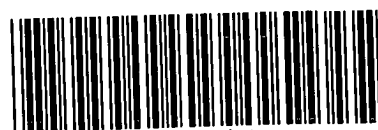


**Company Registration Number 05494985**

**XMOS LIMITED**

**Annual report and consolidated financial statements  
for the year ended 31 December 2021**

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**XMOS LIMITED**

**ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 2021**

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**XMOS LIMITED**

**DIRECTORS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

C W A Cotton  
A G Duncan  
W B Elmore  
G Engel (appointed 23 September 2021)  
H M Hauser  
H Jiang  
M D Lippett  
H K Mehta  
J Meissner  
A Urschitz  
Y Valler (resigned 23 September 2021)

**SECRETARY**

OHS Secretaries Limited

**REGISTERED OFFICE**

107 Cheapside  
London  
EC2V 6DN

**AUDITOR**

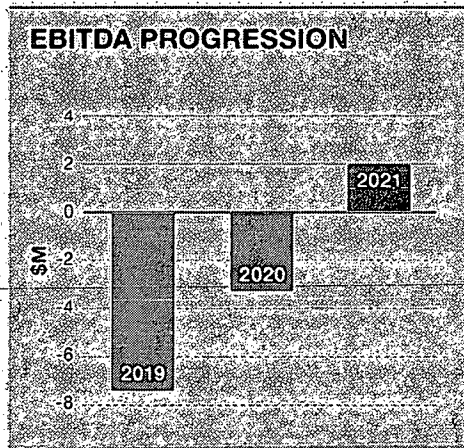
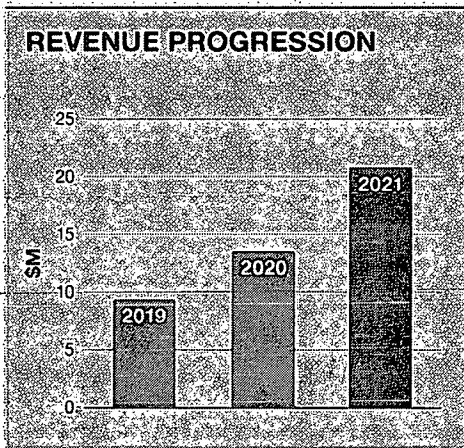
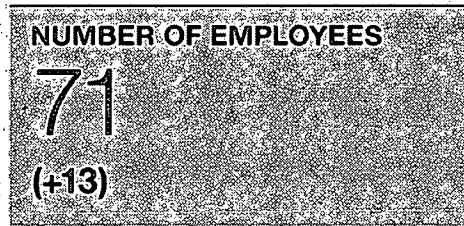
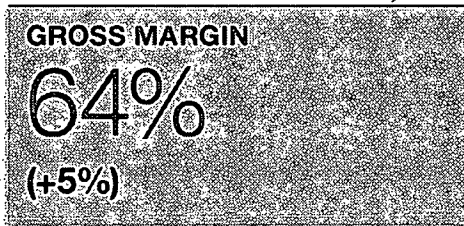
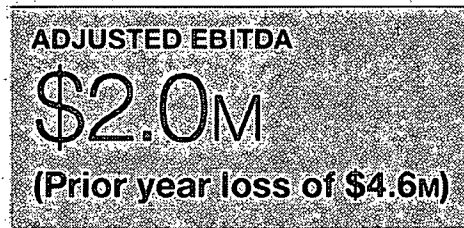
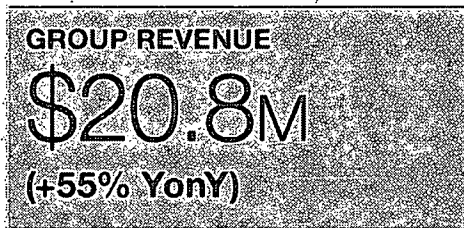
BDO LLP  
Bridgewater House  
Counterslip  
Bristol  
BS1 6BX

**SOLICITORS**

Orrick, Herrington & Sutcliffe LLP  
107 Cheapside  
London  
EC2V 6DN



## 2021 HEADLINES



## **XMOS LIMITED**

### **About XMOS**

XMOS is a deep tech company at the leading edge of the intelligent internet of things (IoT). The company's uniquely flexible xcore® processors put intelligence, connectivity, and enhanced computation at the core of smart products. Our processes allow customers to build entire system-on-chip solutions purely in software. As such, we are able to disrupt the economics and timescales of semiconductor development, which is of critical importance in fragmented markets like the IoT.

XMOS exploits a fabless semiconductor model, shipping millions of chips a year across a broad range of applications, from Smart TVs to robotic arms - each one of these is the same chip, with a different software load. Our extensive list of end customers and partners include Focusrite, Amazon, Harman (Samsung), Lenovo and Microsoft.

### **CEO'S REPORT**

I am pleased to report that 2021 marked a year of significant growth for XMOS with revenues up by \$7.4M to \$20.8M, the second consecutive year of top-line growth in excess of 40%. 2021 saw the business achieve its first year of profitability with an adjusted EBITDA of \$2.0M representing a year-on-year positive movement of \$6.5M.

In a year of many successes, a few of the highlights in particular demonstrate how XMOS is evolving strongly:

#### **Xcore.ai**

During 2021, we shipped, for the first time in volume, products built on our 3<sup>rd</sup> generation xCORE device, Xcore.ai. This device adds a fourth dimension of processing flexibility to our portfolio, artificial intelligence. Our customers can now integrate AI alongside application, digital signal and IO processing to build entire intelligent IoT systems at a fraction of the cost and in a fraction of the time when compared to other offers in the market. They can do so by using software alone which means one platform can be used to effectively service many different markets and user cases.

#### **R&D Activities**

During the year we have strengthened our R&D teams such that 64% of our employees now directly work to build great new products for our customers:

This activity included developing new Audio, Voice and Imaging products for xcore.ai which customers can either take "off the shelf" or as a platform offering within which they can integrate their own intellectual property.

Our Silicon team also completed the research phase of the 4<sup>th</sup> generation xCORE device and moved into the development stage which is expected to lead to a physical tape out of the first chip in 2023.

#### **Supply Chain**

2021 will be remembered as a break-through moment for semiconductor chips. Mainstream society, realised, perhaps for the first time, how essential semiconductor chips are to the technological products that we use, whether that be a new car, a musical device or a kitchen appliance. This has led to calls for greater government investment in semiconductor manufacturing and more robust supply chains.

Extended lead times became the new norm as demand for semiconductors far exceeded supply. Our operations teams worked tirelessly and pro-actively with our supply chain partners to secure 137% of our initial wafer allocated which was an essential factor in achieving our record results.

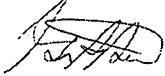
#### **Outlook**

At the time of writing I am mindful of the macro-economic impacts of the war in Ukraine and the subsequent increases to the cost of living. XMOS is not immune to these pressures and we have already seen some cost increases across certain areas of the business. Alongside this, as a manufacturer of semiconductors, we are also subject to the semiconductor cycle and believe that we are now entering the down phase of the cycle, which typically lasts for approximately twelve months. Whilst we expect to see some reduction in our rate of growth in 2022, the combination of our strong sales pipeline and exciting product portfolio gives us confidence that XMOS will continue to grow revenue year on year and will be well positioned to exit the downturn in a stronger position.

**XMOS LIMITED**

**CEO'S REPORT (continued)**

These achievements are only possible because of the hard work and excellence of our worldwide staff team which brings a daily focus to finding innovative solutions to solve difficult problems and building strong and flexible products for our customers. Thank you!



Mark Lippett  
CEO

## **XMOS LIMITED**

### **STRATEGIC REPORT**

The directors, in preparing this Strategic report, have complied with s414C of the Companies Act 2006.

This Strategic report has been prepared for the group as a whole and therefore gives greater emphasis to those matters which are significant to XMOS Limited (the Company) and its subsidiary undertakings (the Group).

#### **Review of the business**

The results for the year are set out on page 14.

The Group's principal activities during the year continued to be the design, sale and marketing of semiconductor and related products. Its products make it easier, faster and more cost effective, to design and build complex embedded systems through the use of its xCORE technology. The Group sees continued revenue growth opportunities in 2022 and beyond across multiple sectors including, but not limited to, voice interfaces, conferencing, Low frame rate imaging and the consumer and professional audio markets.

During 2021, the Group has continued to enhance its voice interface and conferencing product offering for commercial and consumer applications and has now released these products on the xcore.ai silicon platform. The year saw the volume release into production of the third generation of the xCORE product family with the first sales made in the final quarter of the year. This device deliver significant artificial intelligence and digital signal processing capability at a market leading price per compute.

Significant investment is now being made in the development of the fourth generation of the xCORE product family (Quake). Quake builds on the unique xCORE flexibility with the development of a low power generation. The Group intends to continue this research and development focus.

Total turnover increased by 55% from the previous year to \$20.8M. This excellent growth was driven by existing customer design wins progressing to volume production and new design wins being won in the year. The gross profit margin strengthened to 64% (2020: 59%) as a result of product mix.

The Company has achieved an Operating loss of \$3.3M (2020: Operating loss \$5.2M). This represents a significant year on year improvement when we consider an Adjusted EBITDA result (operating loss add back depreciation, amortisation and share based payments charge) the Group achieved a \$2.0M profit (2020: Loss of \$4.6M).

#### **Adoption of International Financial Reporting Standards (IFRS)**

During 2021, the directors decided to change the accounting framework of the Group such that the financial statements, and underlying financial records, would be prepared in accordance with IFRS. The date of transition was 1 January 2020 and accordingly, the Group and Company comparative figures in the Consolidated income statement, Balance sheets and Equity statements and notes have been restated to reflect this change. Full details are provided in Note 2.

## XMOS LIMITED

### STRATEGIC REPORT (continued)

#### Key performance indicators

The key financial and other performance indicators during the year were as follows:

|  | 2021        | 2020         | 2019         |
|--|-------------|--------------|--------------|
| <b>\$M unless otherwise stated</b>       |             |              |              |
| Revenue                                  | 20.8        | 13.4         | 9.3          |
| Gross margin percentage (%)              | 63.8%       | 59.1%        | 60.3%        |
| Operating loss                           | (3.3)       | (5.2)        | (9.2)        |
| Add back:                                |             |              |              |
| Depreciation                             | 0.4         | 0.2          | 0.4          |
| Amortisation                             | 0.6         | 0.3          | 0.6          |
| Share based payments charge              | 4.3         | 0.1          | 0.7          |
| <b>Adjusted EBITDA</b>                   | <b>2.0</b>  | <b>(4.6)</b> | <b>(7.5)</b> |
| <b>Cash balance as at 31 December</b>    | <b>12.6</b> | <b>12.1</b>  | <b>9.8</b>   |
| <b>Average number of employees (No.)</b> | <b>71</b>   | <b>63</b>    | <b>68</b>    |

#### Principal risks and uncertainties

The following, while not exhaustive, are considered the principal risks and uncertainties facing the Company and the Group, all of which are actively monitored and managed to the extent that this is possible and practical:

##### ***Reliance on third-party design cycles and end customer product success***

Demand for the Group's products depends on its products being designed into end customers' products and in turn achieving market acceptance. These factors make it difficult to forecast future sales, quarterly turnover and stock requirements.

##### ***Reliance on independent foundries and suppliers for the manufacture of all products***

Manufacturing problems at the Group's foundry or a supply constraint at any of its key suppliers could cause issues either with lead times or the cost of production. Production and assembly cost increases or shortages due to a supplier suspending operations, for example as a result of a natural disaster, or where overall market demand exceeds available chip supply. This scenario could adversely affect gross margins or the ability to meet customer demands.

##### ***Dependence on distributors to complete order fulfilment***

All products are sold through third-party distributors and so a material default, adverse change in a relationship or other performance failure could result in the business and financial results suffering. The financial health of distributors is also crucial to the credit risk in trade receivables.

##### ***Reductions in the average selling prices of products could have a negative impact on gross margins***

The Group seeks to offset any decrease in selling prices through yield improvements, manufacturing cost reductions and increased unit sales as well as continuing to develop higher value products; however, there is no guarantee that a reduction in average selling price would not cause a decline in turnover and have a negative impact on gross margins.

##### ***Product success depends on both own and third-party IP***

The Group relies on patent and trademark laws to protect its IP and cannot guarantee that such IP rights can be successfully asserted in the future or will not be invalidated, violated, circumvented or challenged. Furthermore, the use of third-party IP in the Group's products depends on its ongoing reliability.

**XMOS LIMITED**

**STRATEGIC REPORT (continued)**

***Competition for product design wins, manufacturing capacity and key personnel***

The Group operates in an industry that is intensely competitive and characterised by companies that are much larger and better resourced. If the Group were to be unsuccessful in competing for customer designs, manufacturing capacity or key employees then the business and its financial condition could be harmed.

***Ability to raise future funding in order to secure long-term growth***

While cost control remains imperative, in order to continue investment in the future product roadmap, it is likely that additional external funding will be required. The ability to close investment and the terms on which this is secured could have a direct effect on the Group's financial health in the future.

***Brexit***

As the Group's main customers and suppliers are predominantly outside the UK, with only very limited physical shipments coming into or out of the UK, the directors do not believe that Brexit is having or will have a significant direct effect on the Group's business.

***Covid-19***

Covid-19 has impacted all employees in all geographical locations, starting in China and moving to Western Europe and the US from March 2020 onwards. Employees have adopted a hybrid working arrangement splitting time between home and a company office. This is expected to continue.

Approved by the Board and signed on its behalf by:



**M Lippett**  
Director  
29 September 2022

## **XMOS LIMITED**

### **DIRECTORS' REPORT**

The directors present their annual report on the affairs of the Company and the Group, together with the audited financial statements and auditor's report, for the year ended 31 December 2021.

#### **Future developments**

Details of future developments can be found in the CEO's Report on page 3 and form part of this report.

#### **Research and development**

The description of research and development activities required by the Companies Act 2006 section 416(4) to be disclosed in the Directors' report has been included in the review of business section of the Strategic report, as the directors consider this to be of strategic importance to the Company.

#### **Branches outside the UK**

The Company has branches, as defined in section 1046(3) of the Companies Act 2006, outside the UK in Germany and Taiwan.

#### **Financial risk management objectives and policies**

The Group's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. The Group's principal financial assets are bank balances and cash, trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties. The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Interest-bearing assets and liabilities are held primarily at fixed rates to ensure better certainty of cash flows. In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations, the Group primarily uses equity finance supplemented by borrowings as appropriate.

#### **Going concern**

These financial statements have been prepared on a going concern basis. The Group had a year-end cash balance of \$12,614,404. In addition, the Group has access to additional funds of up to \$4,000,000 in addition to the drawn amount as at 31 December 2021.

The directors have carefully considered the impact of macro-economic factors including the COVID-19 pandemic and the global supply shortage in the semi-conductor industry on the Group's revenue forecasts. This careful analysis and scenario planning mean that the directors have a reasonable expectation that the Group and Company has adequate resources to meet their financial obligations as they fall due and to continue in operational existence for the foreseeable future. It is therefore appropriate to adopt the going concern basis in preparing the annual financial statements.

#### **Results and dividends**

The directors do not propose the payment of a final dividend (2020: \$nil). Details of the results for the year can be found in the Strategic report.

#### **Directors**

A list of the directors of the Company, who served throughout the year, unless otherwise stated, is shown on page 1.

#### **Directors' indemnities**

The Company has made qualifying third-party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

**XMOS LIMITED**

**DIRECTORS' REPORT (continued)**

**Auditor**

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006. A resolution to reappoint BDO LLP will be proposed at the forthcoming Annual General Meeting.

Approved by the Board and signed on its behalf by:



**M Lippett**  
Director  
29 September 2022

## **XMOS LIMITED**

### **DIRECTORS' RESPONSIBILITIES STATEMENT**

The directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with UK adopted International Accounting Standards. 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 the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Adopted International Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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.

## **XMOS LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF XMOS LIMITED**

#### **Opinion on the financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted International Accounting Standards;
- The Company financial statements have been properly prepared in accordance with UK adopted International Accounting Standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of XMOS Limited ("the Company") and its subsidiaries ("the Group") for the year ended 31 December 2021 which comprise the Consolidated income statement, the Consolidated balance sheet, the Company balance sheet, the Consolidated statement of changes in equity, the Company statement of changes in equity, the Consolidated statement of cash flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted International Accounting Standards.

#### **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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We remain independent of the Group and 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

#### **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.

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 Group's and 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.

#### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the Annual report and consolidated financial statements, other than the financial statements and our Auditor's report thereon. 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 audit or otherwise appears to

## **XMOS LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF XMOS LIMITED (CONTINUED)**

#### **Other information (continued)**

be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is 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.

#### **Other Companies Act 2006 reporting**

In our opinion, based on the work undertaken in the course of the audit:

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

In the light of the knowledge and understanding of the Group and 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 by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company 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.

#### **Responsibilities of directors**

As explained more fully in the Directors' responsibilities statement, 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 Group's and 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 Group or 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.

## **XMOS LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF XMOS LIMITED (CONTINUED)**

#### **Auditor's responsibilities for the audit of the financial statements (continued)**

##### *Extent to which the audit was capable of detecting irregularities, including fraud*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are the Companies Act 2006, and the Corporation Tax Act 2010. We identified these areas of laws and regulations as those that could reasonably be expected to have a material effect on the financial statements.

We assessed compliance with these laws and regulations through enquiry with management and the Audit Committee, review of reporting to directors with respect to compliance with laws and regulations and review of board meeting minutes.

We assessed the susceptibility of the financial statements to material misstatement, including how fraud might occur. In addressing the risk of fraud including the risk of fraud in revenue recognition and management override of controls, we have performed journals testing based on a set of fraud risk criteria and tested to supporting documentation. We also incorporated unpredictability procedures as part of our response to the risk of management override of controls.

We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

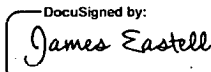
Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

<https://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.

DocuSigned by:  
  
ACDBBDEF1FD247D...

James Eastell (Senior Statutory Auditor)  
For and on behalf of BDO LLP, Statutory Auditor  
Bristol  
United Kingdom  
29 September 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

**XMOS LIMITED****CONSOLIDATED INCOME STATEMENT  
For the year ended 31 December 2021**

|   | Note | 2021<br>\$         | 2020<br>\$         |
|---|------|--------------------|--------------------|
| Revenue   | 5    | 20,804,110         | 13,421,444         |
| Cost of sales   |      | (7,535,931)        | (5,490,494)        |
| Gross profit  |      | <u>13,268,179</u>  | <u>7,930,950</u>   |
| Other income  | 7    | 239,432            | 1,116,709          |
| Administrative expenses   |      | (12,538,562)       | (14,185,846)       |
| Operating profit/ (loss) before share based payments charge   |      | <u>969,049</u>     | <u>(5,138,187)</u> |
| Share based payments charge   | 12   | (4,256,777)        | (49,333)           |
| Operating loss  |      | <u>(3,287,728)</u> | <u>(5,187,520)</u> |
| Net finance costs   | 6    | (197,739)          | (1,123,717)        |
| Loss before taxation  | 7    | <u>(3,485,467)</u> | <u>(6,311,237)</u> |
| Tax on loss   | 10   | 605,096            | 1,551,518          |
| Loss for the financial year and total comprehensive loss attributable to the equity shareholders of the Company |      | <u>(2,880,371)</u> | <u>(4,759,719)</u> |

There were no other gains or losses in the current or prior financial year.

**XMOS LIMITED**

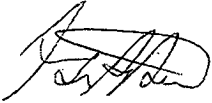
**CONSOLIDATED BALANCE SHEET**  
As at 31 December 2021

|                                      | Note | 2021<br>\$          | 2020<br>\$          |
|--------------------------------------|------|---------------------|---------------------|
| <b>Non-current assets</b>            |      |                     |                     |
| Property, plant and equipment        | 13   | 167,998             | 337,523             |
| Intangible assets                    | 14   | 5,719,053           | 5,006,726           |
| Right-of-use assets                  | 13   | 253,113             | 316,257             |
|                                      |      | <u>6,140,164</u>    | <u>5,660,506</u>    |
| <b>Current assets</b>                |      |                     |                     |
| Inventories                          | 16   | 4,577,276           | 1,843,428           |
| Trade and other receivables          | 17   | 4,727,542           | 2,360,747           |
| Current tax receivable               |      | 500,777             | 1,602,331           |
| Cash and cash equivalents            |      | 12,614,404          | 12,140,428          |
| <b>Total current assets</b>          |      | <u>22,419,999</u>   | <u>17,946,934</u>   |
| <b>Total assets</b>                  |      | <u>28,560,163</u>   | <u>23,607,440</u>   |
| <b>Non-current liabilities</b>       |      |                     |                     |
| Lease liabilities                    | 22   | (72,239)            | (137,620)           |
| Other non-current liabilities        | 19   | (13,602,588)        | (9,727,706)         |
| Provisions                           | 21   | -                   | (750,000)           |
| <b>Total non-current liabilities</b> |      | <u>(13,674,827)</u> | <u>(10,615,326)</u> |
| <b>Current liabilities</b>           |      |                     |                     |
| Trade and other payables             | 18   | (4,867,299)         | (4,669,925)         |
| Lease liabilities                    | 22   | (142,463)           | (187,166)           |
| <b>Total current liabilities</b>     |      | <u>(5,009,762)</u>  | <u>(4,857,091)</u>  |
| <b>Total liabilities</b>             |      | <u>(18,684,589)</u> | <u>(15,472,417)</u> |
| <b>Net assets</b>                    |      | <u>9,875,574</u>    | <u>8,135,023</u>    |
| <b>Capital and reserves</b>          |      |                     |                     |
| Share capital                        | 23   | 72,396              | 71,335              |
| Share premium account                | 23   | 23,935,716          | 23,562,967          |
| Merger reserve                       | 23   | 3,477,191           | 3,477,191           |
| Equity reserve                       | 23   | 1,488,761           | 1,132,316           |
| Profit and loss account              |      | (19,098,490)        | (20,108,786)        |
| <b>Shareholders' funds</b>           |      | <u>9,875,574</u>    | <u>8,135,023</u>    |

**XMOS LIMITED**

**CONSOLIDATED BALANCE SHEET (continued)**  
**As at 31 December 2021**

The financial statements of XMOS Limited, registered number 05494985, were approved by the Board of Directors and authorised for issue on 29 September 2022. They were signed on its behalf by:



**M Lippett**  
Director

**XMOS LIMITED****COMPANY BALANCE SHEET  
As at 31 December 2021**

|                                      | Note | 2021<br>\$          | 2020<br>\$          |
|--------------------------------------|------|---------------------|---------------------|
| <b>Non-current assets</b>            |      |                     |                     |
| Property, plant and equipment        | 13   | 120,557             | 248,723             |
| Intangible assets                    | 14   | 4,881,879           | 4,169,552           |
| Investments                          | 15   | 2,659,103           | 1,746,232           |
| Right-of-use assets                  | 13   | 125,320             | 250,640             |
|                                      |      | <u>7,786,859</u>    | <u>6,415,147</u>    |
| <b>Current assets</b>                |      |                     |                     |
| Inventories                          | 16   | 4,577,276           | 1,843,428           |
| Trade and other receivables          | 17   | 4,684,121           | 2,333,497           |
| Current tax receivable               |      | 501,931             | 1,605,601           |
| Cash and cash equivalents            |      | 12,526,837          | 12,041,209          |
| <b>Total current assets</b>          |      | <u>22,290,165</u>   | <u>17,823,735</u>   |
| <b>Total assets</b>                  |      | <u>30,077,024</u>   | <u>24,238,882</u>   |
| <b>Non-current liabilities</b>       |      |                     |                     |
| Lease liabilities                    | 22   | -                   | (85,419)            |
| Other non-current liabilities        | 19   | (13,602,588)        | (9,727,706)         |
| Provisions                           | 21   | -                   | (750,000)           |
| <b>Total non-current liabilities</b> |      | <u>(13,602,588)</u> | <u>(10,563,125)</u> |
| <b>Current liabilities</b>           |      |                     |                     |
| Trade and other payables             | 18   | (5,886,421)         | (5,527,882)         |
| Lease liabilities                    | 22   | (85,419)            | (161,010)           |
| <b>Total current liabilities</b>     |      | <u>(5,971,840)</u>  | <u>(5,688,892)</u>  |
| <b>Total liabilities</b>             |      | <u>(19,574,428)</u> | <u>(16,252,017)</u> |
| <b>Net assets</b>                    |      | <u>10,502,596</u>   | <u>7,986,865</u>    |
| <b>Capital and reserves</b>          |      |                     |                     |
| Share capital                        | 23   | 72,396              | 71,335              |
| Share premium account                | 23   | 23,935,716          | 23,562,967          |
| Merger reserve                       | 23   | 3,477,191           | 3,477,191           |
| Equity reserve                       | 23   | 1,488,761           | 1,132,316           |
| Profit and loss account              |      | (18,471,468)        | (20,256,944)        |
| <b>Shareholders' funds</b>           |      | <u>10,502,596</u>   | <u>7,986,865</u>    |

Company No. 05494985

**XMOS LIMITED**

**COMPANY BALANCE SHEET (continued)**  
**As at 31 December 2021**

The loss for the financial year dealt with in the financial statements of the Company was \$2,105,191 (2020: \$4,973,676).

The financial statements of XMOS Limited, registered number 05494985, were approved by the Board of Directors and authorised for issue on 29 September 2022. They were signed on its behalf by:



**M Lippett**  
Director

**XMOS LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2021**

|   | Called up<br>share<br>capital | Share<br>premium<br>account | Merger<br>reserve | Equity<br>reserve | Profit and<br>loss<br>account | Total            |
|---|-------------------------------|-----------------------------|-------------------|-------------------|-------------------------------|------------------|
|   | \$                            | \$                          | \$                | \$                | \$                            | \$               |
| <b>At 1 January 2020*</b>   | <b>67,870</b>                 | <b>23,186,236</b>           | <b>1,738,600</b>  | <b>366,110</b>    | <b>(15,398,400)</b>           | <b>9,960,416</b> |
| Loss for the financial year<br>being total comprehensive<br>expense | -                             | -                           | -                 | -                 | (4,759,719)                   | (4,759,719)      |
| Recognition of compound<br>financial instrument & warrants          | -                             | -                           | -                 | 766,206           | -                             | 766,206          |
| Issue of share capital  | 3,465                         | 376,731                     | 1,738,591         | -                 | -                             | 2,118,787        |
| Share based payments  | -                             | -                           | -                 | -                 | 49,333                        | 49,333           |
| <b>At 31 December 2020</b>  | <b>71,335</b>                 | <b>23,562,967</b>           | <b>3,477,191</b>  | <b>1,132,316</b>  | <b>(20,108,786)</b>           | <b>8,135,023</b> |
| Loss for the financial year<br>being total comprehensive<br>expense | -                             | -                           | -                 | -                 | (2,880,371)                   | (2,880,371)      |
| Reserve transfer  | -                             | 366,110                     | -                 | -                 | (366,110)                     | -                |
| Recognition of compound<br>financial instrument & warrants          | -                             | -                           | -                 | 356,445           | -                             | 356,445          |
| Issue of share capital  | 1,061                         | 6,639                       | -                 | -                 | -                             | 7,700            |
| Share based payments  | -                             | -                           | -                 | -                 | 4,256,777                     | 4,256,777        |
| <b>At 31 December 2021</b>  | <b>72,396</b>                 | <b>23,935,716</b>           | <b>3,477,191</b>  | <b>1,488,761</b>  | <b>(19,098,490)</b>           | <b>9,875,574</b> |

\* See note 2 for reconciliation to previously reported financial statements.

**XMOS LIMITED**

**COMPANY STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2021**

|   | Called up<br>share<br>capital | Share<br>premium<br>account | Merger<br>reserve | Equity<br>reserve | Profit and<br>loss<br>account | Total             |
|---|-------------------------------|-----------------------------|-------------------|-------------------|-------------------------------|-------------------|
|   | \$                            | \$                          | \$                | \$                | \$                            | \$                |
| <b>At 1 January 2020*</b>   | <b>67,870</b>                 | <b>23,186,236</b>           | <b>1,738,600</b>  | <b>366,110</b>    | <b>(15,332,601)</b>           | <b>10,026,215</b> |
| Loss for the financial year<br>being total comprehensive<br>expense | -                             | -                           | -                 | -                 | (4,973,676)                   | (4,973,676)       |
| Recognition of compound<br>financial instrument & warrants          | -                             | -                           | -                 | 766,206           | -                             | 766,206           |
| Issue of share capital  | 3,465                         | 376,731                     | 1,738,591         | -                 | -                             | 2,118,787         |
| Share based payments  | -                             | -                           | -                 | -                 | 49,333                        | 49,333            |
| <b>At 31 December 2020</b>  | <b>71,335</b>                 | <b>23,562,967</b>           | <b>3,477,191</b>  | <b>1,132,316</b>  | <b>(20,256,944)</b>           | <b>7,986,865</b>  |
| Loss for the financial year<br>being total comprehensive<br>expense | -                             | -                           | -                 | -                 | (2,105,191)                   | (2,105,191)       |
| Reserve transfer  | -                             | 366,110                     | -                 | -                 | (366,110)                     | -                 |
| Recognition of compound<br>financial instrument & warrants          | -                             | -                           | -                 | 356,445           | -                             | 356,445           |
| Issue of share capital  | 1,061                         | 6,639                       | -                 | -                 | -                             | 7,700             |
| Share based payments  | -                             | -                           | -                 | -                 | 4,256,777                     | 4,256,777         |
| <b>At 31 December 2021</b>  | <b>72,396</b>                 | <b>23,935,716</b>           | <b>3,477,191</b>  | <b>1,488,761</b>  | <b>(18,471,468)</b>           | <b>10,502,596</b> |

\* See note 2 for reconciliation to previously reported financial statements.

**XMOS LIMITED**

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the year ended 31 December 2021**

|   | <b>2021</b>        | <b>2020*</b>       |
|---|--------------------|--------------------|
|   | <b>\$</b>          | <b>\$</b>          |
| <b>Loss after tax</b>   | (2,880,371)        | (4,759,719)        |
| Adjustment for:   |                    |                    |
| Net finance costs   | 197,739            | 1,123,717          |
| Tax credit  | (605,096)          | (1,551,518)        |
| Share based payments charge                                   | 4,256,777          | 49,333             |
| Amortisation of intangible assets                             | 602,783            | 200,000            |
| Depreciation of tangible fixed assets                         | 380,641            | 387,738            |
| (Unwind)/ increase in provisions                              | (750,000)          | 185,000            |
| Unrealised foreign exchange (gains)/ losses                   | (226,420)          | 1,127,065          |
| R&D expenditure credit  | (12,986)           | (65,257)           |
| <b>Operating cash flow before movement in working capital</b> | <b>963,067</b>     | <b>(3,303,641)</b> |
| <b>(Increase)/ decrease in inventories</b>                    | <b>(2,733,848)</b> | <b>381,429</b>     |
| <b>Increase in receivables</b>                                | <b>(2,521,826)</b> | <b>(423,179)</b>   |
| <b>Increase in payables</b>                                   | <b>1,650,484</b>   | <b>941,399</b>     |
| <b>Cash outflow from operations</b>                           | <b>(2,642,123)</b> | <b>(2,403,992)</b> |
| <b>R&amp;D tax credit received</b>                            | <b>1,719,637</b>   | <b>1,254,258</b>   |
| <b>Net cash outflow from operating activities</b>             | <b>(922,486)</b>   | <b>(1,149,734)</b> |
| <b>Cash flows from investing activities</b>                   |                    |                    |
| Purchase of equipment   | (63,924)           | (174,582)          |
| Intangible fixed asset development costs                      | (1,315,110)        | (2,125,620)        |
| Interest received   | -                  | 30,402             |
| <b>Net cash outflow from investing activities</b>             | <b>(1,379,034)</b> | <b>(2,269,800)</b> |
| <b>Cash flows from financing activities</b>                   |                    |                    |
| Proceeds on issue of shares                                   | 7,700              | 400,000            |
| Cost of share issue   | -                  | (21,876)           |
| Proceeds on issue of venture debt loan                        | 4,045,718          | 6,400,000          |
| Repayment of venture debt loan                                | (607,860)          | (455,698)          |
| Payment of lease liabilities                                  | (235,448)          | (228,040)          |
| Bank interest paid  | (357,668)          | (368,296)          |
| <b>Net cash inflows from financing activities</b>             | <b>2,852,442</b>   | <b>5,726,090</b>   |
| <b>Net increase in cash and cash equivalents</b>              | <b>550,922</b>     | <b>2,306,556</b>   |
| <b>Cash and cash equivalents at beginning of year</b>         | <b>12,140,428</b>  | <b>9,752,439</b>   |
| Effect of foreign exchange rate changes                       | (76,946)           | 81,433             |
| <b>Cash and cash equivalents at end of year</b>               | <b>12,614,404</b>  | <b>12,140,428</b>  |

\* See note 2 for reconciliation to previously reported financial statements.

## **XMOS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2021**

#### **1. General information and basis of accounting**

XMOS Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the registered office is given on page 1. The nature of the Group's operations and its principal activities are set out in the Strategic Report.

The consolidated financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and in accordance with UK adopted International Accounting Standards. The financial statements have been prepared under the historic cost convention, modified to include the revaluation of freehold property and to include investment properties and certain financial instruments at fair value. The principal accounting policies adopted are set out below.

The functional currency of XMOS Limited is considered to be US Dollars because that is the currency of the primary economic environment in which the Company operates as semiconductor chips are bought and sold in US Dollars. The consolidated financial statements are also presented in US Dollars. Foreign operations are included in accordance with the policies set out below.

#### **2. First-time adoption of IFRS**

These financial statements, for the year ended 31 December 2021, are the first the Group has prepared in accordance with UK adopted International Accounting Standards. For periods up to and including the year ended 31 December 2019, the Group prepared its financial statements in accordance with Financial Reporting Standard 102 (FRS 102 or Local GAAP) issued by the Financial Reporting Council.

Accordingly, the Group has prepared financial statements that comply with UK adopted International Accounting Standards applicable as at 31 December 2021, together with the comparative period data as at and for the year ended 31 December 2020.

In preparing the financial statements, the Group's opening statement of financial position was prepared as at 1 January 2020, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its Local GAAP financial statements, including the statement of financial position as at 1 January 2020 and the financial statements as of, and for the year ended 31 December 2021.

##### **a) Exemptions applied**

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

*The Group has applied the following exemptions:*

IFRS 3 Business Combinations has not been applied to either acquisitions of subsidiaries that are considered businesses under IFRS, or acquisitions of interests in associates and joint ventures that occurred before 1 January 2020. Use of this exemption means that the Local GAAP carrying amounts of assets and liabilities, that are required to be recognised under IFRS, are their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position. The Group did not recognise any assets or liabilities that were not recognised under the Local GAAP or exclude any previously recognised amounts as a result of IFRS recognition requirements.

IFRS 1 also requires that the Local GAAP carrying amount of goodwill must be used in the opening IFRS statement of financial position (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets). In accordance with IFRS 1, the Group has tested goodwill for impairment at the date of transition to IFRS. There was no impairment recognised on goodwill at 1 January 2020.

The Group has not applied IAS 21 The Effects of Changes in Foreign Exchange Rates retrospectively to fair value adjustments and goodwill from business combinations that occurred before the date of transition to IFRS. Such fair

## **XMOS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)** **For the year ended 31 December 2021**

#### **2. First-time adoption of IFRS (continued)**

##### **a) Exemptions applied (continued)**

value adjustments and goodwill are treated as assets and liabilities of the parent rather than as assets and liabilities of the acquiree. Therefore, those assets and liabilities are already expressed in the functional currency of the parent or are non-monetary foreign currency items and no further translation differences occur.

The financial statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, the financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement and certain related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements. The financial statements have been prepared on the historical cost basis except for the remeasurement of certain financial instruments to fair value. The principal accounting policies adopted are the same as those set out in Note 3 to the financial statements.

##### **b) Estimates**

The estimates applied at 1 January 2020 and at 31 December 2020 are consistent with those made for the same dates in accordance with Local GAAP (after adjustments to reflect any differences in accounting policies).

The estimates used by the Group to present these amounts in accordance with IFRS reflect conditions at 1 January 2020, the date of transition to IFRS, and as at 31 December 2020.

##### **c) New Standards, Amendments, IFRIC Interpretations and new Relevant Disclosure Requirements Adopted by the Group**

There are no amendments to accounting standards or IFRIC interpretations that are effective for the year ended 31 December 2021 that have a material impact on the Group or Company financial statements.

##### **d) New Standards and Interpretations not yet Adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group for future reporting periods or foreseeable future transactions:

## XMOS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2021

#### 2. First-time adoption of IFRS (continued)

##### e) New Standards and Interpretations not yet Adopted

| New Standards and Interpretations not yet Adopted   | Date published | Effective date |
|---|----------------|----------------|
| Amendment to IFRS 16, 'Leases' - COVID-19 related rent concessions: Extension of the practical expedient  | March 2021     | 1 April 2021   |
| Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.<br><br>Amendments to IAS 16, 'Property, plant and equipment'.<br><br>Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets'.<br><br>Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'. | May 2020       | 1 January 2022 |
| Amendments to IAS 1, 'Presentation of financial statements', on classification of liabilities   | January 2020   | 1 January 2024 |
| Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8  | February 2021  | 1 January 2023 |
| Amendment to IAS 12 - deferred tax related to assets and liabilities arising from a single transaction  | May 2021       | 1 January 2023 |
| IFRS 17, 'Insurance contracts', as amended in December 2021   | June 2020      | 1 January 2023 |

##### f) Reconciliation to previously reported financial statements

The Group previously reported under FRS 102. The date of transition to IFRS was 1 January 2020. In accordance with IFRS the following reconciliations are presented:

- Consolidated and Company balance sheet as at 1 January 2020 showing reconciliation of equity reported in accordance with FRS102 to equity in accordance with IFRS;
- Reconciliation of Consolidated and Company equity reported in accordance with FRS102 to equity in accordance with IFRS at the end of the latest year presented in the Group's most recent annual financial statements in accordance with FRS102 (31 December 2020); and
- Consolidated income statement prepared under FRS102 reconciled to an equivalent prepared under IFRS for the year ended 31 December 2020.

**XMOS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2021**

**2. First-time adoption of IFRS (continued)**

**f) Reconciliation to previously reported financial statements (continued)**

**Consolidated income statement prepared under FRS102 reconciled to an equivalent prepared under IFRS for the year ended 31 December 2020**

|                                    | As previously reported under UK GAAP | Adjustment a)  | Adjustment b) | Adjustment c)    | Restated under IFRS |
|------------------------------------|--------------------------------------|----------------|---------------|------------------|---------------------|
|                                    | \$                                   | \$             | \$            | \$               | \$                  |
| Revenue                            | 13,787,776                           | -              | -             | (366,332)        | 13,421,444          |
| Cost of sales                      | (5,497,083)                          | -              | -             | 6,589            | (5,490,494)         |
| Gross profit                       | 8,290,693                            | -              | -             | (359,743)        | 7,930,950           |
| Other income                       | 1,116,709                            | -              | -             | -                | 1,116,709           |
| Administrative expenses            | (15,153,201)                         | 837,174        | 80,848        | -                | (14,235,179)        |
| Operating loss                     | (5,745,799)                          | 837,174        | 80,848        | (359,743)        | (5,187,520)         |
| Net finance costs                  | (1,053,953)                          | -              | (69,764)      | -                | (1,123,717)         |
| <b>Loss before taxation</b>        | <b>(6,799,752)</b>                   | <b>837,174</b> | <b>11,084</b> | <b>(359,743)</b> | <b>(6,311,237)</b>  |
| Tax on loss                        | 1,551,518                            | -              | -             | -                | 1,551,518           |
| <b>Loss for the financial year</b> | <b>(5,248,234)</b>                   | <b>837,174</b> | <b>11,084</b> | <b>(359,743)</b> | <b>(4,759,719)</b>  |

The key adjustments to previously reported equity are summarised as follows:

Adjustment a)

In line with IFRS 3, goodwill is assessed for impairment annually and does not attract amortisation. As a result, goodwill amortisation has been reversed returning the cost value of goodwill to its carrying value as at 1 January 2020. In the year ended 31 December 2020, amortisation of \$837,174 has been added back to Administrative expenses.

Adjustment b)

With the adoption of IFRS 16, the Group has reversed out of administrative expenses an operating lease charge for the year ended 31 December 2020 of \$228,041. Instead, a finance charge of \$69,764 and a depreciation charge of \$147,193 has been recognised as part of Net finance costs and Administrative costs respectively.

Adjustment c)

Under IFRS 15, sales contracts that exist between the Company and its customers have been assessed and the credit balance held within current payables has been recalculated in respect of the accounting for consignment stock arrangements. An adjustment has been made to reduce revenue in the year of \$366,332 and a cost of sales reduction of \$6,590.

**XMOS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2021**

**2. First-time adoption of IFRS (continued)**

**f) Reconciliation to previously reported financial statements (continued)**

**Reconciliation of Consolidated Equity to previously reported financial statements for the year ended 31 December 2020**

|                             | As previously reported under UK GAAP | Adjustment a)  | Adjustment b)  | Adjustment c)  | Restated under IFRS |
|-----------------------------|--------------------------------------|----------------|----------------|----------------|---------------------|
|                             | \$                                   | \$             | \$             | \$             | \$                  |
| <b>Capital and reserves</b> |                                      |                |                |                |                     |
| Share capital               | 71,335                               | -              | -              | -              | 71,335              |
| Share premium account       | 23,562,967                           | -              | -              | -              | 23,562,967          |
| Merger reserve              | 3,477,191                            | -              | -              | -              | 3,477,191           |
| Equity reserve              | 1,132,316                            | -              | -              | -              | 1,132,316           |
| Profit and loss account     | (21,147,062)                         | 837,174        | (8,528)        | 209,630        | (20,108,786)        |
| <b>Shareholders' funds</b>  | <b>7,096,747</b>                     | <b>837,174</b> | <b>(8,528)</b> | <b>209,630</b> | <b>8,135,023</b>    |

The key adjustments to previously reported equity are summarised as follows:

**Adjustment a)**

In line with IFRS 3, goodwill is assessed for impairment annually and does not attract amortisation. As a result, goodwill amortisation has reversed returning the cost value of goodwill to its carrying value as at 1 January 2020 of \$837,174. Written back amortisation of \$837,174 has been credited to retained earnings.

**Adjustment b)**

Under IFRS 16, right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before 1 January 2020. Leases have been brought onto the balance sheet, through the recognition of right-of-use assets and lease liabilities. The Consolidation Income Statement was impacted by removing the majority of the lease expense and instead recording a finance charge and a depreciation charge. Accordingly the net impact to retained earnings is a charge of \$8,528.

Cash flows arising from operating lease payments are classified as operating activities. Cash flows arising from payments of principal portion of lease liabilities are classified as financing activities. Cash outflows from operating activities decreased by \$228,040 and cash outflows from financing activities increased by the same amount for the year ended 31 December 2020.

**Adjustment c)**

Under IFRS 15, sales contracts that exist between the Company and its customers have been assessed and the credit balance held within current payables has been recalculated in respect of the accounting for consignment stock arrangements. An adjustment has been made to the deferred revenue balance of \$209,630 with a credit for the same amount being made to retained earnings.

**XMOS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2021**

**2. First-time adoption of IFRS (continued)**

**f) Reconciliation to previously reported financial statements (continued)**

**Consolidated balance sheet as at 1 January 2020 (date of transition to IFRS) showing reconciliation of net assets and equity**

|                                      | As previously reported under UK GAAP | Adjustment a) | Adjustment b)    | Adjustment c)  | Restated under IFRS |
|--------------------------------------|--------------------------------------|---------------|------------------|----------------|---------------------|
|                                      | \$                                   | \$            | \$               | \$             | \$                  |
| <b>Non-current assets</b>            |                                      |               |                  |                |                     |
| Property, plant and equipment        | 403,487                              | -             | -                | -              | 403,487             |
| Intangible assets                    | 3,081,106                            | -             | -                | -              | 3,081,106           |
| Right-of-use assets                  | -                                    | -             | 463,450          | -              | 463,450             |
|                                      | <u>3,484,593</u>                     | <u>-</u>      | <u>463,450</u>   | <u>-</u>       | <u>3,948,043</u>    |
| <b>Current assets</b>                |                                      |               |                  |                |                     |
| Inventories                          | 2,224,857                            | -             | -                | -              | 2,224,857           |
| Trade and other receivables          | 1,937,568                            | -             | -                | -              | 1,937,568           |
| Tax receivables                      | 1,237,672                            | -             | -                | -              | 1,237,672           |
| Cash and cash equivalents            | 9,752,439                            | -             | -                | -              | 9,752,439           |
| <b>Total current assets</b>          | <u>15,152,536</u>                    | <u>-</u>      | <u>-</u>         | <u>-</u>       | <u>15,152,536</u>   |
| <b>Total assets</b>                  | <u>18,637,129</u>                    | <u>-</u>      | <u>463,450</u>   | <u>-</u>       | <u>19,100,579</u>   |
| <b>Non-current liabilities</b>       |                                      |               |                  |                |                     |
| Lease liabilities                    | -                                    | -             | (317,820)        | -              | (317,820)           |
| Other non-current liabilities        | (3,399,278)                          | -             | -                | -              | (3,399,278)         |
| Provisions                           | (565,000)                            | -             | -                | -              | (565,000)           |
| <b>Total non-current liabilities</b> | <u>(3,964,278)</u>                   | <u>-</u>      | <u>(317,820)</u> | <u>-</u>       | <u>(4,282,098)</u>  |
| <b>Current liabilities</b>           |                                      |               |                  |                |                     |
| Trade and other payables             | (5,262,196)                          | -             | -                | 569,373        | (4,692,823)         |
| Lease liabilities                    | -                                    | -             | (165,242)        | -              | (165,242)           |
| <b>Total current liabilities</b>     | <u>(5,262,196)</u>                   | <u>-</u>      | <u>(165,242)</u> | <u>569,373</u> | <u>(4,858,065)</u>  |
| <b>Total liabilities</b>             | <u>(9,226,474)</u>                   | <u>-</u>      | <u>(483,062)</u> | <u>569,373</u> | <u>(9,140,163)</u>  |
| <b>Net assets</b>                    | <u>9,410,655</u>                     | <u>-</u>      | <u>(19,612)</u>  | <u>569,373</u> | <u>9,960,416</u>    |

**XMOS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2021**

**2. First-time adoption of IFRS (continued)**

**f) Reconciliation to previously reported financial statements (continued)**

**Consolidated balance sheet as at 1 January 2020 (date of transition to IFRS) showing reconciliation of net assets and equity**

|                             | As previously reported under UK GAAP | Adjustment a) | Adjustment b)   | Adjustment c)  | Restated under IFRS |
|-----------------------------|--------------------------------------|---------------|-----------------|----------------|---------------------|
|                             | \$                                   | \$            | \$              | \$             | \$                  |
| <b>Capital and reserves</b> |                                      |               |                 |                |                     |
| Share capital               | 67,870                               | -             | -               | -              | 67,870              |
| Share premium account       | 23,186,236                           | -             | -               | -              | 23,186,236          |
| Merger reserve              | 1,738,600                            | -             | -               | -              | 1,738,600           |
| Equity reserve              | 366,110                              | -             | -               | -              | 366,110             |
| Profit and loss account     | (15,948,161)                         | -             | (19,612)        | 569,373        | (15,398,400)        |
| <b>Shareholders' funds</b>  | <b>9,410,655</b>                     | <b>-</b>      | <b>(19,612)</b> | <b>569,373</b> | <b>9,960,416</b>    |

The key adjustments to previously reported equity are summarised as follows:

Adjustment a)

Under Local GAAP, Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life, determined as 3 years by the Group. IFRS 1 also requires that the Local GAAP carrying amount of goodwill must be used at the date of transition. Accordingly a goodwill asset of \$837,174 is retained. In line with IFRS 3, goodwill is assessed for impairment annually and does not attract amortisation.

Adjustment b)

Under IFRS 16, right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before 1 January 2020. Leases have been brought onto the balance sheet, through the recognition of right-of-use assets and lease liabilities. The Consolidation Income Statement was impacted by removing the majority of the lease expense and instead recording a finance charge and a depreciation charge.

Cash flows arising from operating lease payments are classified as operating activities. Cash flows arising from payments of principal portion of lease liabilities are classified as financing activities. Cash outflows from operating activities decreased by \$228,040 and cash outflows from financing activities increased by the same amount for the year ended 31 December 2020:

Adjustment c)

Under IFRS 15, sales contracts that exist between the Company and its customers have been assessed and the credit balance held within current payables has been recalculated in respect of the accounting for consignment stock arrangements. An adjustment has been made to the deferred revenue balance of \$569,373 with a credit for the same amount being made to retained earnings.

**XMOS LIMITED****NOTES TO THE FINANCIAL STATEMENTS (continued)**  
For the year ended 31 December 2021**2. First-time adoption of IFRS (continued)****f) Reconciliation to previously reported financial statements (continued)****Reconciliation of Company Equity to previously reported financial statements for the year ended 31 December 2020**

|                             | As previously<br>reported under UK<br>GAAP | Adjustment b) | Adjustment c)  | Restated<br>under IFRS |
|-----------------------------|--|---------------|----------------|------------------------|
|                             | \$   | \$            | \$             | \$                     |
| <b>Capital and reserves</b> |  |               |                |                        |
| Share capital               | 71,335                                     | -             | -              | 71,335                 |
| Share premium account       | 23,562,967                                 | -             | -              | 23,562,967             |
| Merger reserve              | 3,477,191                                  | -             | -              | 3,477,191              |
| Equity reserve              | 1,132,316                                  | -             | -              | 1,132,316              |
| Profit and loss account     | (20,470,785)                               | 4,211         | 209,630        | (20,256,944)           |
| <b>Shareholders' funds</b>  | <u>7,773,024</u>                           | <u>4,211</u>  | <u>209,630</u> | <u>7,986,865</u>       |

The key adjustments to previously reported equity are summarised as follows:

**Adjustment b)**

Under IFRS 16, right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before 1 January 2020. Leases have been brought onto the balance sheet, through the recognition of right-of-use assets and lease liabilities. The Income Statement was impacted by removing the majority of the lease expense and instead recording a finance charge and a depreciation charge. Accordingly the net impact to retained earnings is a credit of \$4,211.

**Adjustment c)**

Under IFRS 15, sales contracts that exist between the Company and its customers have been assessed and the credit balance held within current payables has been recalculated in respect of the accounting for consignment stock arrangements. An adjustment has been made to the deferred revenue balance of \$209,630 with a credit for the same amount being made to retained earnings.

## **XMOS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)** **For the year ended 31 December 2021**

#### **3. Accounting policies**

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

##### **a) Basis of consolidation**

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December each year.

The consolidated financial statements present the results of the Company and its subsidiaries as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

##### **b) Going concern**

These financial statements have been prepared on a going concern basis. The Group had a year-end cash balance of \$12,614,404. In addition, it has access to additional funds of up to \$4,000,000 in addition to the drawn venture debt loan amount as at 31 December 2021.

The directors have carefully considered the impact of macro-economic factors including the COVID-19 pandemic and the global supply shortage in the semi-conductor industry on the Group's revenue forecasts. This careful analysis and scenario planning mean that the directors have a reasonable expectation that the Group and Company has adequate resources to meet its financial obligations as they fall due and to continue in operational existence for the foreseeable future. It is therefore appropriate to adopt the going concern basis in preparing the annual financial statements.

##### **c) Business combinations and Intangible assets**

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired, and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all the assets acquired, and all the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

For each business combination, management makes an assessment of whether any intangible assets have been acquired, and how much goodwill arose as a result of the acquisition. Intellectual property acquired, as part of a business combination, is initially measured at fair value at the date of acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a discount rate in order to calculate the present value of the cash flows.

Intangible fixed assets are amortised at rates calculated to write off the cost or valuation, less estimated residual value, of each asset. Intellectual property is amortised on a straight-line basis over 36 months.

## **XMOS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)** **For the year ended 31 December 2021**

#### **3. Accounting policies (continued)**

##### **d) Research and development**

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale.
- Its intention to complete and its ability and intention to use or sell the asset.
- How the asset will generate future economic benefits.
- The availability of resources to complete the asset.
- The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete, and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in administration expenses. During the period of development, the asset is tested for impairment annually. Capitalised chip development costs are amortised on a straight-line basis over 48 months.

##### **e) Current versus non-current classification**

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle.
- Held primarily for the purpose of trading.
- Expected to be realised within twelve months after the reporting period.

Or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle.
- It is held primarily for the purpose of trading.
- It is due to be settled within twelve months after the reporting period.

Or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification. The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

##### **f) Property, plant and equipment**

Property, plant and equipment are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost or valuation, less estimated residual value, of each asset, as follows:

|                        |  |
|------------------------|--|
| Computer equipment     | straight-line over 24 months               |
| Leasehold improvements | straight-line over the period of the lease |

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting the estimated present value of any future unavoidable costs of dismantling and removing items, the corresponding liability is recognised in provisions.

## **XMOS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)** **For the year ended 31 December 2021**

#### **3. Accounting policies (continued)**

##### **g) Financial instruments – initial recognition and measurement**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

###### **(i) Financial assets**

###### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), or fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price as disclosed in Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

###### *Subsequent measurement*

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments).
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments).
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).
- Financial assets at fair value through profit or loss.

###### *Financial assets at amortised cost (debt instruments)*

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost includes trade receivables, and loan to an associate and loan to a director included under other non-current financial assets.

###### *Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset; and
- when the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

## **XMOS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)** **For the year ended 31 December 2021**

#### **3. Accounting policies (continued)**

##### **g). Financial instruments – initial recognition and measurement (continued)**

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flow.

##### **(ii) Financial liabilities**

###### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

###### *Subsequent measurement*

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (loans and borrowings)

###### *Financial liabilities at amortised cost (loans and borrowings)*

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings. For more information, refer to note 19.

## **XMOS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)** **For the year ended 31 December 2021**

#### **3. Accounting policies (continued)**

##### **g) Financial instruments – initial recognition and measurement (continued)**

###### *Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

##### **h) Inventories**

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials: purchase cost on a first-in/first-out basis
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

##### **i) Impairment of assets**

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

###### *Non-financial assets*

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth years.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the

## **XMOS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)** **For the year ended 31 December 2021**

#### **3. Accounting policies (continued)**

##### **i) Impairment of assets (continued)**

last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

##### *Financial assets*

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

##### **j) Taxation**

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company

supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax liabilities are recognised for timing differences arising from investments in subsidiaries and associates, except where the Group is able to control the reversal of the timing difference and it is probable that it will not reverse in the foreseeable future. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference.

## **XMOS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)** **For the year ended 31 December 2021**

#### **3. Accounting policies (continued)**

##### **j) Taxation (continued)**

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income. Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

##### **k) Government grants**

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

##### **l) Revenue**

###### *Revenue recognition and timing*

The Group's contracts with customers are typically for the sale of semiconductor chips. Revenue is recognised as performance obligations are satisfied as control of goods and services is transferred to the customer. The Group has determined that these performance obligations are recognised at a point in time, namely when the goods are shipped because all significant risks and rewards are considered to have been transferred to the buyer at that point. Therefore revenue is recognised upon shipment provided that persuasive evidence of a sales arrangement exists, the price is fixed, title has transferred, collection of resulting receivables is reasonably assured, and there are no customer acceptance requirements and no remaining significant obligations.

###### *Costs to obtain a contract*

The Group's contracts with customers do not come with a pre-agreed contract value. Accordingly, any costs incurred in obtaining a contract are expensed to the income statement as incurred as they do not meet the conditions for capitalisation as an asset.

###### *Contractual liability*

Distributor customers have certain rights relating to distributor price adjustments and rights of return under certain circumstances, for example stock rotation. These rights are taken into account when calculating the amount of revenue to be recognised with a corresponding liability being recognised in the consolidated balance sheet for any outstanding consignment arrangements.

###### *Transaction price*

The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding value added tax and similar sales taxes. For example, the transaction price may be based on the price included in the sales order confirmation document issued to the customer when an order is placed. The Group does not have any contracts which include any financing arrangements and therefore does not adjust its transaction price for the time value of money.

Accounts receivable from customers are recognised when title to stocks is transferred from the Group to the customer, typically upon shipment at which point the Group has a legally enforceable right to collection under normal payment terms.

## **XMOS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2021**

#### **3. Accounting policies (continued)**

##### **m) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

##### **n) Interest receivable**

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

##### **o) Borrowing costs**

Borrowing costs are charged to the profit and loss account on an accruals basis.

##### **p) Foreign currency**

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are reported in other comprehensive income and accumulated in equity.

Other exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences arising on gains or losses on non-monetary items which are recognised in other comprehensive income; and
- in the case of the consolidated financial statements, exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised in other comprehensive income and reported under equity.

##### **q) Leases**

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises right-of-use assets representing the right to use the underlying assets and lease liabilities representing obligations to make lease payments.

## **XMOS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)** **For the year ended 31 December 2021**

#### **3. Accounting policies (continued)**

##### **q) Leases (continued)**

###### *Right-of-use assets*

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Plant and machinery 3 to 15 years
- Motor vehicles and other equipment 3 to 5 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment as set out above within the Impairment of non-financial assets section.

###### *Lease liabilities*

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. The Group's lease liabilities are included in Interest-bearing loans and borrowings (see Note 19).

##### **r) Share-based payments**

The Company issues equity-settled share options to employees within the Group and to certain Non-executive directors and advisors. Equity-settled share-based payment transactions are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

Fair value is measured by use of the Black-Scholes pricing model which is considered by management to be the most appropriate method of valuation. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

## **XMOS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)** **For the year ended 31 December 2021**

#### **3. Accounting policies (continued)**

##### **s) New standards, interpretations and amendments from 1 January 2021**

New standards in relation to COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16 and Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS are not relevant to the Group at this time.

##### **t) New standards, interpretations and amendments not yet effective**

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early.

The following amendments are effective for the period beginning 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

The following amendments are effective for the period beginning 1 January 2023:

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument.

The Group does not believe that the amendments to IAS 1, in their present form, will have a significant impact on the classification of its liabilities, as the conversion feature in its convertible debt instruments is classified as an equity instrument and therefore, does not affect the classification of its convertible debt as a non-current liability.

The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Group.

#### **4. Critical accounting judgements and key sources of estimation uncertainty**

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

## **XMOS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)** **For the year ended 31 December 2021**

#### **4. Critical accounting judgements and key sources of estimation uncertainty (continued)**

##### **Critical judgement in applying the Group's accounting policies**

The following are the critical judgement areas that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

##### ***Share-based payments***

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected proportion of options that will vest taking into account vesting and non-vesting conditions of the award, the expected life of the share option or appreciation right, volatility and the underlying value of the share.

The cost of employee services received in exchange for awards of equity instruments is recognised based upon the grant date fair value of the instruments. The total gross amount of recognised expenses associated with share-based payments is set out in note 12.

##### ***Financial instruments***

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

##### ***Convertible loan note and venture debt facility***

It is necessary to determine a market rate of interest for these compound financial instruments to enable the present value of the future cash flows of each loan to be calculated as if it were a loan without any conversion opportunities or equity warrants.

It is uncertain how the convertible loan note will be redeemed, either via repayment of the loan amount or conversion into equity. Accordingly, an assessment of these different events has been undertaken and probabilities assigned to each event. Details of these facilities are provided in note 19.

##### ***Leases - Estimating the incremental borrowing rate***

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

##### ***Development costs***

The Group capitalises costs for product development projects. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. At 31 December 2021, the carrying amount of capitalised development costs was \$4,881,879 (2020: \$4,169,552).

## **XMOS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2021**

#### **4. Critical accounting judgements and key sources of estimation uncertainty (continued)**

##### **Key sources of estimation uncertainty**

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

##### ***Impairment of Goodwill, other Intangible Assets and Investments***

Determining whether the carrying values of goodwill, other intangible assets and investments in subsidiary undertakings requires estimation of the value in use of the relevant cash-generating units as well as consideration of the cashflows generated on an asset or partial asset disposal. The value in use calculation requires an estimation of the future cash flows expected to arise from the cash-generating units and suitable discount rates in order to calculate present values. The asset disposal calculation requires an assessment of future cashflows that may arise if an asset is disposed of and suitable discount rates in order to calculate a present value of the disposal value. Details of the carrying values of goodwill, other intangible assets and investments in subsidiary undertakings are shown in notes 14 and 15 respectively.

##### ***Provisions***

The estimation of the amount to be recognised as a provision is highly subjective. This involves taking account of the current circumstances of a relevant situation and obtaining appropriate expert advice to determine the possible outcomes that may occur and their relative likelihoods. Then an estimation of the liability that should be recognised in the balance sheet is made, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). See note 21 for further details.

##### ***Useful economic life of Capitalised development costs***

The estimation of the period over which the capitalised development costs of a semiconductor chip should be amortised is high subjective. Accordingly we assess the likely period over which the underlying chip that has been developed can be used by customers in their products and hence yield revenue for the company and achieve a target gross margin percentage on the sale.

The directors do not believe that there are any other sources of material estimation uncertainty.

#### **5. Revenue**

The Group's contracts with customers are typically for the sale of semiconductor chips. The flexibility of these chips means that they are used in multiple different end markets and products within the Intelligent Internet of Things. Sales are made to distributors who then sell on XMOS chips to end customers. Hence a distributor will service a number of end customers.

Revenue under distribution contracts totalled \$20,760,263 (2020: \$13,118,999) which represents 99.8% (2020: 97.7%) of total revenue.

Revenue of \$5,370,211 (2020: \$2,736,385) arose from sales to the Group's largest distributor customer, Serial Microelectronics (HK) Ltd, revenue of \$4,363,023 (2020: \$3,721,714) arose from sales to Electronic Product Services Ltd, revenue of \$3,413,899 (2020: \$1,774,557) arose from sales to the Weikeng Industrial Co Ltd group, revenue of \$2,192,170 (2020: \$1,203,688) arose from sales to the Magnica Galaxy HK Ltd group and revenue of \$2,828,840 (2020: \$1,997,363) arose from sales to the Future Electronics group. In all cases these distributors then sold on XMOS chips to many end customers.

No other single customer or group of customers under common control contributed 10% or more to the Group's revenue in either the current or prior year.

**XMOS LIMITED****NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2021****5. Revenue (continued)**

All revenue originates from the UK and relates to the principal activity of the Group. An analysis of the Group's turnover by geographical market is set out below:

|          | 2021<br>\$        | 2020<br>\$        |
|----------|-------------------|-------------------|
| Europe   | 6,218,562         | 5,822,440         |
| Americas | 2,804,241         | 1,924,054         |
| Asia     | 11,781,307        | 5,674,950         |
|          | <u>20,804,110</u> | <u>13,421,444</u> |

**6. Finance (costs)/income**

|   | 2021<br>\$       | 2020<br>\$         |
|---|------------------|--------------------|
| Bank interest receivable                                | -                | 30,402             |
| Venture debt loan interest payable                      | (348,880)        | (401,504)          |
| Finance costs on convertible loan and venture debt loan | (1,054,424)      | (682,851)          |
| Adjustments to carrying value of financial instruments  | 1,246,882        | -                  |
| Lease liability interest                                | (41,317)         | (69,764)           |
|   | <u>(197,739)</u> | <u>(1,123,717)</u> |

**7. Loss before taxation**

Loss before taxation is stated after charging/(crediting):

|  | 2021<br>\$ | 2020<br>\$  |
|--|------------|-------------|
| Depreciation of tangible fixed assets (note 13)  | 233,449    | 240,546     |
| Depreciation of right-of-use assets (note 13)  | 147,192    | 147,192     |
| Amortisation of intangible fixed assets (note 14)  | 602,783    | 200,000     |
| Research and development costs   | 7,476,797  | 5,573,269   |
| Cost of stock recognised as expense  | 7,576,401  | 5,497,084   |
| Government grants in respect of research and development projects included as Other income | (239,432)  | (1,116,709) |
| (Profit)/ loss on foreign currency transactions  | (380,137)  | 331,274     |

Amortisation and depreciation charges are included within Administrative expenses. Included within Cost of sales is a stock impairment charge of \$419,326 (2020: \$197,413).

The analysis of the auditor's remuneration is as follows:

|  | 2021<br>\$     | 2020<br>\$    |
|--|----------------|---------------|
| Fees payable for the audit of the Group's financial statements | <u>117,227</u> | <u>78,577</u> |

|                                  | 2021<br>\$   | 2020<br>\$   |
|----------------------------------|--------------|--------------|
| Taxation compliance services     | 5,249        | 4,784        |
| Other taxation advisory services | <u>8,657</u> | <u>8,201</u> |

**XMOS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2021**

**8. Staff numbers and costs**

The average monthly number of employees (including executive directors) was:

|                            | <b>Group<br/>2021<br/>Number</b> | <b>2020<br/>Number</b> | <b>Company<br/>2021<br/>Number</b> | <b>2020<br/>Number</b> |
|----------------------------|----------------------------------|------------------------|------------------------------------|------------------------|
| Research and development   | 45                               | 37                     | 31                                 | 26                     |
| Sales and marketing        | 17                               | 18                     | 11                                 | 14                     |
| General and administration | 9                                | 8                      | 6                                  | 6                      |
|                            | <u>71</u>                        | <u>63</u>              | <u>48</u>                          | <u>46</u>              |

Their aggregate remuneration comprised:

|                                | <b>Group</b>       |                    | <b>Company</b>     |                    |
|--------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                | <b>2021<br/>\$</b> | <b>2020<br/>\$</b> | <b>2021<br/>\$</b> | <b>2020<br/>\$</b> |
| Wages and salaries             | 7,797,750          | 8,432,689          | 5,032,638          | 5,995,107          |
| Social security costs          | 757,851            | 691,629            | 579,412            | 513,468            |
| Other pension costs            | 204,089            | 183,524            | 204,089            | 183,524            |
| Share-based payments (note 12) | 4,246,777          | 49,333             | 3,333,906          | 49,333             |
|                                | <u>13,006,467</u>  | <u>9,357,175</u>   | <u>9,150,045</u>   | <u>6,741,432</u>   |

The Group operates a defined contribution retirement scheme for all qualifying employees. The total expense charged to the Income statement in the year ended 31 December 2021 was \$204,089 (2020: \$183,524).

**9. Directors' remuneration**

|  | <b>2021<br/>\$</b> | <b>2020<br/>\$</b> |
|--|--------------------|--------------------|
| Emoluments   | 599,622            | 527,439            |
| Company contribution to money purchase pension schemes | 43,607             | 15,092             |
|  | <u>643,229</u>     | <u>542,531</u>     |
|  | <b>\$</b>          | <b>\$</b>          |
| <b>Remuneration of highest paid director</b>           |                    |                    |
| Emoluments   | 367,687            | 329,784            |
| Company contribution to money purchase pension schemes | 43,607             | 15,092             |
|  | <u>411,294</u>     | <u>344,876</u>     |

The highest paid director did not exercise any share options in the year (2020: nil).

|  | <b>2021<br/>Number</b> | <b>2020<br/>Number</b> |
|--|------------------------|------------------------|
| <b>The number of directors who:</b>  |                        |                        |
| Are members of a money purchase pension scheme                                 | 1                      | 1                      |
| Had awards receivable in the form of shares under a long-term incentive scheme | <u>5</u>               | <u>4</u>               |

## XMOS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2021

#### 10. Tax

The tax credit comprises:

|                                       | 2021             | 2020               |
|---------------------------------------|------------------|--------------------|
|                                       | \$               | \$                 |
| <b>Current tax on loss</b>            |                  |                    |
| UK corporation tax                    | (473,190)        | (1,607,524)        |
| Foreign tax                           | -                | 1,364              |
|                                       | <u>(473,190)</u> | <u>(1,606,160)</u> |
| Adjustments in respect of prior years | <u>(131,906)</u> | <u>54,642</u>      |
| <b>Total tax on loss</b>              | <u>(605,096)</u> | <u>(1,551,518)</u> |

The standard rate of tax applied to the reported loss is 19% (2020: 19%). A deferred tax asset has not been recognised in respect of timing differences relating to tax losses carried forward as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised at the year-end is \$12,549,463 (2020: \$9,971,974).

The difference between the total tax credit shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

|   | 2021               | 2020               |
|---|--------------------|--------------------|
|   | \$                 | \$                 |
| Loss on ordinary activities before tax  | <u>(3,485,467)</u> | <u>(6,311,237)</u> |
|   | \$                 | \$                 |
| Tax on Group loss on ordinary activities at standard UK corporation tax rate of 19% (2020: 19%) | (662,239)          | (1,199,135)        |
| Effects of:   |                    |                    |
| Expenses not deductible for tax purposes  | 850,614            | 772,424            |
| Depreciation in excess of capital allowances  | -                  | 14,127             |
| Research and development tax claim credit   | (669,644)          | (1,112,873)        |
| Other effects of R&D relief   | 148,511            | 467,550            |
| Losses carried forward  | (58,916)           | (378,290)          |
| Income not taxable  | (81,516)           | (106,781)          |
| Foreign exchange  | -                  | (63,182)           |
| Adjustments in respect of prior years   | <u>(131,906)</u>   | <u>54,642</u>      |
| <b>Total tax on loss</b>  | <u>(605,096)</u>   | <u>(1,551,518)</u> |

The standard rate of tax applied to the reported loss is 19% (2020: 19%). Previously, as a result of Finance Act 2017 the applicable tax rate was to be reduced in phases to 17% by 1 April 2020. However the UK Government announced in March 2020 that this change in rate would now not take place and accordingly the standard rate of tax applied remains at 19%.

#### 11. Loss attributable to the Company

The loss for the financial year dealt with in the financial statements of the Company was \$2,105,191 (2020: \$4,973,676). As permitted by Section 408 of the Companies Act 2006, no separate income statement is presented in respect of the Company.

**XMOS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2021**

**12. Share-based payments**

***Equity-settled share option schemes***

The Company has a share option scheme for all employees of the Group. The scheme awards options over Ordinary shares as well as parallel Z preferred shares. Options over Ordinary shares are exercisable at a price of between \$0.00013 and \$0.02. The company offers two types of option over ordinary shares. The first has a vesting period of four years and options are forfeited if the employee leaves the Group before the options have vested. The second are options which vest in full on grant but which lapse in full if the employee leaves employment with the company before the occurrence of an exit event for the company. The maximum term of the options is ten years and the options are all equity-settled.

Z preferred share options are only exercisable in an exit event and if the holder waives their right to exercise their related Ordinary share options.

During the year, 38,063,050 Ordinary share options were issued to employees (2020: 9,958,710), 9,586,516 Ordinary share options were issued to executive directors (2020: nil), 3,250,000 Ordinary share options were issued to non-executive directors and advisors (2020: 500,000) and 7,712,275 options (2020: 8,072,291) were exercised to buy Ordinary shares.

Details of the Ordinary share options outstanding during the year and the prior year are as follows:

|   | 2021                             |                                      | 2020                             |                                      |
|---|----------------------------------|--------------------------------------|----------------------------------|--------------------------------------|
|   | Number of Ordinary share options | Weighted average exercise price (\$) | Number of Ordinary share options | Weighted average exercise price (\$) |
| Outstanding at the beginning of the year  | 140,884,186                      | 0.0003                               | 145,522,277                      | 0.0003                               |
| Granted during the year                   | 50,899,566                       | 0.0006                               | 10,458,710                       | 0.0001                               |
| Exercised during the year                 | (7,712,275)                      | 0.0001                               | (8,072,291)                      | 0.0001                               |
| Lapsed during the year                    | (11,348,609)                     | 0.0003                               | (7,024,510)                      | 0.0003                               |
| <b>Outstanding at the end of the year</b> | <b><u>172,722,868</u></b>        |                                      | <b><u>140,884,186</u></b>        |                                      |

During the year, 316,142 Z share options were issued to employees (2020: 99,587), 48,044 Z share options were issued to executive directors (2020: nil), 27,500 Z share options were issued to non-executive directors and advisors (2020: 5,000) and nil options (2020: nil) were exercised.

Details of the Z share options outstanding during the year and the prior year are as follows:

|   | 2021                      |                                      | 2020                      |                                      |
|---|---------------------------|--------------------------------------|---------------------------|--------------------------------------|
|   | Number of Z share options | Weighted average exercise price (\$) | Number of Z share options | Weighted average exercise price (\$) |
| Outstanding at the beginning of the year  | 1,386,847                 | 0.7091                               | 1,447,217                 | 0.7091                               |
| Granted during the year                   | 391,686                   | 0.5943                               | 104,587                   | 0.6117                               |
| Exercised during the year                 | -                         | n/a                                  | -                         | n/a                                  |
| Lapsed during the year                    | (197,981)                 | 0.7091                               | (164,957)                 | 0.7091                               |
| <b>Outstanding at the end of the year</b> | <b><u>1,580,552</u></b>   |                                      | <b><u>1,386,847</u></b>   |                                      |

The fair value of the share options at the grant date was calculated using the Black-Scholes model, which is considered to be the most appropriate generally accepted valuation method of measuring fair value.

The Group recognised a total expense of \$4,256,777 (2020: \$49,333) related to equity-settled share-based payment transactions.

**XMOS LIMITED****NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2021****13. Property, Plant and Equipment**

|                       | Right of use<br>asset | Leasehold<br>improvements | Computer<br>equipment | Total            |
|-----------------------|-----------------------|---------------------------|-----------------------|------------------|
|                       | \$                    | \$                        | \$                    | \$               |
| <b>Group</b>          |                       |                           |                       |                  |
| <b>Cost</b>           |                       |                           |                       |                  |
| At 1 January 2021     | 743,864               | 473,885                   | 640,386               | 1,858,135        |
| Additions             | 84,048                | -                         | 63,924                | 147,972          |
| Disposals             | -                     | -                         | -                     | -                |
| At 31 December 2021   | <u>827,912</u>        | <u>473,885</u>            | <u>704,310</u>        | <u>2,006,107</u> |
| <b>Depreciation</b>   |                       |                           |                       |                  |
| At 1 January 2021     | 427,607               | 289,488                   | 487,260               | 1,204,355        |
| Charge for the year   | 147,192               | 95,308                    | 138,141               | 380,641          |
| Disposals             | -                     | -                         | -                     | -                |
| At 31 December 2021   | <u>574,799</u>        | <u>384,796</u>            | <u>625,401</u>        | <u>1,584,996</u> |
| <b>Net book value</b> |                       |                           |                       |                  |
| At 31 December 2021   | <u>253,113</u>        | <u>89,089</u>             | <u>78,909</u>         | <u>421,111</u>   |
| At 31 December 2020   | <u>316,257</u>        | <u>184,397</u>            | <u>153,126</u>        | <u>653,780</u>   |

**XMOS LIMITED****NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2021****13. Property, Plant and Equipment (continued)**

|                       | Right of use<br>asset | Leasehold<br>improvements | Computer<br>equipment | Total            |
|-----------------------|-----------------------|---------------------------|-----------------------|------------------|
|                       | \$                    | \$                        | \$                    | \$               |
| <b>Group</b>          |                       |                           |                       |                  |
| <b>Cost</b>           |                       |                           |                       |                  |
| At 1 January 2020     | 743,864               | 473,885                   | 465,804               | 1,683,553        |
| Additions             | -                     | -                         | 174,582               | 174,582          |
| Disposals             | -                     | -                         | -                     | -                |
| At 31 December 2020   | <u>743,864</u>        | <u>473,885</u>            | <u>640,386</u>        | <u>1,858,135</u> |
| <b>Depreciation</b>   |                       |                           |                       |                  |
| At 1 January 2020     | 280,415               | 197,301                   | 338,901               | 816,617          |
| Charge for the year   | 147,192               | 92,187                    | 148,359               | 387,738          |
| Disposals             | -                     | -                         | -                     | -                |
| At 31 December 2020   | <u>427,607</u>        | <u>289,488</u>            | <u>487,260</u>        | <u>1,204,355</u> |
| <b>Net book value</b> |                       |                           |                       |                  |
| At 31 December 2020   | <u>316,257</u>        | <u>184,397</u>            | <u>153,126</u>        | <u>653,780</u>   |
| At 31 December 2019   | <u>463,450</u>        | <u>276,584</u>            | <u>126,903</u>        | <u>866,937</u>   |

**XMOS LIMITED****NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2021****13. Property, Plant and Equipment (continued)**

|                       | Right of use<br>asset | Leasehold<br>improvements | Computer<br>equipment | Total            |
|-----------------------|-----------------------|---------------------------|-----------------------|------------------|
|                       | \$                    | \$                        | \$                    | \$               |
| <b>Company</b>        |                       |                           |                       |                  |
| <b>Cost</b>           |                       |                           |                       |                  |
| At 1 January 2021     | 626,599               | 355,372                   | 568,362               | 1,550,333        |
| Additions             | -                     | -                         | 67,617                | 67,617           |
| Disposals             | -                     | -                         | -                     | -                |
| At 31 December 2021   | <u>626,599</u>        | <u>355,372</u>            | <u>635,979</u>        | <u>1,617,950</u> |
| <b>Depreciation</b>   |                       |                           |                       |                  |
| At 1 January 2021     | 375,959               | 240,972                   | 434,039               | 1,050,970        |
| Charge for the year   | 125,320               | 77,736                    | 118,047               | 321,103          |
| Disposals             | -                     | -                         | -                     | -                |
| At 31 December 2021   | <u>501,279</u>        | <u>318,708</u>            | <u>552,086</u>        | <u>1,372,073</u> |
| <b>Net book value</b> |                       |                           |                       |                  |
| At 31 December 2021   | <u>125,320</u>        | <u>36,664</u>             | <u>83,893</u>         | <u>245,877</u>   |
| At 31 December 2020   | <u>250,640</u>        | <u>114,400</u>            | <u>134,323</u>        | <u>499,363</u>   |

**XMOS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2021**

**14. Intangible assets**

|                       | <b>Development costs</b> | <b>Intellectual property</b> | <b>Goodwill</b> | <b>Total</b>     |
|-----------------------|--------------------------|------------------------------|-----------------|------------------|
| <b>Group</b>          | <b>\$</b>                | <b>\$</b>                    | <b>\$</b>       | <b>\$</b>        |
| <b>Cost</b>           |                          |                              |                 |                  |
| At 1 January 2021     | 4,169,552                | 1,800,000                    | 837,174         | 6,806,726        |
| Additions             | 1,315,110                | -                            | -               | 1,315,110        |
| At 31 December 2021   | <u>5,484,662</u>         | <u>1,800,000</u>             | <u>837,174</u>  | <u>8,121,836</u> |
| <b>Amortisation</b>   |                          |                              |                 |                  |
| At 1 January 2021     | -                        | 1,800,000                    | -               | 1,800,000        |
| Charge for the year   | 602,783                  | -                            | -               | 602,783          |
| At 31 December 2021   | <u>602,783</u>           | <u>1,800,000</u>             | <u>-</u>        | <u>2,402,783</u> |
| <b>Net book value</b> |                          |                              |                 |                  |
| At 31 December 2021   | <u>4,881,879</u>         | <u>-</u>                     | <u>837,174</u>  | <u>5,719,053</u> |
| At 31 December 2020   | <u>4,169,552</u>         | <u>-</u>                     | <u>837,174</u>  | <u>5,006,726</u> |
|                       | <b>Development costs</b> | <b>Intellectual property</b> | <b>Goodwill</b> | <b>Total</b>     |
| <b>Group</b>          | <b>\$</b>                | <b>\$</b>                    | <b>\$</b>       | <b>\$</b>        |
| <b>Cost</b>           |                          |                              |                 |                  |
| At 1 January 2020     | 2,043,932                | 1,800,000                    | 837,174         | 4,681,106        |
| Additions             | 2,125,620                | -                            | -               | 2,125,620        |
| At 31 December 2020   | <u>4,169,552</u>         | <u>1,800,000</u>             | <u>837,174</u>  | <u>6,806,726</u> |
| <b>Amortisation</b>   |                          |                              |                 |                  |
| At 1 January 2020     | -                        | 1,600,000                    | -               | 1,600,000        |
| Charge for the year   | -                        | 200,000                      | -               | 200,000          |
| At 31 December 2020   | <u>-</u>                 | <u>1,800,000</u>             | <u>-</u>        | <u>1,800,000</u> |
| <b>Net book value</b> |                          |                              |                 |                  |
| At 31 December 2020   | <u>4,169,552</u>         | <u>-</u>                     | <u>837,174</u>  | <u>5,006,726</u> |
| At 31 December 2019   | <u>2,043,932</u>         | <u>200,000</u>               | <u>837,174</u>  | <u>3,081,106</u> |

In 2019, costs of \$2,043,932 were capitalised as Development costs.

**XMOS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2021**

**14. Intangible assets (continued)**

|                            | Development<br>costs | Intellectual<br>property | Total            |
|----------------------------|----------------------|--------------------------|------------------|
| Company                    | \$                   | \$                       | \$               |
| <b>Cost</b>                |                      |                          |                  |
| At 1 January 2021          | 4,169,552            | 1,800,000                | 5,969,552        |
| Additions                  | 1,315,110            | -                        | 1,315,110        |
| At 31 December 2021        | <u>5,484,662</u>     | <u>1,800,000</u>         | <u>7,284,662</u> |
| <b>Amortisation</b>        |                      |                          |                  |
| At 1 January 2021          | -                    | 1,800,000                | 1,800,000        |
| Charge for the year        | 602,783              | -                        | 602,783          |
| At 31 December 2021        | <u>602,783</u>       | <u>1,800,000</u>         | <u>2,402,783</u> |
| <b>Net book value</b>      |                      |                          |                  |
| <b>At 31 December 2021</b> | <u>4,881,879</u>     | <u>-</u>                 | <u>4,881,879</u> |
| At 31 December 2020        | <u>4,169,552</u>     | <u>-</u>                 | <u>4,169,552</u> |

The development costs of the xCORE chip comprise internal staff costs and costs for external consultancy, IP and tape out charges incurred in the development of the xcore.ai chip and the 4<sup>th</sup> generation device known as Quake. These assets will be amortised on a straight-line basis over a four year period from the point at which the chip is ready for volume production. The Xcore.ai chip achieved this goal during 2021 and accordingly amortisation has been charged from that point.

Intellectual property acquired as a result of the 2017 acquisition of Setem Technologies Inc comprises the fair value of the software and patents acquired. These assets are being amortised on a straight line basis over a three-year period and are now fully amortised.

The goodwill also arose from the Setem Technologies Inc acquisition. The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows over five years. The most subjective input in this calculation is forecast revenues which have been calculated based management most recent assessment. Management used a discount rate based on an estimation of weighted average cost of capital (WACC) of 30% in order to calculate the present value of the cash flows and used a nominal growth rate of 2% in the period beyond the projection period.

There were no reasonably possible changes in assumptions that could lead to an impairment of goodwill.

## XMOS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2021

#### 15. Fixed asset investments

|                                | 2021             | 2020             |
|--------------------------------|------------------|------------------|
|                                | \$               | \$               |
| <b>Subsidiary undertakings</b> |                  |                  |
| <b>Company</b>                 |                  |                  |
| Cost                           | 4,030,814        | 4,030,814        |
| Additions                      | 912,871          | -                |
| Provision for impairment       | (2,284,582)      | (2,284,582)      |
|                                | <u>2,659,103</u> | <u>1,746,232</u> |
| Carrying value                 |                  |                  |

Additions in the year relate to share options issued to employees of other Group companies.

#### Investments

The Company has investments in the following subsidiary undertakings:

| Subsidiary undertakings          | Registered address | Country of incorporation | Principal activity               | Class of share held | % ownership |
|----------------------------------|--------------------|--------------------------|----------------------------------|---------------------|-------------|
| XMOS Inc                         | *(1)               | United States            | Sales, marketing and development | Ordinary            | 100%        |
| XMOS Asia Ltd                    | *(2)               | Hong Kong                | Sales and marketing              | Ordinary            | 100%        |
| XMOS GK                          | *(3)               | Japan                    | Sales and marketing              | Ordinary            | 100%        |
| XMOS Semiconductor India PVT Ltd | *(4)               | India                    | Development                      | Ordinary            | 99%         |

All are held directly by XMOS Limited (with the exception of XMOS Semiconductor India PVT Ltd which is 99% held by XMOS Limited and 1% held by XMOS Inc).

XMOS Inc made a profit during the year of \$161,414 (2020: \$390,136) and as at 31 December 2021 net assets were \$1,069,244 (2020: \$907,831).

XMOS Semiconductor India PVT Ltd made a loss during the year of \$nil (2020: loss of \$6,971) and as at 31 December 2021 net assets were \$18,764 (2019: \$18,764).

XMOS Asia Ltd made a profit during the year of \$17,646 (2020: profit of \$29,713) and as at 31 December 2021 net assets were \$97,503 (2020: \$79,857).

XMOS GK made a profit during the year of \$nil (2020: \$224) and as at 31 December 2021 net assets were \$56,583 (2020: \$56,583).

Registered addresses:

\*(1) Xmos Inc, 1 Merrill Industrial Drive, Suite 6, Hampton, New Hampshire 03842, USA.

\*(2) Xmos Asia Ltd, Unit 2602-03, 26/F., BEA Tower, Millennium City 5, 418 Kwun Tong Road, Kowloon, Hong Kong.

\*(3) Xmos GK, Dainiueno Bldg., 3-7-18 Shinyokohama, Kohoku-ku, Yokohama-shi, Kanagawa, Japan.

\*(4) Xmos Semiconductor India PVT Ltd, Apex Tower, No. 54 2nd Floor, 2nd Main Road, R A Puram, Chennai 600028 India.

**XMOS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2021**

**15. Fixed asset investments (continued)**

|  | <b>2021</b>      | <b>2020</b>      |
|--|------------------|------------------|
|  | \$               | \$               |
| <i>Investments in subsidiary companies</i> |                  |                  |
| XMOS Inc                                   | 2,655,897        | 1,743,026        |
| XMOS Asia Ltd                              | 1,287            | 1,287            |
| XMOS GK                                    | 98               | 98               |
| XMOS Semiconductor India PVT Ltd           | 1,821            | 1,821            |
|  | <u>2,659,103</u> | <u>1,746,232</u> |

**16. Inventories**

|                                     | <b>Group and Company</b> |                  |
|-------------------------------------|--------------------------|------------------|
|                                     | <b>2021</b>              | <b>2020</b>      |
|                                     | \$                       | \$               |
| Raw materials and consumables       | -                        | -                |
| Work in progress                    | 2,640,579                | 837,682          |
| Finished goods and goods for resale | 1,936,697                | 1,005,746        |
|                                     | <u>4,577,276</u>         | <u>1,843,428</u> |

**17. Trade and other receivables**

|                   | <b>Group</b>     |                  |                   | <b>Company</b>   |                  |                   |
|-------------------|------------------|------------------|-------------------|------------------|------------------|-------------------|
|                   | <b>2021</b>      | <b>2020</b>      | <b>1 Jan 2020</b> | <b>2021</b>      | <b>2020</b>      | <b>1 Jan 2020</b> |
|                   | \$               | \$               | \$                | \$               | \$               | \$                |
| Trade receivables | 4,221,944        | 1,576,149        | 1,186,229         | 4,221,944        | 1,576,149        | 1,186,229         |
| VAT               | 16,782           | 69,941           | -                 | 15,607           | 68,766           | -                 |
| Other receivables | 181,712          | 295,479          | 202,327           | 174,057          | 287,823          | 198,032           |
| Prepayments       | 307,104          | 419,178          | 549,012           | 272,513          | 400,759          | 528,874           |
|                   | <u>4,727,542</u> | <u>2,360,747</u> | <u>1,937,568</u>  | <u>4,684,121</u> | <u>2,333,497</u> | <u>1,913,135</u>  |

**XMOS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2021**

**18. Trade and other payables**

|                                    | Group            |                  |                  | Company          |                  |                  |
|------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                                    | 2021             | 2020             | 1 Jan 2020       | 2021             | 2020             | 1 Jan 2020       |
|                                    | \$               | \$               | \$               | \$               | \$               | \$               |
| Trade payables                     | 2,020,864        | 537,208          | 541,492          | 2,020,396        | 526,621          | 487,788          |
| Amounts owed to Group undertakings | -                | -                | -                | 1,168,266        | 985,689          | 626,084          |
| Other taxation and social security | 147,662          | 125,158          | 147,612          | 147,376          | 124,872          | 139,161          |
| Other payables                     | 56,416           | 20,130           | 80,752           | 12,372           | 1,248            | 6,675            |
| Accruals                           | 2,040,681        | 1,864,494        | 1,260,035        | 1,936,335        | 1,766,517        | 1,151,262        |
| Contract liabilities               | 601,676          | 669,829          | 212,322          | 601,676          | 669,829          | 212,322          |
| Deferred purchase consideration    | -                | -                | 1,958,960        | -                | -                | 1,958,960        |
| Venture debt loan (note 19)        | -                | 1,453,106        | 491,650          | -                | 1,453,106        | 491,650          |
|                                    | <u>4,867,299</u> | <u>4,669,925</u> | <u>4,692,823</u> | <u>5,886,421</u> | <u>5,527,882</u> | <u>5,073,902</u> |

Amounts owed to Group undertakings are interest-free and repayable on demand.

**19. Other non-current liabilities**

|                       | Group             |                  | Company           |                  |
|-----------------------|-------------------|------------------|-------------------|------------------|
|                       | 2021              | 2020             | 2021              | 2020             |
|                       | \$                | \$               | \$                | \$               |
| Convertible loan note | 7,210,745         | 7,466,720        | 7,210,745         | 7,466,720        |
| Venture debt loan     | 6,391,843         | 2,260,986        | 6,391,843         | 2,260,986        |
|                       | <u>13,602,588</u> | <u>9,727,706</u> | <u>13,602,588</u> | <u>9,727,706</u> |

**Venture debt loan**

During 2021, the Company renegotiated its secured venture debt facility with Harbert European Growth Capital such that the drawdown period for the facility was extended to 30 June 2023. In addition, the repayment profile for all loan tranches was extended. As part of the original facility, the lender was granted a warrant to subscribe for up to \$1.5m worth of the Company's shares. The refinance process did not amend this amount. The facility is secured against the assets of the business.

This instrument is deemed to be a compound financial instrument and accordingly the instrument has been split between a loan liability and equity with a relevant entry recorded as an equity reserve (note 21).

In November 2019, the first tranche of \$4m was drawn down and is subject to a coupon rate at the higher of 10% or 10% plus the one year EURO LIBOR rate. The second tranche of \$4,000,000 was drawn down in December 2021 and is subject to a coupon rate at the higher of 9% or 9% plus the one year EURO LIBOR rate.

**XMOS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2021**

**19. Other non-current liabilities (continued)**

**Convertible loan note**

On 16 July 2020, the Company entered into a Convertible Loan Note for \$6,400,000 with investment from current shareholders matched by the British Business Bank's Future Fund. The loan note is denominated in Sterling. The note has an original three-year term and will attract interest at an annual rate of 8%, payable either on repayment or via conversion to equity. However, the venture debt refinancing described above has now caused the note to be sub-ordinated behind the loan and accordingly will not be repaid until the full repayment of that facility has been achieved. This is expected to be no earlier than December 2025.

The note will convert into equity on a future funding round, with a 20% discount. At the end of the sub-ordinated period, if no equity funding has occurred during the term then the loan note will either convert, without discount, into E2 preferred shares or be repaid to the loan note holders with a 100% repayment premium.

The difference between the fair value of the liability and the proceeds received at inception has been credited to the equity reserve.

The repayment profile of borrowings is as follows:

|                            | 2021<br>\$        | Group and<br>Company<br>2020<br>\$ |
|----------------------------|-------------------|------------------------------------|
| Within one year            | -                 | 1,453,106                          |
| Between one and two years  | 1,335,331         | 1,534,308                          |
| Between two and five years | <u>12,267,257</u> | <u>8,193,398</u>                   |
|                            | <u>13,602,588</u> | <u>11,180,812</u>                  |

**20. Financial Instruments**

|                              | Group<br>2021<br>\$ | Group<br>2020<br>\$ | Group<br>1 Jan 2020<br>\$ | Company<br>2021<br>\$ | Company<br>2020<br>\$ | Company<br>1 Jan 2020<br>\$ |
|------------------------------|---------------------|---------------------|---------------------------|-----------------------|-----------------------|-----------------------------|
| <b>Financial assets</b>      |                     |                     |                           |                       |                       |                             |
| Measured at amortised cost   | 4,403,656           | 1,871,628           | 1,388,556                 | 4,396,001             | 1,863,972             | 1,384,261                   |
| Cash and cash equivalents    | 12,614,404          | 12,140,428          | 9,752,439                 | 12,526,837            | 12,041,209            | 9,647,416                   |
|                              | <u>17,018,060</u>   | <u>14,012,056</u>   | <u>11,140,995</u>         | <u>16,922,838</u>     | <u>13,905,181</u>     | <u>11,031,677</u>           |
| <b>Financial liabilities</b> |                     |                     |                           |                       |                       |                             |
| Measured at amortised cost   | 15,679,868          | 11,738,210          | 4,513,172                 | 15,635,648            | 11,708,681            | 3,893,741                   |

**XMOS LIMITED****NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2021****20. Financial Instruments (continued)*****Financial instruments risk management objectives and policies******Capital management***

The Group is exposed to various risks in relation to financial instruments. The main types of risks facing the Group in the current and prior year are market risk, credit risk and liquidity risk. The primary objective of the Group's capital management is to ensure that it remains a going concern.

The Group's risk management is coordinated with the Board and focuses on actively securing the cash flow position by minimising the exposure to volatile financial markets. The Group's capital consists of equity share capital and retained earnings.

The Group's cash balances are held with institutions which have a credit rating of A+ (2020: A+).

***Market risk***

The Group is exposed to market risk through the use of financial instruments and specifically to currency risk, interest rate risk and other risks that result from its operating activities.

***Foreign currency risk***

Foreign currency transactions are translated into the functional currency using the spot exchange rate at the date of the transactions. At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical rates are translated using the exchange rate of the date of the transaction.

The breakdown of the Group and Company's financial assets that are cash or cash equivalents and held in non-USD currencies are as follows:

|                     | <b>Group</b> |             | <b>Company</b> |             |
|---------------------|--------------|-------------|----------------|-------------|
|                     | <b>2021</b>  | <b>2020</b> | <b>2021</b>    | <b>2020</b> |
|                     | <b>\$</b>    | <b>\$</b>   | <b>\$</b>      | <b>\$</b>   |
| Sterling (£)        | 832,428      | 5,013,927   | 832,428        | 5,013,927   |
| Euros (€)           | 4,235,206    | 263,451     | 4,235,206      | 263,451     |
| Indian Rupees (INR) | 25,275       | 25,102      | -              | -           |
| Japanese Yen (JPY)  | 7,221        | 7,394       | -              | -           |

The breakdown of the Group and Company's financial liabilities measured at amortised cost and held in non-USD currencies are as follows:

|              | <b>Group</b> |             | <b>Company</b> |             |
|--------------|--------------|-------------|----------------|-------------|
|              | <b>2021</b>  | <b>2021</b> | <b>2020</b>    | <b>2020</b> |
|              | <b>\$</b>    | <b>\$</b>   | <b>\$</b>      | <b>\$</b>   |
| Sterling (£) | 7,210,745    | 7,210,745   | 7,466,720      | 7,466,720   |
| Euros (€)    | 6,391,843    | 6,391,843   | 3,606,315      | 3,606,315   |

A ten percent weakening of USD (\$) against the following currencies at 31 December 2021 would have decreased reported equity and other comprehensive income by the following amounts:

## XMOS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2021

#### 20. Financial Instruments (continued)

| Group and Company | 2021                             |           | 2020                             |           |
|-------------------|----------------------------------|-----------|----------------------------------|-----------|
|                   | Other<br>comprehensive<br>income | Equity    | Other<br>comprehensive<br>income | Equity    |
|                   | \$                               | \$        | \$                               | \$        |
| Sterling (£)      | (627,424)                        | (627,424) | (245,252)                        | (245,252) |
| Euros (€)         | (231,142)                        | (231,142) | (345,064)                        | (345,064) |

#### *Interest rate risk*

The Group's policy is to minimise the interest rate risk exposure on long term financing. The Group is exposed to changes in market interest rates through bank borrowings at variable interest rates. The variable rate loans are the EURO LIBOR rate plus a margin.

#### *Credit rate risk*

Credit risk is the risk that a counterparty fails to discharge an obligation to the Group. The Group is exposed to credit risk from financial assets including cash and cash equivalents held at banks. The credit risk is managed on a group basis with deposits only being held with major reputable financial institutions.

#### *Liquidity risk*

Liquidity risk is the risk that the Group may be unable to meet its obligations. The Group manages liquidity risk through details cash forecasting along with strict financial policies which sets authorisation levels for expenditure including approval by the Board.

#### *Expected credit losses*

In accordance with IFRS 9, Financial Instruments, the Group has assessed the inter-company receivable balances in order to identify any recoverability issues. The Group has reviewed its current position and concluded that there are no events as at the balance sheet date that increases the credit risk in relation to intercompany positions.

#### 21. Provision for other liabilities

|                            | 2021      | 2020    | 1 Jan<br>2020 |
|----------------------------|-----------|---------|---------------|
| Group and Company          | \$        | \$      | \$            |
| At 1 January               | 750,000   | 565,000 | -             |
| Charged to profit and loss | -         | 185,000 | 565,000       |
| Utilised                   | (750,000) | -       | -             |
| At 31 December             | -         | 750,000 | 565,000       |

In the prior year, the Group and Company recognised a provision in relation to a product warranty issue.

The settlement of the product warranty issue included the receipt of financial compensation from a third party in the form of a trade discount to be crystallised by future purchases made by XMOS from this third party. At the prior balance sheet date, this amount was contingent in nature and therefore did not meet the criteria for an asset to be recognised. This amount crystallised during the current year.

**XMOS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2021**

**22. Lease liabilities**

The repayment profile of leases is as follows:

|                            | Group          |                | Company       |                |
|----------------------------|----------------|----------------|---------------|----------------|
|                            | 2021           | 2020           | 2021          | 2020           |
|                            | \$             | \$             | \$            | \$             |
| Within one year            | 142,463        | 187,166        | 85,419        | 161,010        |
| Between one and two years  | 72,239         | 65,381         | -             | 85,419         |
| Between two and five years | -              | 72,239         | -             | -              |
|                            | <u>214,702</u> | <u>324,786</u> | <u>85,419</u> | <u>246,429</u> |

The Group and Company entered into the lease on 1 July 2017.

**23. Called-up share capital and reserves**

|   | 2021               | 2021          | 2020               | 2020          |
|---|--------------------|---------------|--------------------|---------------|
|   | Number             | \$            | Number             | \$            |
| <b>Allotted, called-up and fully-paid</b> |                    |               |                    |               |
| Ordinary shares of £0.0001 each           | 68,977,826         | 8,531         | 61,265,551         | 7,470         |
| Series 'S' shares of £0.0001 each         | 2,097,370          | 325           | 2,097,370          | 325           |
| 'A' ordinary shares of £0.0001 each       | 252,695            | 39            | 252,695            | 39            |
| Series 'A' shares of £0.0001 each         | 5,745,339          | 892           | 5,745,339          | 892           |
| Series 'B' shares of £0.0001 each         | 39,606,155         | 6,126         | 39,606,155         | 6,126         |
| Series 'C' shares of £0.0001 each         | 37,470,652         | 5,849         | 37,470,652         | 5,849         |
| Series 'D' shares of £0.0001 each         | 190,326,390        | 31,563        | 190,326,390        | 31,563        |
| Series 'E1' shares of £0.0001 each        | 97,097,011         | 13,013        | 97,097,011         | 13,013        |
| Series 'E2' shares of £0.0001 each        | 47,008,975         | 6,058         | 47,008,975         | 6,058         |
|   | <u>488,582,413</u> | <u>72,396</u> | <u>480,870,138</u> | <u>71,335</u> |

In 2020, the Company completed a Series E-2 funding round for non-institutional shareholders by issuing a further 2,522,066 Series E-2 shares for cash consideration of \$0.4m, representing a subscription price of \$0.1586 per share. The new Series E-2 shares rank pari passu with the existing Series E shares except that they carry a times two (2x) liquidation preference.

On 1 December 2020, in connection with the acquisition of Setem Technologies Inc in 2017 and following completion of various closing conditions, the Company issued 10,971,079 Series D shares, 5,020,333 Ordinary shares and 2,310,306 warrants over Ordinary shares. The Series D shares rank pari passu with the existing Series D shares except they carry a times two (2x) liquidation preference. The warrants over Ordinary shares are exercisable at nominal value.

The Company grants share options to its employees and directors as part of their total remuneration and rewards packages.

At 31 December 2021 there were 172,722,868 (2020: 140,884,186) Ordinary share options in issue. Share options are conditional on the continued employment of staff members and are exercisable at between \$0.00013, \$0.0005 or \$0.0008 as per individual option agreements.

During the year, 7,712,275 (2020: 8,072,291) Ordinary shares were issued from exercised Ordinary share options.

The option scheme provides for options over Z preferred shares to be issued. These options vest immediately on grant and only become exercisable upon an exit event and in such circumstances replace any outstanding ordinary

## XMOS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2021

#### 23. Called-up share capital and reserves (continued)

share options. At 31 December 2021 a total of 1,580,552 (2020: 1,386,847) Z preferred options were outstanding. The Group has issued warrants over Ordinary shares with an exercise price of £0.0001 per warrant. At 31 December 2020 there were 15,910,644 (2020: 20,678,592) Ordinary share warrants, nil (2020: 1,650,000) 'B' share warrants and 29,973,518 (2020: 27,136,191) 'E2' share warrants in issue.

The Ordinary, 'A' ordinary and Series 'S', 'A', 'B', 'C', 'D' and 'E' shares rank pari passu in respect of their voting rights.

#### Other reserves

The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.

The merger reserve contains the premium arising from the issue of share capital in relation to the share for share acquisition of Setem Technologies Inc.

The equity reserve reflects the fair value of equity instruments to be issued under warrants or in connection with the convertible loan note.

The profit and loss reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

#### 24. Net cash/ (debt) reconciliation (excluding lease liabilities)

|                          | 1 January 2021 | Cash flows  | Other non-cash changes | 31 December 2021 |
|--------------------------|----------------|-------------|------------------------|------------------|
|                          | \$             | \$          | \$                     | \$               |
| Cash at bank and in hand | 12,140,428     | 550,922     | (76,946)               | 12,614,404       |
| Venture debt loan        | (3,714,092)    | (3,437,858) | 760,107                | (6,391,843)      |
| Convertible loan note    | (7,466,720)    | -           | 255,975                | (7,210,745)      |
| Net cash/(debt)          | 959,616        | (2,886,936) | 939,136                | (988,184)        |

#### 25. Related party transactions

The remuneration for key management personnel for the period totalled \$4,256,777 (2020: \$2,455,733), being remuneration included in note 8 of \$2,498,439 (2020: \$2,412,797) and share-based payment expenses of \$1,860,719 (2020: \$42,936). Key management are defined as the executive directors of the Company plus 8 (2020: 9) members of the senior management team of the Company.

#### 26. Financial commitments

The Company and Group had no capital commitments at the end of the year (2020: \$nil).

#### 27. Controlling party

In the opinion of the directors there is no ultimate controlling party, the controlling parties being the shareholders.