

PipeHawk plc

("PipeHawk" or the "Company")

Final results for the year ended 30 June 2015

Chairman's Statement

I can report that turnover for the year ended 30 June 2015 was £4.6 million (2014: £5.1million). The Group incurred a loss before taxation for the year of £753,000 (2014: loss £622,000). The loss per share was 1.52p (2014: loss per share 1.55p).

QM Systems

Trading at QM Systems during the period was below management's expectations as we witnessed a number of substantial orders being delayed during late 2014 and the early part of 2015, the net effect of these delays is clear in our trading figures. However, since the General Election in May, order intake has significantly increased and the Directors believe that this year of political uncertainty will be a one-off glitch in the progress of QM Systems.

Since the year-end, order intake has been greatly improved and the company is now quoting higher monthly values in terms of potential sales than ever before. The Directors are encouraged that, combined with our high win ratio this should lead to a quick return to growth and profitability during the 2015/16 FY. In May 2015 we reported that we had secured a £650,000 contract with Hadley Industries, the first of three phases; I can report that we are on schedule to deliver this by the end of December, with install and commissioning on plan for the early part of 2016.

The period under review has seen a number of new clients added to QM Systems growing portfolio, which coupled with excellent client retention provides a strong platform for future growth in terms of revenue and profitability.

Technology Division

In the period under review, PipeHawk has continued to develop both technically and commercially the e-Safe, e-Spade Lite and e-Spott product families. Sales for the e-Safe/e-Spade lite range of products are continuing to develop, however with our limited resource it is difficult to open avenues as quickly as we would like into new markets.

As a result, during the 2014/15 financial year we launched a bid to secure funding from the H2020 EU Horizon funding scheme to help us in developing our marketing strategy and sales channels into all global markets and specifically International markets. I am pleased to say that we have been successful in securing the first instalment of this funding of €50,000 which allows us to build a strong international business plan which is intended to be submitted to help secure a much larger fund to develop our market and sales channels.

Adien

Adien traded in tough conditions during the year when a number of framework agreements came up for renewal and order intake prior to them being renewed was reduced. Since the year end trading has seen a 25 per cent. increase in revenue and a return to profitability.

SUMO

SUMO's strong presence in the geophysical ground probing radar sector continues to drive their growth and profitability. Turnover for the year ended 30 June 2015 was £4,464,000 (2014: £4,256,000) and the operating profit for the year was £41,000 (2014: profit £100,000). Sumo made a further exceptional write-off of irrecoverable marketing spend in the year relating to prior years of £177,000 as a result of bringing most franchisees in-house. Sumo is accounted for in the group

financial statements as a joint venture - for this reason the turnover of SUMO has not been accounted for in the group financial statements.

Related party transactions

My letter of support dated 29th October 2014 was renewed on 7th December 2015 for a further year. Loans, other than those covered by the CULS agreement, are unsecured and accrue interest at an annual rate of Bank of England base rate plus 2.15 per cent.

In addition to the loans I have provided to the Company in previous years, my fellow directors and I have deferred a certain proportion of our fees and the interest due to us until the Company is in a suitably strong position to make the full payments. Further fees and interest, amounting to £98,000, were deferred in the year ended 30 June 2015. At 30 June 2015, these deferred fees and interest amounted to approximately £1.52 million in total, all of which have been recognised as a liability in the Company's accounts.

Strategy & Outlook

The PipeHawk Group remains committed to creating sustainable earnings-based growth and focusing on the expansion of its business with forward-looking products and services. PipeHawk acts responsibly towards its shareholders, business partners, employees, society and the environment – in each of its business areas. PipeHawk is committed to technologies and products that unite the goals of customer value and sustainable development. I remain optimistic in my outlook for the Group.

Gordon Watt
Chairman
7th December 2015

Enquiries:

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Consolidated Statement of Comprehensive Income

For the year ended 30 June 2015

	Note	30 June 2015 £'000	30 June 2014 £'000
Revenue	2	4,628	5,111
Staff costs		(2,575)	(2,416)
Operating costs		<u>(2,617)</u>	<u>(3,196)</u>
Operating loss		(564)	(501)
Share of post-tax (losses) / profits of equity accounted joint venture	5	<u>(39)</u>	<u>28</u>
Loss before interest and taxation		(603)	(473)
Finance costs		<u>(150)</u>	<u>(149)</u>
Loss before taxation		(753)	(622)
Taxation	3	<u>250</u>	<u>99</u>
Loss for the year attributable to equity holders of the parent		<u><u>(503)</u></u>	<u><u>(523)</u></u>
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive loss for the year attributable to equity holders of the parent		<u><u>(503)</u></u>	<u><u>(523)</u></u>
Loss per share (pence) – basic	4	(1.52)	(1.55)
Loss per share (pence) – diluted	4	(1.52)	(1.55)

**Consolidated Statement of Financial Position
at 30 June 2015**

	Note	30 June 2015 £'000	30 June 2014 £'000
Assets			
Non-current assets			
Property, plant and equipment		235	240
Goodwill		1,061	1,061
Investment in joint venture	5	47	86
		<u>1,343</u>	<u>1,387</u>
Current assets			
Inventories		86	110
Current tax assets		127	65
Trade and other receivables	6	1,276	1,085
Cash and cash equivalents		43	120
		<u>1,532</u>	<u>1,380</u>
Total assets		<u>2,875</u>	<u>2,767</u>
Equity and liabilities			
Equity			
Share capital		330	330
Share premium		5,151	5,151
Retained earnings		(8,483)	(7,980)
		<u>(3,002)</u>	<u>(2,499)</u>
Non-current liabilities			
Borrowings	7	2,242	2,414
Trade and other payables	8	1,848	1,683
		<u>4,090</u>	<u>4,097</u>
Current liabilities			
Trade and other payables	8	1,569	1,142
Borrowings	9	218	27
		<u>1,787</u>	<u>1,169</u>
Total equity and liabilities		<u>2,875</u>	<u>2,767</u>

**Parent Company Statement of Financial Position
at 30 June 2015**

Assets	Note	30 June 2015 £'000	<i>30 June 2014 £'000</i>
Non-current assets			
Investment in subsidiaries		1,197	1,197
Investment in joint venture		198	198
		<u>1,395</u>	<u>1,395</u>
Current assets			
Inventories		72	86
Current tax assets		50	65
Trade and other receivables	6	680	620
Cash and cash equivalents		9	8
		<u>811</u>	<u>779</u>
Total assets		<u>2,206</u>	<u>2,174</u>
Equity and liabilities			
Equity			
Share capital		330	330
Share premium		5,151	5,151
Retained earnings		(8,773)	(8,498)
		<u>(3,292)</u>	<u>(3,017)</u>
Non-current liabilities			
Borrowings	7	2,225	2,385
Trade and other payables	8	3,142	2,644
		<u>5,367</u>	<u>5,029</u>
Current liabilities			
Trade and other payables	8	131	162
		<u>131</u>	<u>162</u>
Total equity and liabilities		<u>2,206</u>	<u>2,174</u>

Consolidated Statement of Cash Flow

For the year ended 30 June 2015

	Note	30 June 2015 £'000	30 June 2014 £'000
Cash flows from operating activities			
Loss from operations		(564)	(501)
Adjustments for:			
Depreciation		<u>138</u>	<u>98</u>
		(426)	(403)
Decrease in inventories		24	-
(Increase)/decrease in receivables		(198)	332
Increase in liabilities		<u>454</u>	<u>-</u>
Cash used in operations		(146)	(71)
Interest paid		(12)	(9)
Corporation tax received		<u>195</u>	<u>54</u>
Net cash from operating activities		<u>37</u>	<u>(26)</u>
Cash flows from investing activities			
Purchase of plant and equipment		(133)	(133)
Net cash used in investing activities		<u>(133)</u>	<u>(133)</u>
Cash flows from financing activities			
Proceeds from borrowings		221	23
Repayment of loan		(160)	(100)
Repayment of finance leases		<u>(42)</u>	<u>(27)</u>
Net cash generated from/(used in) financing activities		<u>19</u>	<u>(104)</u>
Net decrease in cash and cash equivalents		(77)	(263)
Cash and cash equivalents at beginning of year		<u>120</u>	<u>383</u>
Cash and cash equivalents at end of year		<u><u>43</u></u>	<u><u>120</u></u>

Statement of Changes in Equity

For the year ended 30 June 2015

Consolidated	Share capital	Share premium account	Retained earnings	Total
	£'000	£'000	£'000	£'000
As at 1 July 2013	330	5,151	(7,457)	(1,976)
Loss for the year	-	-	(523)	(523)
Other comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income	-	-	(523)	(523)
As 30 June 2014	<u>330</u>	<u>5,151</u>	<u>(7,980)</u>	<u>(2,499)</u>
Loss for the year	-	-	(503)	(503)
Other comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income	-	-	(503)	(503)
As 30 June 2015	<u>330</u>	<u>5,151</u>	<u>(8,483)</u>	<u>(3,002)</u>

Summary of Significant Accounting Policies

1. Basis of preparation

The financial statements have been prepared in accordance with international financial reporting standards as adopted by the EU and under the historical cost convention. The principal accounting policies are set out below.

A number of new standards and amendments to standards and interpretations have been issued but are not yet effective and in some cases have not yet been adopted by the EU.

The directors do not expect that the adoption of these standards will have a material impact on the financial statements of the Group in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments and IFRS 15 may have an impact on revenue recognition and related disclosures. At this point it is not practicable for the directors to provide a reasonable estimate of the effect of IFRS 9 and IFRS 15 as their detailed review of these standards is still ongoing.

Basis of preparation – Going concern

The directors have reviewed the Group's funding requirements for the next twelve months which show further positive anticipated cash flow generation, prior to any repayment of loans from the Executive Chairman. The directors therefore have a reasonable expectation that the entity has adequate resources to continue in its operational exercises for the foreseeable future. The directors have furthermore obtained a renewed pledge from GG Watt to provide ongoing financial support for a period of at least twelve months from the approval date of the group statement of financial position. It is on this basis that the directors consider it appropriate to adopt the going concern basis of preparation within these financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

2. Segmental analysis

	2015 £'000	2014 £'000
Turnover by geographical market		
United Kingdom	4,529	5,058
Europe	9	-
Other	90	53
	<u>4,628</u>	<u>5,111</u>

The group operates out of one geographical location being the UK. Accordingly the primary segmental disclosure is based on activity. Per IFRS 8 operating segments are based on internal reports about components of the group, which are regularly reviewed and used by Chief Operating Decision Maker ("CODM") for strategic decision making and resource allocation, in order to allocate resources to the segment and to assess its performance. The Group's reportable operating segments are as follows:

- Utility detection and mapping services

- Development, assembly and sale of GPR equipment
- Test system solutions

The CODM monitors the operating results of each segment for the purpose of performance assessments and making decisions on resource allocation. Performance is based on external and internal revenue generations and profit before tax, which the CODM believes are the most relevant in evaluating the results relative to other entities in the industry. Segment assets and liabilities are presented inclusive of inter segment balances, as inter-segment pricing.

In utility detection and mapping services one customer accounted for 12% of revenue in 2015 (£151,000) and 35% in 2014. In development, assembly and sale of GPR equipment one customer accounted for 24% of revenue in 2015 (£50,000) (24% in 2014). In automation and test system solutions one customer accounted for more than 8% (£268,000) of revenue (2014 one customers accounted for 21%).

Information regarding each of the operations of each reportable segments is included below, all non-current assets owned by the group are held in the UK.

	Utility detection and mapping services £'000	Development, assembly and sale of GPR equipment £'000	Automation and test system solutions £'000	Total £'000
Year ended 30 June 2015				
Total segmental revenue	1,295	210	3,123	4,628
Segmental result	(91)	(232)	(241)	(564)
Finance costs	(8)	(138)	(4)	(150)
Share of operating loss in joint venture				(39)
Loss before taxation				<u>(753)</u>
Segment assets	1,059	242	1,574	2,875
Segment liabilities	833	3,822	1,222	5,877
Non-current asset additions	85	-	49	134
Depreciation and amortisation	<u>80</u>	<u>-</u>	<u>58</u>	<u>138</u>

	Utility detection and mapping services	Development, assembly and sale of GPR equipment	Test system solutions	Total
Year ended 30 June 2014				
Total segmental revenue	1,466	211	3,434	5,111
Segmental result	33	(467)	(67)	(501)
Finance costs	(5)	(143)	(1)	(149)
Share of operating loss in				28

joint venture				
Loss before taxation				<u>622</u>
Segment assets	1,025	185	1,557	2,767
Segment liabilities	700	3,481	1,085	5,266
Non-current asset additions	71	-	62	133
Depreciation and amortisation	<u>63</u>	<u>-</u>	<u>35</u>	<u>98</u>

The majority of the Group's revenue is earned via the rendering of services.

3. Taxation

	2015	<i>2014</i>
	£'000	<i>£'000</i>
United Kingdom Corporation Tax		
Current taxation	(204)	(108)
Adjustments in respect of prior years	<u>(46)</u>	<u>9</u>
	(250)	(99)
Deferred taxation	<u>-</u>	<u>-</u>
Tax on loss	<u>(250)</u>	<u>(99)</u>
Current tax reconciliation		
	2015	<i>2014</i>
	£'000	<i>£'000</i>
Taxable (loss) for the year	<u>(713)</u>	<u>(650)</u>
Theoretical tax at UK corporation tax rate 20.75% (2014: 22.5%)	(148)	(146)
Effects of:		
- R&D tax credit adjustments	(108)	(10)
- other expenditure that is not tax deductible	6	4
- adjustments in respect of prior years	-	9
- accelerated capital allowances	5	(7)
- losses carried forward	21	12
- short term timing differences	<u>20</u>	<u>39</u>
Total income tax expense	<u>(204)</u>	<u>(99)</u>

The Group has tax losses amounting to approximately £2,175,599 (2014: £1,974,306), available for carry forward to set off against future trading profits. No deferred tax assets have been recognised in these financial statements due to the uncertainty regarding future taxable profits.

4. Loss per share

Group Basic

This has been calculated on a loss of £503,000 (2014: loss £523,000) and the number of shares used was 33,020,515 (2014: 33,020,515) being the weighted average number of shares in issue during the year.

Diluted

This has been calculated on a loss of £503,000 (2014: loss £523,000) and the number of shares used was 67,111,718 (2014: 67,945,718) being the diluted weighted average number

of shares in issue during the year. The potential ordinary shares included in the weighted average number of shares are anti-dilutive and therefore diluted earnings per share is equal to basic earnings per share.

5. Investment in Joint Venture

Group	Investment in shares £'000
Cost:	
At 1 July 2014 & 30 June 2015	198
Share of losses	
At 1 July 2014	112
Share of losses for the year	39
	151
At 30 June 2015	151
Net investment	
At 30 June 2015	47
	86
At 30 June 2014	86

Group	Investment in shares £'000
Cost:	
At 1 July 2013 & 30 June 2014	198
Share of losses	
At 1 July 2013	140
Share of losses for the year	(28)
	112
At 30 June 2014	112
Net investment	
At 30 June 2014	86
	58
At 30 June 2013	58

The investment in joint venture relates to a 28.4% shareholding in the ordinary share capital of SUMO Limited. SUMO Limited is engaged in the development of a GPR franchise operation and has a year end of 31 December. For the purpose of preparing this consolidation, financial information has been prepared for the year ended 30 June 2015. SUMO Limited's principal place of business is Havant, Hampshire.

Summarised financial information in respect of the Group's joint venture is set out below:

	30 June 2015	<i>30 June 2014</i>
	£'000	£'000
Cash	34	68
Current assets	1,668	1,440
Non-current assets	853	918

Total assets	2,555	2,426
Total liabilities (all current)	2,390	2,124
Net assets	165	301
Group's share of net assets of joint venture	47	86

	Year ended 30 June 2015 £'000	<i>Year ended 30 June 2014 £'000</i>
Total revenue	4,464	4,256
Interest expense	95	96
Depreciation	139	100
Total (loss) / profit for the period	(136)	100
Group's share of (loss) / profit of joint venture	(39)	28

6. Trade and other receivables

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Current				
Trade receivables	1,199	1,039	-	2
Amounts owed by group undertakings	-	-	670	607
Other receivables	41	10	8	8
Prepayments and accrued income	36	36	2	3
	<u>1,276</u>	<u>1,085</u>	<u>680</u>	<u>620</u>

7. Non-current liabilities: Borrowings

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Borrowings (note 18)	2,242	2,414	2,225	2,385
	<u>2,242</u>	<u>2,414</u>	<u>2,225</u>	<u>2,385</u>

8. Trade and other payables

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Current				
Trade payables	404	719	56	66
Other taxation and social security	336	148	-	-
Payments received on account	536	48	-	24
Accruals	293	227	75	72
	<u>1,569</u>	<u>1,142</u>	<u>131</u>	<u>162</u>
	Group		Company	

Non-current	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Trade payables	299	233	299	233
Amounts owed to group undertakings	-	-	1,294	961
Accruals	1,549	1,450	1,549	1,450
	<u>1,848</u>	<u>1,683</u>	<u>3,142</u>	<u>2,644</u>

Included within non-current accruals above are the following amounts owing to directors relating to unpaid fees and accrued interest;

	2015	2014
G G Watt	£1,439,709	£1,288,106
R G Tallentire	£83,034	£128,276
R R MacDonnell	£2,000	£12,000

No interest is accruing on these balances and the directors are required to give 366 days' notice to recall these balances.

9. Borrowing Analysis

	Group		Company	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Due within one year				
Bank and other loans	173	-	-	-
Obligations under finance lease agreements	45	27	-	-
	<u>218</u>	<u>27</u>	<u>-</u>	<u>-</u>
Due after more than one year				
Obligations under finance lease agreements	17	29	-	-
Directors' loans	2,225	2,385	2,225	2,385
	<u>2,242</u>	<u>2,414</u>	<u>2,225</u>	<u>2,385</u>
Repayable				
Due within 1 year	218	27	-	-
Over 1 year but less than 2 years	1,238	2,402	2,225	2,385
Over 2 years but less than 5 years	1,004	12	-	-
	<u>2,460</u>	<u>2,441</u>	<u>2,225</u>	<u>2,385</u>

Finance lease agreements with Close Motor Finance are at a rate of 4.5% over base rate. The future minimum lease payments under finance lease agreements at the year end date was £61,863 (2013: £55,824).

Included within bank and other loans due within one year is an overdraft facility of £73,000.

A working capital loan of £100,000 was given by Mirrasand Partnership from a trust settled by Mr G Watt. The loan attracts interest at 10% per annum and is repayable in January 2016. The loan was guaranteed personally by Mr G Watt.

The director's loan due in more than one year is a loan of £1,225,000 from G G Watt. Directors' loans attract interest at 2.15% over Bank of England base rate. During the year to 31 June 2015 £160,000 was repaid.

On 13th August 2010 the Company issued £1 million of Convertible Unsecured Loan Stock 2014 ("CULS") to G G Watt, the Chairman of the Company. The CULS have been issued to replace loans made by G G Watt to the Company amounting to £1 million and has been recognised in non-current liabilities of £2,225,000. The CULS were renewed on 13th December 2014.

The principal terms of the CULS are as follows:

- The CULS may be converted at the option of Gordon Watt at a price of 5p per share at any time prior to 13th December 2018;
- Interest is payable at a rate of 10 per cent per annum on the principal amount outstanding until converted, prepaid or repaid, calculated and compounded on each anniversary of the issue of the CULS. On conversion of any CULS, any unpaid interest shall be paid within 20 days of such conversion;
- The CULS are repayable, together with accrued interest on 13th December 2018 ("the Repayment Date").

On the basis of materiality no equity element of the convertible loan stock has been recognised in these financial statements.

10. Copies of the Report and Accounts

Copies of the Report and Accounts will be posted to shareholders tomorrow, and will be available from the Company's registered office, Manor Park Industrial Estate, Wyndham Street, Aldershot, Hampshire GU12 4NZ and from the Company's website www.pipehawk.com.

11. Notice of Shareholder presentation and Annual General Meeting

Notice is hereby given that a shareholder presentation of PipeHawk plc will be held at the offices of Sanlam Securities UK Limited, 10 King William Street, London, EC4N 7TW at 14.30 on Tuesday 8 December 2015.

Notice is also given that the annual general meeting (the "AGM") of PipeHawk plc will be held at the offices of Sanlam Securities UK Limited, 10 King William Street, London, EC4N 7TW at 11.30 on 30 December 2015.