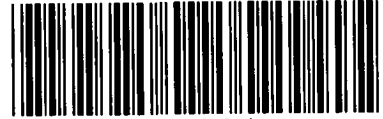




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Thought Machine Group Limited

Annual Report and Financial Statements

For the year ended 31 December 2020

Company Registration No. 11114277 (England and Wales)

Thought Machine Group Limited

Company Information

Directors

Mr R P Little
Dr P A Taylor
IQ Capital Directors Nominees Limited
Dr A J Phillipps
Mr P J Hayes
Mr V Jayakumar
Ms Z Fabian
Mr A M Maguire
Mr J C Morris (Appointed 1 September 2021)

Company number 11114277

Registered office 5 New Street Square
London
United Kingdom
EC4A 3TW

Auditor Grant Thornton UK LLP
30 Finsbury Square
London
United Kingdom
EC2A 1AG

Accountants Moore Kingston Smith LLP
Devonshire House
60 Goswell Road
London
United Kingdom
EC1M 7AD

Bankers Silicon Valley Bank
Alphabeta
14 - 18 Finsbury Square
London
United Kingdom
EC2A 1BR

Lawyers Taylor Wessing LLP
5 New Street Square
London
United Kingdom
EC4A 3TW

Thought Machine Group Limited

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Thought Machine Group Limited

Strategic Report

For the year ended 31 December 2020

The directors present the strategic report for the year ended 31 December 2020.

Principal activity

Thought Machine Group Limited's ("Thought Machine") principal business activity is the development of Vault, a cloud-native, core banking system. Vault is licensed to retail banking clients.

Fair review of the business

Revenue has reached £28.0m in 2020 (2019: £14.4m). This has been driven by contracted Vault licences and client sponsored development with existing clients including Lloyds, Atom and Standard Chartered, alongside new client wins including Curve, ING, Monese and National Bank of Canada.

In the year Thought Machine has continued to invest in its core technology and infrastructure. The organisation has significantly increased in size over the year with a team of 465 (2019: 272) full-time employees at year end.

Administrative expenses in the year were £56.5m (2019: £35.0m) driven by hiring and the related costs of a growing team. In line with this team growth, the company continues to build out the support functions and ensure the successful onboarding of new team members with an internal training programme. There is continuous investment in the culture of the company, which is key in recruiting and building a first-class team.

At year end, the directors report net assets at £49.1m (2019: £8.7m) with a loss for the financial year of £22.9m (2019: £20.8m).

In the year Thought Machine raised a total of £98.2m of equity in a Series B funding round from existing and new investors. As noted in the Director's Report, post year end the company closed the first part of a significant Series C funding round, with £88.5m in funding received as at the point of signing of the financial statements.

Key performance indicators

The company monitors performance using the following metrics:

- Turnover - £27,976,478 (2019: £14,404,508)
- Operating Loss - £28,517,087 (2019: £26,057,165)

The KPIs are monitored through review of management accounts, which at the Balance Sheet date were consistent with management's expectations.

Thought Machine Group Limited

Strategic Report (Continued)

For the year ended 31 December 2020

Principal risks

The principal risks for Thought Machine are financial losses or other material adverse impacts arising from:

- **Strategic / Macro Risks:** events in its market and political environment.
- **Information Security Risks:** events impacting the confidentiality, availability and integrity of Thought Machine's and its clients' data, systems & processes.
- **Product Quality & Performance Risks:** events impacting the quality, functionality, reliability and performance of our products.
- **Client Delivery & Services Risks:** events impacting our ability to deploy our products to our clients and to provide ongoing services to support them.
- **IT & Operations Risks:** inadequate or failed internal processes, systems, or policies, for example privileged access controls to our technology infrastructure or facilities, resulting in loss or dilution of our intellectual property
- **Legal & Compliance Risks:** non-compliance with our contractual, regulatory and other legal obligations.
- **Commercial & Financial Risks:** events impacting our commercial and financial position including loss of revenue, gross & net margin, liquidity and funding

Future developments

Thought Machine's plans for 2021 and future periods include:

- Continued investment in its core technology and infrastructure
- Investment in customer acquisition through global commercial expansion
- Execution of its long-term business plan
- Establishment of additional operations globally

Research and development activities

Thought Machine invests in the development of its own products, which the company elects not to capitalise in these accounts. The company claims Research and Development tax relief from HMRC and is expecting a tax credit of £3.9m in relation to the 2019 financial year.

On behalf of the board



Dr P A Taylor

Director

Date:

30/9/2021

Thought Machine Group Limited

Directors' Report

For the year ended 31 December 2020

The directors present their annual report and financial statements for the year ended 31 December 2020.

Principal activities

The principal business activity of the company and group is the development of Vault, a cloud-native, core banking system. Vault is licensed to retail banking clients.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were:

Mr R P Little

Dr P A Taylor

iQ Capital Directors Nominees Limited

Dr A J Phillipps

Mr P J Hayes

Mr V Jayakumar

Ms Z Fabian

Mr A M Maguire

Mr J C Morris

(Appointed 1 September 2021).

Results and dividends

The results for the year are set out on page 10. No ordinary dividends were paid. The directors do not recommend payment of a further dividend.

Post reporting date events

On 17th August 2021 the company closed the first part of a significant Series C funding round, with £88.5m in funding received as at the point of signing of the financial statements. Additional commitments are expected to take the total fundraising value to over £150m in funding with the final close due no later than November 2021.

Auditor

In accordance with the company's articles and following appointment in 2020, Grant Thornton UK LLP remains auditor of the Group.


Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the auditor of the company is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the auditor of the company is aware of that information.

Going Concern

The directors continue to adopt the going concern basis of accounting as described in more detail in note 1.2 of the accounting policies.

On behalf of the board


.....
Dr P A Taylor

Director

Date: 30/9/2021
.....

Thought Machine Group Limited

Directors' Responsibilities Statement

For the year ended 31 December 2020

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 group and company, 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 Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Thought Machine Group Limited

Independent Auditor's Report

To the Members of Thought Machine Group Limited

Opinion

We have audited the financial statements of Thought Machine Group Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2020 which comprise the Group Statement of Comprehensive Income, the Group Balance Sheet, the Company Balance Sheet, the Group Statement of Changes in Equity, the Company Statement of Changes in Equity, the Group Statement of Cash Flows and 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 Accounting Standards, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2020 and of its for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Other matter – prior year financial statements unaudited

The Group was not required to have a statutory audit for the year ended 31 December 2019 as it was entitled to exemption from the provision of the Companies Act 2006 relating to the audit of the financial statements for the period by virtue of Section 477 and no member or members requested an audit pursuant to Section 476 of the Act. Accordingly the corresponding figures for the year ended 31 December 2019 are unaudited.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the group or the parent company to cease to continue as a going concern.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the group's and the parent company's business model including effects arising from macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the group's and the parent company's financial resources or ability to continue operations over the going concern period.

Thought Machine Group Limited

Independent Auditor's Report

To the Members of Thought Machine Group Limited

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 the parent 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.

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.

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, 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.

In connection with our audit of the financial statements, 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 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 or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent 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.

Thought Machine Group Limited

Independent Auditor's Report

To the Members of Thought Machine Group Limited

Responsibilities of directors for the financial statements

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 parent 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 parent 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.

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

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. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

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 applicable to the Group, the Company and sector in which they operate. In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements such as: Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice), Companies Act 2006 and taxation laws including the application of local sales and use taxes and overseas permanent establishments.
- We understood how the Group and the Company are complying with those legal and regulatory frameworks through discussion with management, those charged with governance and from inspection of the Group and Company's board minutes.
- We assessed the susceptibility of the Group's and the Company's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the Group engagement team included:
 - identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
 - understanding how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
 - challenging assumptions and judgments made by management in its significant accounting estimates;

Thought Machine Group Limited

Independent Auditor's Report

To the Members of Thought Machine Group Limited

- identifying and testing journal entries, in particular any journal entries posted with unusual account combinations; and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

In addition, we completed audit procedures to conclude on the compliance of disclosures in the annual report and accounts with applicable financial reporting requirements.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

- All team members are qualified accountants or working towards that qualification and are considered to have sufficient knowledge and experience of companies of a similar size and complexity, appropriate to their role within the team. The engagement team are required to complete mandatory trainings on an annual basis, thus ensuring they have sufficient knowledge. The engagement team also engaged with tax specialists to address the risk of non-compliance relating to tax legislation.

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.

Grant Thornton UK LLP

Anthony Thomas
Senior Statutory Auditor
for and on behalf of Grant Thornton LLP
Senior Auditor, Chartered Accountants
London, United Kingdom

30 September 2021

Thought Machine Group Limited

Group Statement of Comprehensive Income

For the year ended 31 December 2020

		2020	2019
	Notes	£	unaudited* £
Turnover	5	27,976,478	14,404,508
Administrative expenses		(56,493,565)	(34,999,902)
Exceptional item	6		(5,461,771)
Operating loss	7	(28,517,087)	(26,057,165)
Interest receivable and similar income	5	1,411	919
Interest payable and similar expenses		(2,306)	(2,286)
Loss before taxation		(28,517,982)	(26,058,532)
Tax on loss	11	5,608,368	5,273,113
Loss for the financial year		(22,909,614)	(20,785,419)

Loss for the financial year is all attributable to the owners of the parent company.

Total comprehensive income for the year is all attributable to the owners of the parent company.

*This is the first year the company has presented consolidated accounts; hence the prior year numbers, in accordance with the Companies Act, have to be shown as 'unaudited' because there was technically no 'Group' in previous years. The numbers for TMG as a single company for 2019 were audited and published.

Thought Machine Group Limited

Group Balance Sheet

As at 31 December 2020

		2020		2019
	Notes	£	£	unaudited*
		£	£	£
Fixed assets				
Tangible assets	12		1,008,241	633,879
Current assets				
Debtors	16	17,732,265		10,359,022
Cash at bank and in hand		42,976,157		7,055,878
		<u>60,708,422</u>		<u>17,414,900</u>
Creditors: amounts falling due within one year	17	<u>(12,654,945)</u>		<u>(9,300,120)</u>
Net current assets			<u>48,053,477</u>	<u>8,114,780</u>
Total assets less current liabilities			<u>49,061,718</u>	<u>8,748,659</u>
Capital and reserves				
Called up share capital	20		17	11
Share premium account	21	102,549,775		18,279,294
Equity reserve	22	1,951,356		23,750,000
Profit and loss reserves		<u>(55,439,430)</u>		<u>(33,280,646)</u>
Total equity			<u>49,061,718</u>	<u>8,748,659</u>

The financial statements were approved by the board of directors and authorised for issue on 30/9/2021 and are signed on its behalf by:



 Dr P A Taylor
 Director

*This is the first year the company has presented consolidated accounts; hence the prior year numbers, in accordance with the Companies Act, have to be shown as 'unaudited' because there was technically no 'Group' in previous years. The numbers for TMG as a single company for 2019 were audited and published.

Thought Machine Group Limited

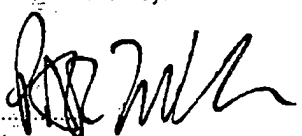
Company Balance Sheet

As at 31 December 2020

	Notes	2020 £	2019 unaudited* £
Fixed assets			
Tangible assets	12	960,324	633,879
Investments	13	29,592	-
		<u>989,916</u>	<u>633,879</u>
Current assets			
Debtors	16	19,840,436	10,359,022
Cash at bank and in hand		42,976,157	7,055,878
		<u>62,816,593</u>	<u>17,414,900</u>
Creditors: amounts falling due within one year	17	<u>(14,874,628)</u>	<u>(9,300,120)</u>
Net current assets		<u>47,941,965</u>	<u>8,114,780</u>
Total assets less current liabilities		<u>48,931,881</u>	<u>8,748,659</u>
Capital and reserves			
Called up share capital	20	17	11
Share premium account	21	102,549,775	18,279,294
Equity reserve	22	1,951,356	23,750,000
Profit and loss reserves		(55,569,267)	(33,280,646)
Total equity		<u>48,931,881</u>	<u>8,748,659</u>

As permitted by s408 Companies Act 2006, the company has not presented its own profit and loss account and related notes. The company's loss for the year was £23,039,451 (2019 - £20,785,419 loss).

The financial statements were approved by the board of directors and authorised for issue on 30/9/2021 and are signed on its behalf by:



 Dr P A Taylor
 Director

Company Registration No. 11114277

*This is the first year the company has presented consolidated accounts; hence the prior year numbers, in accordance with the Companies Act, have to be shown as 'unaudited' because there was technically no 'Group' in previous years. The numbers for TMG as a single company for 2019 were audited and published.

Thought Machine Group Limited

Group Statement of Changes in Equity

As at 31 December 2020

	Notes	Share capital £	Share premium account £	Equity reserve £	Profit and loss reserves £	Total £
As restated for the period ended 31 December 2019:						
Balance at 1 January 2019		11	18,279,294	-	(15,421,638)	2,857,667
Effect of change in accounting policy					(83,275)	(83,275)
As restated		11	18,279,294	-	(15,504,913)	2,774,392
Year ended 31 December 2019:						
Loss and total comprehensive income for the year					(20,785,419)	(20,785,419)
Issue of convertible loan				23,750,000		23,750,000
Credit to equity for equity settled share-based payments					3,009,686	3,009,686
Balance at 31 December 2019*		11	18,279,294	23,750,000	(33,280,646)	8,748,659
Year ended 31 December 2020:						
Loss and total comprehensive income for the year					(22,909,614)	(22,909,614)
Issue of share capital	20	6	62,471,837			62,471,843
Conversion of loan to shares	20		21,798,644	(21,798,644)		
Credit to equity for equity settled share-based payments					750,830	750,830
Balance at 31 December 2020		17	102,549,775	1,951,356	(55,439,430)	49,061,718

*This is the first year the company has presented consolidated accounts; hence the prior year numbers, in accordance with the Companies Act, have to be shown as 'unaudited' because there was technically no 'Group' in previous years. The numbers for TMG as a single company for 2019 were audited and published.

Thought Machine Group Limited

Company Statement of Changes in Equity

For the year ended 31 December 2020

	Notes	Share capital £	Share premium account £	Equity reserve £	Profit and loss reserves £	Total £
As restated for the period ended 31 December 2019:						
Balance at 1 January 2019		11	18,279,294	-	(15,421,638)	2,857,667
Effect of change in accounting policy		-	-	-	(83,275)	(83,275)
As restated		11	18,279,294	-	(15,504,913)	2,774,392
Year ended 31 December 2019:						
Loss and total comprehensive income for the year		-	-	-	(20,785,419)	(20,785,419)
Issue of convertible loan		-	-	23,750,000	-	23,750,000
Credit to equity for equity settled share-based payments		-	-	-	3,009,686	3,009,686
Balance at 31 December 2019*		11	18,279,294	23,750,000	(33,280,646)	8,748,659
Year ended 31 December 2020:						
Loss and total comprehensive income for the year		-	-	-	(23,039,451)	(23,039,451)
Issue of share capital	20	6	62,471,837	-	-	62,471,843
Conversion of loan to shares	20	-	21,798,644	(21,798,644)	-	-
Credit to equity for equity settled share-based payments		-	-	-	750,830	750,830
Balance at 31 December 2020		17	102,549,775	1,951,356	(55,596,267)	48,931,881

*This is the first year the company has presented consolidated accounts; hence the prior year numbers, in accordance with the Companies Act, have to be shown as 'unaudited' because there was technically no 'Group' in previous years. The numbers for TMG as a single company for 2019 were audited and published.

Thought Machine Group Limited

Group Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 £	2019 unaudited* £
Cash flows from operating activities			
Cash absorbed by operations	26	(27,333,427)	(24,448,577)
Interest paid		(2,306)	(2,286)
Income taxes refunded/(paid)		1,547,966	
Net cash outflow from operating activities		(25,787,767)	(24,450,863)
Investing activities			
Purchase of tangible fixed assets		(765,208)	(605,572)
Interest received		1,411	919
Net cash used in investing activities		(763,797)	(604,653)
Financing activities			
Proceeds from issue of shares		62,471,843	
Issue of convertible loans			23,750,000
Net cash generated from financing activities		62,471,843	23,750,000
Net increase/(decrease) in cash and cash equivalents		35,920,279	(1,305,516)
Cash and cash equivalents at beginning of year		7,055,878	8,361,394
Cash and cash equivalents at end of year		42,976,157	7,055,878

*This is the first year the company has presented consolidated accounts; hence the prior year numbers, in accordance with the Companies Act, have to be shown as 'unaudited' because there was technically no 'Group' in previous years. The numbers for TMG as a single company for 2019 were audited and published.

Thought Machine Group Limited

Notes to the Financial Statements

For the year ended 31 December 2020

1 Accounting policies

Company information

Thought Machine Group Limited ("the company") is a private limited company domiciled and incorporated in England and Wales. The registered office is 5 New Street Square, London, EC4A 3TW.

The group consists of Thought Machine Group Limited and all of its subsidiaries.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest pound.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

1.2 Basis of consolidation

The consolidated financial statements incorporate those of Thought Machine Group Limited and all of its subsidiaries (i.e. entities that the group controls through its power to govern the financial and operating policies so as to obtain economic benefits). Subsidiaries acquired during the year are consolidated using the purchase method. Their results are incorporated from the date that control passes.

All financial statements are made up to 31 December 2020. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation.

The group profit and loss account and statement of cash flows also include the results and cash flows of Thought Machine Pte Limited since its incorporation on 29 January 2020 and includes the results and cash flows of Thought Machine Pty Limited since its incorporation on 11 August 2020. Thought Machine Inc was incorporated on 12 February 2020 but has not traded in the period in advance of employees joining in early 2021.

1.3 Going concern

The uncertainty as to the future impact on the Group is considered as part of the Group's adoption of the going concern basis. Further consideration of this is disclosed in the Directors' Report and note 24 to these financial statements.

The material support for the going concern assumption is the successful fundraising at Series C of £88.5m subsequent to the financial year end; at the point at which the financial statements are signed. This is the first part of a round that will close in full in November 2021 at an approximate total of £150m in primary funding. This demonstrates strong investor confidence and commitment to the company's technology and its business plan.

1.4 Turnover

Revenue includes the provision of a licence to use Vault software. Provided the amount of revenue can be measured reliably and it is probable that the Group will receive consideration, revenue from the provision of a licence and follow up services is recognised from the licence start date over the period of the licence, which is also the period in which the services are rendered, on a straight-line basis.

Thought Machine Group Limited

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Licence revenues recognised on an accruals basis; when invoiced in advance, the income is deferred in the statement of financial position and recognised in the income statement over the length of the licence period. This policy is consistently applied across all customers and contracts.

Professional Services revenues related to the delivery and implementation of software, are recognised on an accruals basis, through time and materials recorded as the services are delivered.

Client Sponsored Development revenues are recognised on a straight-line basis, over the dates specified in signed statements of work, as the outcome can be reliably measured but the services are performed by an intermediate number of acts over the specified period of time.

1.5 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Fixtures and fittings	3 years straight-line
Computers	3 years straight-line

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is recognised in the profit and loss account.

1.6 Impairment of fixed assets

At each reporting period end date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Thought Machine Group Limited

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

1.7 Cash at bank and in hand

Cash at bank and in hand are basic financial assets and currently include cash in hand only.

1.8 Financial instruments

The group has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the group's balance sheet when the group becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the group transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Thought Machine Group Limited

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Classification of financial liabilities

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

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Derecognition of financial liabilities

Financial liabilities are derecognised when the group's contractual obligations expire or are discharged or cancelled.

1.9 Equity instruments

Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs.

1.10 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Thought Machine Group Limited

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

1.11 Provisions

Provisions are recognised when the group has a legal or constructive present obligation 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 reporting end date, taking into account the risks and uncertainties surrounding the obligation. Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value, the unwinding of the discount is recognised as a finance cost in profit or loss in the period in which it arises.

1.12 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.13 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

1.14 Share-based payments

Equity-settled share-based payments are measured at fair value at the date of grant by reference to the fair value of the equity instruments granted using the Black-Scholes model. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the estimate of shares that will eventually vest. A corresponding adjustment is made to equity.

1.15 Leases

Rentals payable under operating leases, including any lease incentives received, are charged to income on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

1.16 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the average or closing rates of exchange prevailing at the dates of the transactions, as appropriate. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the profit and loss account for the period.

Thought Machine Group Limited

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

2 Change in accounting policy

The group has implemented a change in accounting policy to expense development costs that would otherwise have been capitalised as Intangible fixed assets. This is to ensure that there is a more consistent application of accounting policies in line with the treatment of development costs on the core product, Vault.

A prior year adjustment has been included in these accounts and the impact of this on the group and company's profit and loss account and balance sheet are summarised in the following note.

3 Prior period adjustment

Changes to the balance sheet - company

	At 31 December 2019		
	As previously reported	Adjustment	As restated
	£	£	£
Fixed assets			
Goodwill	(212,358)	212,358	-
Other intangibles	705,829	(705,829)	-
Net assets	<u>9,242,130</u>	<u>(493,471)</u>	<u>8,748,659</u>
Capital and reserves			
Profit and loss	<u>(32,787,175)</u>	<u>(493,471)</u>	<u>(33,280,646)</u>

Thought Machine Group Limited
Notes to the Financial Statements (Continued)
For the year ended 31 December 2020

3 Prior period adjustment

Changes to the profit and loss account of company

	At 31 December 2019		
	As previously reported	Adjustment	As restated
	£	£	£
Administrative expenses	(34,589,706)	(410,196)	(34,999,902)
Loss for the financial period	(20,375,223)	(410,196)	(20,785,419)

4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Critical accounting judgements made by management over the period include:

Share Based Payments

Variables influencing equity-settled share-based payment, which are measured at fair value at the date of grant by reference to the fair value of the equity instruments granted using the Black-Scholes model. Judgements in this area include the expected time to achieve an exit.

Convertible Loan Notes

The directors have disclosed these instruments as equity. It is the directors' view that the substance of the agreements was to provide a temporary funding bridge to equity conversion shortly after year end, and it was commonly understood at the year end date by all parties that this was the case.

5 Turnover and other revenue

	2020	2019*
	£	£
Turnover		
Turnover	27,976,478	14,404,508

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Thought Machine Group Limited
Notes to the Financial Statements (Continued)
For the year ended 31 December 2020

5 Turnover and other revenue

	2020 £	2019* £
Other significant revenue		
Interest income	1,411	919

The company provides services to an international client base located in various geographical areas worldwide. In the opinion of the directors, the geographical location of the markets into which the company supplies services has no material impact on the commercial interests of the company. As such the markets are not deemed to differ substantially to each other and therefore no analysis of turnover attributable to each such market is required in the financial statements.

6 Exceptional costs	2020 £	2019* £
Settlement costs		5,461,771

The exceptional item relates to the settlement of a legal case that arose in prior periods. The amount in 2019 represents the final balancing payment above what was already provided for in relation to the settlement.

7 Operating loss	2020 £	2019* £
Operating loss for the year is stated after charging:		
Exchange losses	81,716	26,690
Depreciation of owned tangible fixed assets	390,846	188,415
Share-based payments	750,830	3,009,686
Operating lease charges	3,944,130	2,603,195

8 Auditor's remuneration	2020 £	2019* £
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the group and company	62,242	35,100
For other services		
Taxation compliance services	65,616	31,724
Other taxation services	72,100	36,308
All other non-audit services	26,270	52,648
	163,986	120,680

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For the year ended 31 December 2020

9 Employees

The average monthly number of persons (including directors) employed by the group and company during the year was:

	Group 2020 Number	Group 2019 Number	Company 2020 Number	Company 2019 Number*
C-suite	6	6	6	6
Commercial	27	11	21	11
Client Services	61	32	51	32
Engineering	215	127	214	127
Finance & Operations	36	22	35	22
People Operations	15	6	14	6
CEO Office	3		3	
	<u>363</u>	<u>204</u>	<u>344</u>	<u>204</u>

Their aggregate remuneration comprised:

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019* £
Wages and salaries	31,178,188	20,502,841	29,554,578	20,502,841
Social security costs	3,515,369	2,030,578	3,505,109	2,030,578
Pension costs	1,770,210	856,129	1,651,973	856,129
	<u>36,463,767</u>	<u>23,389,548</u>	<u>34,711,660</u>	<u>23,389,548</u>

10 Directors' remuneration

	2020 £	2019* £
Remuneration for qualifying services	194,522	150,000
Company pension contributions to defined contribution schemes	6,000	5,625
	<u>200,522</u>	<u>155,625</u>

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Notes to the Financial Statements (Continued)
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11 Taxation

	2020 £	2019* £
Current tax		
UK corporation tax on profits for the current period	(5,480,580)	(3,725,147)
Adjustments in respect of prior periods	(127,788)	(1,547,966)
Total current tax	<u>(5,608,368)</u>	<u>(5,273,113)</u>

The actual charge for the year can be reconciled to the expected charge based on the profit or loss and the standard rate of tax as follows:

	2020 £	2019* £
Loss before taxation	<u>(28,517,982)</u>	<u>(26,058,532)</u>
<i>Expected tax credit based on the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)</i>	(5,418,417)	(4,951,121)
Tax effect of expenses that are not deductible in determining taxable profit	186,768	24,683
Change in unrecognised deferred tax assets	3,535,628	2,766,502
Research and development tax credit	1,646,730	1,117,176
Share based payment charge	(1,343,956)	
Effect of overseas tax rates	(663)	
	(10,798)	
Enhanced deduction for expenditure on research and development	(3,992,619)	
Enhanced deduction for creative industries expenditure	(83,253)	(53,725)
R&D tax credits and creative industry scheme tax credits in respect of prior year	(127,788)	(1,547,966)
Prior year adjustment	-	77,937
Taxation credit for the year	<u>(5,608,368)</u>	
Taxation charge/(credit) in the financial statements	<u>(5,608,368)</u>	<u>(5,273,113)</u>

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Notes to the Financial Statements (Continued)
For the year ended 31 December 2020

12 Tangible fixed assets

Group	Fixtures and fittings	Computers	Total
	£	£	£
Cost			
At 1 January 2020	168,855	686,068	854,923
Additions	<u>154,659</u>	<u>610,549</u>	<u>765,208</u>
At 31 December 2020	<u>323,514</u>	<u>1,296,617</u>	<u>1,620,131</u>
Depreciation and impairment			
At 1 January 2020	47,726	173,318	221,044
Depreciation charged in the year	<u>69,929</u>	<u>320,917</u>	<u>390,846</u>
At 31 December 2020	<u>117,655</u>	<u>494,235</u>	<u>611,890</u>
Carrying amount			
At 31 December 2020	<u>205,859</u>	<u>802,382</u>	<u>1,008,241</u>
At 31 December 2019*	<u>121,129</u>	<u>512,750</u>	<u>633,879</u>
Company	Fixtures and fittings	Computers	Total
	£	£	£
Cost			
At 1 January 2020	168,855	686,068	854,923
Additions	<u>146,648</u>	<u>566,030</u>	<u>712,678</u>
At 31 December 2020	<u>315,503</u>	<u>1,252,098</u>	<u>1,567,601</u>
Depreciation and impairment			
At 1 January 2020	47,726	173,318	221,044
Depreciation charged in the year	<u>69,154</u>	<u>317,079</u>	<u>386,233</u>
At 31 December 2020	<u>116,880</u>	<u>490,397</u>	<u>607,277</u>
Carrying amount			
At 31 December 2020	<u>198,623</u>	<u>761,701</u>	<u>960,324</u>
At 31 December 2019*	<u>121,129</u>	<u>512,750</u>	<u>633,879</u>

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For the year ended 31 December 2020

13 Fixed asset investments

	Notes	Group 2020 £	Group 2019* £	Company 2020 £	Company 2019 £
Investments in subsidiaries	14			29,592	

Movements in fixed asset investments

Company	Shares in group undertakings
	£
Cost or valuation	
At 1 January 2020	
Additions	<u>29,592</u>
At 31 December 2020	<u>29,592</u>
Carrying amount	
At 31 December 2020	<u>29,592</u>
At 31 December 2019	

14 Subsidiaries

Details of the company's subsidiaries at 31 December 2020 are as follows:

Name of undertaking	Registered office	Nature of business	Class of shares held	% Held	
				Direct	Indirect
Thought Machine Pte Ltd	Singapore	Cloud Banking	Ordinary	100.00	0.00
Thought Machine Inc	USA	Cloud Banking	Ordinary	100.00	0.00
Thought Machine Pty Ltd	Australia	Cloud Banking	Ordinary	100.00	0.00

The registered offices for each subsidiary are as follows:

Thought Machine Pte Ltd - Distrii, Level 6, 9 Raffles Place, 1 Republic Plaza, Singapore 048619

Thought Machine Inc - 16192 Coastal Highway, Lewes, Delaware 19958, County of Sussex

Thought Machine Pty Ltd - Level 16, 201 Elizabeth Street. Sydney NSW 2000

***Unaudited.** This is the first year the company has presented consolidated accounts; hence the prior year numbers, in accordance with the Companies Act, have to be shown as 'unaudited' because there was technically no 'Group' in previous years. The numbers for TMG as a single company for 2019 were audited and published.

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Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

15 Financial instruments

	Group 2020 £	Group 2019* £	Company 2020 £	Company 2019 £
Carrying amount of financial assets				
Debt instruments measured at amortised cost	<u>7,910,018</u>	<u>5,044,838</u>	<u>10,104,461</u>	<u>5,044,838</u>
Carrying amount of financial liabilities				
Measured at amortised cost	<u>3,964,093</u>	<u>2,054,621</u>	<u>3,584,377</u>	<u>2,054,621</u>

Financial instruments represent balances payable to or receivable from another party which arise as a result of a contract. As at 31 December 2020 financial assets include trade and other debtors. Financial liabilities include accruals and trade and other creditors.

16 Debtors

	Group 2020 £	Group 2019* £	Company 2020 £	Company 2019 £
Amounts falling due within one year:				
Trade debtors	2,487,241	4,194,893	2,487,241	4,194,893
Corporation tax recoverable	9,353,322	5,273,113	9,353,322	5,273,113
Amounts due from group undertakings			2,230,759	
Other debtors	625,807	849,945	554,150	849,945
Prepayments and accrued income	5,265,895	41,071	5,214,964	41,071
	<u>17,732,265</u>	<u>10,359,022</u>	<u>19,840,436</u>	<u>10,359,022</u>

17 Creditors: amounts falling due within one year

	Group 2020 £	Group 2019* £	Company 2020 £	Company 2019 £
Notes				
Trade creditors	761,644	754,360	739,640	754,360
Amounts due to group undertakings			2,634,797	
Corporation tax payable	19,807			
Other taxation and social security	2,966,282	1,064,144	2,950,761	1,064,144
Deferred revenue	5,740,095	6,181,355	5,740,095	6,181,355
Other creditors	545,491	215,746	513,980	215,746
Accruals	2,621,626	1,084,515	2,295,355	1,084,515
	<u>12,654,945</u>	<u>9,300,120</u>	<u>14,874,628</u>	<u>9,300,120</u>

***Unaudited.** This is the first year the company has presented consolidated accounts; hence the prior year numbers, in accordance with the Companies Act, have to be shown as 'unaudited' because there was technically no 'Group' in previous years. The numbers for TMG as a single company for 2019 were audited and published.

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Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

18 Deferred revenue

	Group 2020 £	Group 2019* £	Company 2020 £	Company 2019 £
Deferred revenue	5,740,095	6,181,355	5,740,095	6,181,355

Deferred revenue relates to amounts received from customers for work that has not yet been delivered.

19 Retirement benefit schemes

	2020 £	2019 £
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	1,770,210	856,129

The group operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund. At balance sheet date, £426,763 (2019: £215,746) is included within other creditors due within one year in respect of costs incurred but not yet paid.

20 Share capital

	Group and company	
	2020 £	2019 £
Ordinary share capital		
Issued and fully paid		
5,363,909 Ordinary shares of 0.0001p each	5	6
0 Preference shares of 0.0001p each	-	5
4,881,813 Ordinary B1 shares of 0.0001p each	5	-
1,577,029 Ordinary B2 shares of 0.0001p each	2	-
4,677,904 Series A shares of 0.0001p each	5	-
	17	11

Ordinary shares have full voting rights attached to them. They give shareholders full dividend rights and capital distribution rights (including on winding up), subject to the rights of the preference shares. They do not confer any rights of redemption.

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Notes to the Financial Statements (Continued)

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21 Share premium account

	Group 2020 £	Group 2019* £	Company 2020 £	Company 2019 £
At beginning of year	18,279,294	18,279,294	18,279,294	18,279,294
Issue of new shares	62,471,837	-	62,471,837	-
On conversion	21,798,644	-	21,798,644	-
At end of year	<u>102,549,775</u>	<u>18,279,294</u>	<u>102,549,775</u>	<u>18,279,294</u>

22 Equity reserve

	Group 2020 £	2019* £	Company 2020 £	2019 £
At beginning of year	23,750,000		23,750,000	
Arising in the year		23,750,000		23,750,000
Transfer to share premium	(21,798,644)	-	(21,798,644)	-
At end of year	<u>1,951,356</u>	<u>23,750,000</u>	<u>1,951,356</u>	<u>23,750,000</u>

In November 2019 the company created unsecured convertible loan notes of £15,000,000, with interest payable on any outstanding notes at a rate of 5% per annum. Any outstanding notes shall be redeemed in full upon the earlier of the occurrence of an event of default; the date specified in a redemption notice by the company; the Longstop Date, being 10 months after the date of the instrument. Convertible loan notes totalling £11,000,000 were purchased during the period under this instrument.

In December 2019 the company created non-interest bearing and unsecured convertible loan notes of £12,750,000. Any outstanding notes shall be redeemed in full upon the earlier of the occurrence of an event of default; a change of control; the date specified in a redemption notice; the Longstop Date, being 31 December 2022. Convertible loan notes totalling £12,750,000 were purchased during the period under this instrument.

During the year, loan notes totalling £11,000,000 and loan notes totalling £10,798,644 under these instruments dated November 2019 and December 2019 respectively have been converted into ordinary share capital.

***Unaudited.** This is the first year the company has presented consolidated accounts; hence the prior year numbers, in accordance with the Companies Act, have to be shown as 'unaudited' because there was technically no 'Group' in previous years. The numbers for TMG as a single company for 2019 were audited and published.

Thought Machine Group Limited

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

23 Operating lease commitments

Lessee

At the reporting end date the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group 2020 £	Group 2019* £	Company 2020 £	Company 2019 £
Within one year	4,220,509	2,785,850	3,885,984	2,785,850
Between two and five years	2,249,047	-	1,942,992	-
	<u>6,469,556</u>	<u>2,785,850</u>	<u>5,828,976</u>	<u>2,785,850</u>

24 Post balance sheet events

Since the balance sheet date the following significant events are noted.

The company closed the first part of a significant Series C funding round on 17th August 2021, with £88.5m in funding received as at the point of signing of the financial statements. Additional commitments are expected to take the total fundraising value to over £150m in primary funding with the final close due no later than November 2021.

At the time of approving the financial statements the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future.

25 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel is as follows.

	2020 £	2019 £
Aggregate compensation	<u>200,522</u>	<u>155,625</u>

Thought Machine Group Limited

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Share options were granted to one director, deemed to be key management personnel, in the prior year totalling 410,000 with an exercise price of £0.00001. During the year, 82,000 of these options were exercised.

Other related party transactions

At the balance sheet date the company was owed amounts totalling £3,401 (2019: £2,482) from companies in which a director has significant control. The company was also owed amounts totalling £nil (2019: £18,051) from a director at the balance sheet date.

26 Controlling party

The directors are of the opinion that there is no one ultimate controlling party.

27 Cash generated from group operations

	2020	2019*
	£	£
Loss for the year after tax	(22,909,614)	(20,785,419)
Adjustments for:		
Taxation charged/(credited)	(5,608,368)	(5,273,113)
Finance costs	2,306	2,286
Investment income	(1,411)	(919)
Depreciation and impairment of tangible fixed assets	390,846	188,415
Equity settled share based payment expense	750,830	3,009,686
(Decrease) in provisions	-	(6,038,229)
Movements in working capital:		
(Increase)/decrease in debtors	(3,293,034)	3,580,165
Increase/(decrease) in creditors	3,776,278	(348,420)
(Decrease)/increase in deferred income	(441,260)	1,216,971
Cash absorbed by operations	(27,333,427)	(24,448,577)