation of value could be less than the current valuation, potentially as low as £nil as alleged by Xtreme and depending on the outcome of ongoing legal proceedings. As the global Covid-19 pandemic continues, it is not possible at this stage to estimate what likely future impact the pandemic may have. The Board note that any ongoing impact of Covid-19 would likely be limited to the performance of Snorkel International and the timing of a possible realisation but currently do not believe that it should alter what it believes to be the minimum contractual value.

Given the risks, the Board has considered whether a further impairment loss should be recognised but have concluded that based on their understanding of the contractual agreements in place, no further impairment is required at this time.

Whilst the timing and quantum of realisation of the investment remains unclear, the Board is currently of the opinion that the investment in Snorkel International will result in a return to shareholders in the future, that the current value of the investment of £19.1m remains appropriate and there is not an alternative, more reliable valuation of the investment than the current estimate.

- the rate of sales growth being more or less than that recently achieved by Snorkel International;
- the level of operating profitability improvement being more or less than that recently achieved by Snorkel International.
- The impact of exchange rate movements given that any proceeds will be received in USD, considering current, historic and average exchange rates.

Between 1 January 2020 to 31 December 2020, the range of the GBP to USD exchange rate has a low of 1.1475 and a high of 1.3652, the average being 1.2841. If £19.1m is assumed to represent the average exchange rate then based on the low of 1.1475 the valuation increases by approximately 11% to £21.4m and based on the high of 1.3652 the valuation reduces by approximately 6% to £18.0m giving a potential movement of 17% in the valuation. Whilst the Board is not in a position to mitigate any potential exchange rate variation, until such time as the realisation of the Snorkel International investment is known, it will continue to consider such means as may be possible to maximise the GBP return to shareholders.

If the assumption is made that both the progress within Snorkel International and the wider global market conditions will continue to improve, then the Board note that the valuation could potentially increase beyond the £19.1m which is underpinned by the Preferred Interest element. However, the Board has considered various Snorkel International trading scenarios, based around historic sales growth trends and does not believe the valuation is likely to materially increase from £19.1m in the near future.

TANFIELD GROUP PLC FINANCIAL STATEMENTS

NOTES TO THE ACCOUNTS

1. Staff costs

	2020 £000's	2019 £000's
Aggregate remuneration comprised		
Wages and salaries	81	72
Other pension costs	2	2
Total staff costs	83	74
	2020 No.	2019 No.
Average monthly number of employees		
Directors	2	2
Total	2	2

Details of Directors' fees and salaries, bonuses, pensions, benefits in kind and other benefit schemes together with details in respect of Directors' share option plans are given in the Directors' Remuneration Report on page 8.

2. Finance expense and finance income

	2020 £000's	2019 £000's
Finance expense		
Interest on borrowings	100	-
Total finance expense	100	-
	2020 £000's	2019 £000's
Finance income		
Interest on cash, cash equivalents & financial instruments	-	1
Total finance income	-	1

3. Other operating expenses

	2020 £000's	2019 £000's
Property related expenses	27	33
Auditor's remuneration (see below)	22	25
Other operating expenses	483	209
Total operating expenses	532	267

Auditor's remuneration

Amounts payable to RSM UK Audit LLP and their associates in respect of both audit and non-audit services are as follows:

	2020 £000's	2019 £000's
Audit Services		
• statutory audit of accounts	22	23
Other services relating to taxation		
• compliance services	-	-
	22	23
Comprising		
• Audit services	22	23
• Non audit services	-	-

TANFIELD GROUP PLC FINANCIAL STATEMENTS

4. Taxation

Analysis of and factors affecting taxation charge

The taxation charge on the loss for the year differs from the amount computed by applying the corporation tax rate to the loss before taxation as a result of the following factors:

	2020 £000's	2019 £000's
Loss before taxation	(697)	(317)
Notional taxation charge at UK rate of 19% (2019: 19%)	(132)	(60)
Effects of:		
Non-deductible expenses	80	-
Deferred tax asset not recognised in the period	52	60
Total taxation charge in the income statement	-	-

The Company has tax losses of approximately £4.3m (2019: £4.0m) available to carry forward against future profits of the same trade. No deferred tax asset has been recognised due to the uncertainty of future profitability of the Company.

5. Loss per share

Basic loss per share is calculated by dividing the loss attributable to equity shareholders by the weighted average number of shares in issue during the period. In calculating the dilution per share, share options outstanding and other potential ordinary shares have been taken into account where the impact of these is dilutive. As the potential dilutive ordinary shares from share options reduce the loss per share these shares are omitted from the dilutive loss per share calculation. The average share price during the year was 2.75p (2019: 5.36p).

	2020 No. 000's	2019 No. 000's
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	162,907	160,971
Effect of dilutive potential ordinary shares from share options	-	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	162,907	160,971

Loss

	2020 £000's	2019 £000's
From operations		
Loss for the purposes of basic earnings per share being net profit attributable to owners of the parent	(697)	(317)
Potential dilutive ordinary shares from share options	-	-
Loss for the purposes of diluted earnings per share	(697)	(317)

Loss per share from operations

Basic and diluted (p)	(0.43)	(0.20)
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6. Non current investments

A summary of the Non current investments is shown below:

	2020 £000's	2019 £000's
Investment in Smith Electric Vehicles US Corp	-	-
Investment in Snorkel International Holdings LLC	19,100	19,100
Total non current investments	19,100	19,100

Smith Electric Vehicles US Corp

At 31 December 2020, the Company held a 5.76% (2019: 5.76%) share of the issued share capital of Smith Electric Vehicles US Corp, a company registered in the US. In 2015 the Board decided to impair the investment in Smith to £nil and they continue to maintain this position. However, the Board will continue to monitor the investment.

Snorkel International Holdings LLC

At 31 December 2020, the Company held a 49% (2019: 49%) share of the issued share capital of Snorkel International Holdings LLC, a company registered in the US. This shareholding is being held as a non current investment at fair value (2020: £19,100k, 2019: £19,100k). The cumulative impairment provision against this investment is £17,183k (2019: £17,183k). See Strategic Report for further considerations.

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7. Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term deposits held by the Company. The carrying amount of these assets approximates their fair value. The Company primarily holds cash and cash equivalents in Sterling bank accounts.

	2020 £000's	2019 £000's
Cash and cash equivalents ^a	524	136

^a At 31 December 2020 £500k was held on deposit with the English Court as security in relation to the UK Proceedings (2019:£nil)

8. Trade and other receivables

	2020 £000's	2019 £000's
Receivable within one year		
Other debtors and prepayments	24	23
	24	23

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

9. Trade and other payables

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

	2020 £000's	2019 £000's
Payable within one year		
Trade payables	53	52
Social security and other taxes	1	1
Accrued expenses	36	51
	90	104
Average credit period taken on trade purchases (days) ^a	37	72

^a Creditor days have been calculated as trade payables over other operating expenses multiplied by 365 days.

10. Borrowings

	2020 Non-current £000's	2020 Total £000's	2019 Non-current £000's	2019 Total £000's
Unsecured				
Loan notes	1,100	1,100	-	-
Total borrowings	1,100	1,100	-	-

Unsecured 10% loan notes 2025

The Company issued 212,500 loan notes for £212,500 on 30 March 2020, 143,750 loan notes for £143,750 on 30 June 2020 and 143,750 loan notes for £143,750 on 14 September 2020. Interest is charged on the initial loan note value at 10% per annum which is rolled up and included above. A loan note holder may at any time after 28 February 2025 serve notice upon the Company requesting the redemption of all the Loan Notes, plus accrued interest, held by them. In the event of a realisation from the US Proceedings and/or the UK Proceedings exceeding £2.5m, any amount in excess of £2.5m will be used to realise a proportion of Loan Notes and accrued interest. Should a repayment take place prior to 28 February 2025, a 20% early redemption premium shall apply.

Unsecured 10% second loan notes 2025

The Company issued 500,000 second loan notes for £500,000 on 29 July 2020. Interest is charged on the initial loan note value at 10% per annum which is rolled up and included above. A loan note holder may at any time after 28 February 2025 serve notice upon the Company requesting the redemption of all the Loan Notes, plus accrued interest, held by them. In the event of a realisation from the US Proceedings and/or the UK Proceedings exceeding £1.5m, any amount in excess of £1.5m will be used to realise a proportion of Loan Notes and accrued interest. Should a repayment take place prior to 28 February 2025, a 20% early redemption premium shall apply.

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11. Share capital and share premium

The Company has one class of ordinary shares which carry no right to fixed income. All shares are fully paid up.

	Nominal share value	Number of shares	Share capital £000's	Share premium £000's
At 1 January 2019	5p	158,406,850	7,920	17,336
New share issue 6 June 2019 ^a	5p	4,500,000	225	-
At 31 December 2019	5p	162,906,850	8,145	17,336
At 31 December 2020	5p	162,906,850	8,145	17,336

^a On 31 May 2019 the Company announced that it had conditionally raised gross proceeds of £225k. These funds were raised by way of a placing of 4,500,000 new Ordinary Shares of 5 pence ("Shares") with institutional investors at a price of 5.0 pence per Share which were issued onto the AIM market on 6 June 2019.

12. Share based payments

IFRS2 requires share based payments to be recognised at fair value. The company measures the fair value of its share based payments to employees, "share options", using the Black-Scholes valuation method at the date of grant. The share based payment expense is recognised in profit or loss over the vesting period.

All share based payments are equity settled and details of the share option activity during 2020 and 2019 are shown below.

	2020		2019	
	Number of share options	Weighted average exercise price (pence)	Number of share options	Weighted average exercise price (pence)
Outstanding at the beginning of the year	4,100,000	27	4,100,000	27
Lapsed	(300,000)	27	-	-
Outstanding at the end of the year	3,800,000	27	4,100,000	27
Exercisable	3,800,000	27	4,100,000	27

The outstanding options at 31 December 2020 had a weighted average remaining contractual life of 0.05 years (2019: 1.0 years)

The following table relates to share options outstanding and exercisable at 31 December 2020.

	Option exercise prices	
	27p	Total
No of share options	3,800,000	3,800,000
No of exercisable options	3,800,000	3,800,000

A charge to the income statement of £nil (2019: £nil) and a credit directly to equity of £nil (2019: £nil) have been made during the year in accordance with IFRS2 'Share-based payments'.

13. Financial risk management

The Company's operations are exposed to various financial risks which are managed by various policies and procedures. The main risk and their related management are discussed below:

Credit risk management

The Company's exposure to credit risk arises from its trade and other receivables and cash deposits with financial institutions.

The Company's maximum exposure to credit risk is summarised below:

	2020 £000's	2019 £000's
Trade and other receivables	2	2
Cash and cash equivalents	524	136
	526	138

Liquidity risk management

The Company is exposed to liquidity risk arising from having insufficient funds to meet the Company's future financing needs. The Company's liquidity management process includes projecting cash flows and considering the level of liquid assets available to meet future cash requirements along with monitoring statement of financial position liquidity. The Board reviews forecasts, including cash flow forecasts on a quarterly basis.

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13. Financial risk management (continued)

Maturity analysis

The table below analyses the Company's financial liabilities on a contractual gross undiscounted cash flow basis into maturity groupings based on amounts outstanding at the statement of financial position date up to the contractual maturity date.

	Within 1 year £000's	1 to 5 years £000's	Over 5 years £000's	Total £000's
2020				
Trade and other payables	90	-	-	90
Borrowings	-	1,100	-	1,100
	90	1,100	-	1,190
2019				
Trade and other payables	104	-	-	104
	104	-	-	104

Foreign exchange risk management

The Company is exposed to movements in foreign exchange rates due to any realisation of its investment in Snorkel International being denominated in foreign currencies. The carrying amount of the company's investment in Snorkel International at 31 December 2020, which is denominated in USD, is £19.1m (2019: £19.1m). During 2020, the GBP to USD exchange rate averaged 1.2841 with a low of 1.1475 and a high of 1.3652. The company has no other material assets or liabilities denominated in foreign currencies. If appropriate the Company can use currency derivative financial instruments such as foreign exchange contracts to reduce exposure. These were not used in the period.

Capital management

The Company's main objective when managing capital is to protect returns to shareholders. The Company also aims to maximise its capital structure of debt and equity so as to minimise its cost of capital. The Company manages its capital with regard to risks inherent in the business and the sector in which it operates by monitoring its net debt to capital gearing ratio on a regular basis. The Company considers its capital to include share capital, share premium, special reserve, share option reserve, merger reserve and retained earnings.

Net debt of the company (including changes in liabilities arising from financing activities)

	2020 £000's	2019 £000's
Borrowings:		
Loan notes		
Opening balance of loan notes in issue	-	-
Loan notes issued in the year – cash flows	1,000	-
Other changes including accrued interest	100	-
Total Liability in respect of loan notes in issue	1,100	-
Less: cash and cash equivalents	(524)	(136)
Net debt / (cash) at year end	576	(136)
Total Capital	18,458	19,155
Net debt to capital ratio (%)	3.1%	-

During 2020, in order to fund the legal proceedings, the Company issued some loan notes resulting in a net debt position of £576k at 31 December 2020 as opposed to a net cash position of £136k at 31 December 2019.

14. Contingencies

Authorised Guarantee Agreement

At the time of the Joint Venture between Tanfield Group Plc and Xtreme Manufacturing LLC relating to Snorkel International in October 2013, Tanfield Group Plc was the tenant of the Vigo Centre manufacturing facility from which the Snorkel division carried out its UK manufacturing operations. In order to gain permission to assign the lease to Snorkel Europe Limited, Tanfield Group Plc entered into an authorised guarantee agreement on the 25-year lease which commenced 27 June 2006.

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15. Related party transactions

Remuneration of key personnel

The remuneration of the key management personnel, which includes Directors, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors is provided in the Directors' Remuneration Report on page 8.

	2020 £000's	2019 £000's
Salaries and short term benefits including NI	81	72
Post employment benefits	2	2
	83	74

16. Retirement benefits

The Company operates a defined contribution retirement benefit plan for all qualifying employees. The total cost charged to income of £2k (2019: £2k) represents contributions payable to that scheme by the Company at rates specified in the rules of the scheme. As at 31 December 2020, contributions of £nil (2019: £nil) due in respect of the current reporting period had not been paid over to the scheme.

17. Financial instruments recognised in the statement of financial position

Assets	2020			Loans and receivables	2019	
	Amortised cost	Fair value through profit and loss	Total		Fair value through profit and loss	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Current financial assets						
Trade and other receivables	2	-	2	2	-	2
Investments	-	19,100	19,100	-	19,100	19,100
Cash and cash equivalents	524	-	524	136	-	136
Total	526	19,100	19,626	138	19,100	19,238
Liabilities	2020			Other financial liabilities	2019	
	Other financial liabilities	Held for trading	Total		Held for trading	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Current liabilities						
Trade and other payables	90	-	90	104	-	104
Borrowings	1,100	-	1,100	-	-	-
Total	1,190	-	1,190	104	-	104

Financial assets and liabilities measured at fair value are measured using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurements, as follows:-

- Level 1 – Unadjusted quoted prices in active markets for identical asset or liabilities ('quoted prices');
- Level 2 – Inputs (other than quoted prices in active markets for identical assets or liabilities) that are directly or indirectly observable for the asset or liability ('observable inputs'); or
- Level 3 – Inputs that are not based on observable market data ('unobservable inputs').

All of the company's financial assets and liabilities measured at fair value are measured using level 3 valuations in both the year ended 31 December 2020 and the year ended 31 December 2019.

The fair value investment is measured against the contractual terms of the Joint Venture with Xtreme, as detailed in the circular distributed to shareholders to fully explain the terms of the transaction – and thereby seek their authority to enter into the transaction. Further details are provided in the strategic report on pages 3 to 5 and in the critical accounting estimates and key judgements on pages 19 and 20.

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18. Investments

The tables below give brief details of the Company's investments at 31 December 2020. The Company had no operating subsidiaries as of 31 December 2020.

Investments	Principal activity	Group Interest in allotted capital & voting rights	Country of incorporation
Smith Electric Vehicles US Corp	Electric vehicle manufacture	5.76%	US
HBWP Inc	Holding Company	100.00%	US
Snorkel International Holdings LLC	Holding Company	49.00%	US
Tanfield Engineering Systems US (Inc) ^a	Powered Access	49.00%	US
Snorkel Europe Ltd ^a	Powered Access	49.00%	UK
Snorkel International Inc ^a	Powered Access	49.00%	US
Snorkel Australia Limited ^a	Powered Access	49.00%	AUS
Snorkel New Zealand Limited ^a	Powered Access	49.00%	NZ

^a The Company's interest is held indirectly through HBWP Inc, a wholly owned subsidiary, and its investment in Snorkel International Holdings LLC

19. Post balance sheet events

The Company issued further unsecured 10% second loan notes 2025 amounting to £200,000 on 25 January 2021 and £250,000 on 1 June 2021.

All remaining share options lapsed on 21 January 2021.