

Company Registration Number 05494985

XMOS LIMITED

Annual report and consolidated financial statements

for the year ended 31 December 2020



XMOS LIMITED

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 2020

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XMOS LIMITED

DIRECTORS AND PROFESSIONAL ADVISERS

DIRECTORS

C W A Cotton
A G Duncan
W B Elmore
H M Hauser
H Jiang
M D Lippett
H K Mehta
J Meissner
A Urschitz
Y Valler

SECRETARY

OHS Secretaries Limited

REGISTERED OFFICE

107 Cheapside
London
EC2V 6DN

AUDITOR

BDO LLP
Statutory Auditor
Bridgewater House
Counterslip
Bristol
BS1 6BX

SOLICITORS

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

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 10.

XMOS Limited'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 Company sees continued revenue growth opportunities in 2021 across multiple sectors including, but not limited to, voice interfaces, conferencing and the consumer and professional audio markets.

During 2020, the Company has continued to enhance its voice interface and conferencing product offering for commercial and consumer applications. Significant investment continues to be made in the development of third and fourth generations of xCORE product families. First samples of xcore.ai, were received in Q2 2020 and the first variants will be ready for volume production in 2021. xcore.ai builds on unique xcore flexibility to deliver significant artificial intelligence and digital signal processing capability at a market leading price per compute. The Company intends to continue this research and development focus.

Total turnover increased by 48% from the previous year to \$13.8m. This encouraging 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 remains at a strong level of 60.1% compared to 60.3% in 2019.

The Company remains loss-making but the directors are satisfied by the year on year reduction in operating loss from \$9.2m in 2019 to \$5.7m in the current year.

Changes in accounting policy

During 2020 the directors reviewed the Company's accounting treatment for costs incurred in the development of new xCORE semiconductor chips. Previously these costs were expensed as incurred but moving forward these costs will be capitalised as an intangible fixed asset and amortised on a straight-line basis over four years. Amortisation will begin when a new chip reaches volume production.

The directors have also reviewed the Company's accounting treatment for the share for share acquisition of Setem Technologies Inc in 2017. This review has concluded that in line with the Companies Act 2006, the premium arising on the transaction should be classed as a merger reserve rather than credited to share premium account and that a separate reserve should have been created for the value of the warrants that were issued as purchase consideration..

Accordingly, the Group and Company comparative figures in the statement of comprehensive income, balance sheet and equity statement and notes have been restated to reflect these changes in accounting policy as prior period adjustments.

Post balance sheet events

On 21 July 2021, the Company and Group has extended its venture debt facility with Harbert European Growth Capital Fund such that it has access to additional funds of up to \$8,000,000 in addition to the drawn amount as at 31 December 2020. These funds will be available for drawdown until 30 June 2023.

XMOS LIMITED

STRATEGIC REPORT (continued)

Key performance indicators

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

	2020	2019 restated
Turnover (\$'000)	13,788	9,287
Gross margin percentage	60.1%	60.3%
Operating loss (\$'000)	5,746	9,197
Cash balance as at 31 December (\$'000)	12,140	9,752
Average number of employees	63	68

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 Company'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 Company'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 Company 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 Company 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 Company's products depends on its ongoing reliability.

Competition for product design wins, manufacturing capacity and key personnel

The Company operates in an industry that is intensely competitive and characterised by companies that are much larger and better resourced. If the Company 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 Company's financial health in the future.

XMOS LIMITED

STRATEGIC REPORT (continued)

Brexit

As the Company'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 Company's business.

Covid-19

Covid-19 has impacted all employees in all geographical locations, starting in China in January and moving to Western Europe and the US from March 2020 onwards. Since these dates, all Company employees have been working from home and business with customers, suppliers and colleagues has continued and been successfully conducted virtually. The directors expect that moving forward employees will adopt a hybrid working arrangement splitting time between home and a company office.

Future developments

The directors expect the general level of activity to increase in the coming year as a result of existing customer designs ramping to volume production and new design wins both in consumer and professional audio markets, and increasingly in the voice user interface market. The directors are working to mitigate the impact of the current global shortage of silicon chips to ensure we have sufficient supply to service this increased activity.

Approved by the Board and signed on its behalf by:



M Lippett
Director
8 September 2021

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 2020.

Future developments

Details of future developments can be found in the Strategic report on page 4 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 Company 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 \$12,140,428. Subsequent to the balance sheet date, the Group has extended its venture debt facility such that it has access to additional funds of up to \$8,000,000 in addition to the drawn amount as at 31 December 2020.

The directors have carefully considered the impact of the COVID-19 pandemic on the business as well as the impact of other factors such as the global supply shortage in the semi-conductor industry and particularly how revenue may be affected. 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 and it is therefore appropriate to adopt the going concern basis in preparing the annual financial statements.

Post balance sheet events

Post balance sheet events have been disclosed in the Strategic report.

Results and dividends

The directors do not propose the payment of a final dividend (2019: \$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 and subsequently, 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
8 September 2021

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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 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 Group and 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.

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 2020 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 2020 which comprise the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Company balance sheet, the Consolidated statement of changes in equity, the Company statement of changes in equity and 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 Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice)

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.

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 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 and 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.

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 Group's 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.

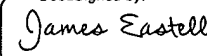
We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

10 September 2021

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

XMOS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020

	Note	2020 \$	2019 Restated \$
Turnover	3	13,787,776	9,286,903
Cost of sales		<u>(5,497,083)</u>	<u>(3,684,760)</u>
Gross profit		8,290,693	5,602,143
Other income	5	1,116,709	1,052,057
Administrative expenses		<u>(15,153,201)</u>	<u>(15,851,578)</u>
Operating loss		(5,745,799)	(9,197,378)
Net finance costs	4	<u>(1,053,953)</u>	<u>(81,554)</u>
Loss before taxation	5	(6,799,752)	(9,278,932)
Tax on loss	8	<u>1,551,518</u>	<u>1,118,121</u>
Loss for the financial year and total comprehensive loss attributable to the equity shareholders of the Company		<u>(5,248,234)</u>	<u>(8,160,811)</u>

All results relate to continuing operations.

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

XMOS LIMITED

CONSOLIDATED BALANCE SHEET
As at 31 December 2020

	Note	2020 \$	2019 Restated \$
Fixed assets			
Tangible assets	11	337,523	403,487
Intangible assets	12	4,169,552	3,081,106
		<u>4,507,075</u>	<u>3,484,593</u>
Current assets			
Stocks	14	1,843,428	2,224,857
Debtors – due within one year	15	3,963,078	3,175,240
Cash at bank and in hand		12,140,428	9,752,439
		<u>17,946,934</u>	<u>15,152,536</u>
Creditors: amounts falling due within one year	16	<u>(4,879,556)</u>	<u>(5,262,196)</u>
Net current assets		<u>13,067,378</u>	<u>9,890,340</u>
Total assets less current liabilities		17,574,453	13,374,933
Creditors: amounts falling due after more than one year	17	(9,727,706)	(3,399,278)
Provision for other liabilities	18	(750,000)	(565,000)
Net assets		<u><u>7,096,747</u></u>	<u><u>9,410,655</u></u>
Capital and reserves			
Called-up share capital	19	71,335	67,870
Share premium account	19	23,562,967	23,186,236
Merger reserve	19	3,477,191	1,738,600
Equity reserve	19	1,132,316	366,110
Profit and loss account	19	(21,147,062)	(15,948,161)
Shareholders' funds		<u><u>7,096,747</u></u>	<u><u>9,410,655</u></u>

The financial statements of XMOS Limited, registered number 05494985, were approved by the Board of Directors and authorised for issue on 8 September 2021. They were signed on its behalf by:



M Lippett
Director

XMOS LIMITED

COMPANY BALANCE SHEET
As at 31 December 2020

	Note	2020 \$	2019 Restated \$
Fixed assets			
Tangible assets	11	248,723	286,735
Intangible assets	12	4,169,552	2,043,932
Investments	13	1,746,232	1,746,232
		<u>6,164,507</u>	<u>4,076,899</u>
Current assets			
Stocks	14	1,843,428	2,224,857
Debtors - due within one year	15	3,939,097	3,128,180
Cash at bank and in hand		12,041,209	9,647,416
		<u>17,823,734</u>	<u>15,000,453</u>
Creditors: amounts falling due within one year	16	<u>(5,737,510)</u>	<u>(5,643,275)</u>
Net current assets		<u>12,086,224</u>	<u>9,357,178</u>
Total assets less current liabilities		<u>18,250,731</u>	<u>13,434,077</u>
Creditors: amounts due after more than one year	17	(9,727,706)	(3,399,278)
Provision for other liabilities	18	(750,000)	(565,000)
Net assets		<u><u>7,773,025</u></u>	<u><u>9,469,799</u></u>
Capital and reserves			
Called-up share capital	19	71,335	67,870
Share premium account	19	23,562,967	23,186,236
Merger reserve	19	3,477,191	1,738,600
Equity reserve	19	1,132,316	366,110
Profit and loss account	19	(20,470,784)	(15,889,017)
Shareholders' funds		<u><u>7,773,025</u></u>	<u><u>9,469,799</u></u>

The loss for the financial year dealt with in the financial statements of the parent Company was \$4,631,100 (2019 Restated: \$9,467,514).

The financial statements of XMOS Limited, registered number 05494985, were approved by the Board of Directors and authorised for issue on 8 September 2021. They were signed on its behalf by:



M Lippett
Director

XMOS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020

	Called up share capital	Share premium account	Merger reserve	Equity reserve	Profit and loss account	Total
	\$	\$	\$	\$	\$	\$
At 1 January 2019 (Restated)	61,862	16,323,102	1,738,600	366,110	(8,525,429)	9,964,245
Loss for the financial year being total comprehensive expense (as previously stated)	-	-	-	-	(10,204,743)	(10,204,743)
Prior year adjustment (note 23)	-	-	-	-	2,043,932	2,043,932
Loss for the financial year being total comprehensive expense (as restated)	-	-	-	-	(8,160,811)	(8,160,811)
Issue of share capital	6,008	6,863,134	-	-	-	6,869,142
Share based payments	-	-	-	-	738,079	738,079
At 31 December 2019	67,870	23,186,236	1,738,600	366,110	(15,948,161)	9,410,655
Loss for the financial year being total comprehensive expense	-	-	-	-	(5,248,234)	(5,248,234)
Recognition of compound 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
At 31 December 2020	71,335	23,562,967	3,477,191	1,132,316	(21,147,062)	7,096,747

XMOS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020

	Called up share capital	Share premium account	Merger reserve	Equity reserve	Profit and loss account	Total
	\$	\$	\$	\$	\$	\$
At 1 January 2019 (Restated)	61,862	16,323,102	1,738,600	366,110	(7,159,582)	11,330,092
Loss for the financial year being total comprehensive expense (as previously stated)	-	-	-	-	(11,511,446)	(11,511,446)
Prior year adjustment (note 23)	-	-	-	-	2,043,932	2,043,932
Loss for the financial year being total comprehensive expense (as restated)	-	-	-	-	(9,467,514)	(9,467,514)
Issue of share capital	6,008	6,863,134	-	-	-	6,869,142
Share based payments	-	-	-	-	738,079	738,079
At 31 December 2019	67,870	23,186,236	1,738,600	366,110	(15,889,017)	9,469,799
Loss for the financial year being total comprehensive expense	-	-	-	-	(4,631,100)	(4,631,100)
Recognition of Compound 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
At 31 December 2020	71,335	23,562,967	3,477,191	1,132,316	(20,470,784)	7,773,025

XMOS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2020

	Note	2020 \$	2019 Restated \$
Net cash outflow from operating activities	20	(1,377,774)	(6,765,325)
Cash flows from investing activities			
Purchase of equipment		(174,582)	(90,656)
Intangible fixed asset development		(2,125,620)	(2,043,932)
Interest received		<u>30,402</u>	<u>167,862</u>
Net cash outflow from investing activities		(2,269,800)	(1,966,726)
Cash flows from financing activities			
Proceeds on issue of shares		400,000	7,056,872
Cost of share issue		(21,876)	(187,730)
Proceeds on issue of debt instruments		6,400,000	4,000,000
Debt repayment		(455,698)	-
Cost of debt		-	(154,297)
Interest paid		<u>(368,296)</u>	<u>(72,433)</u>
Net cash inflows from financing activities		<u>5,954,130</u>	<u>10,642,412</u>
Net increase in cash and cash equivalents		2,306,556	1,910,361
Cash and cash equivalents at beginning of year		9,752,439	7,838,350
Effect of foreign exchange rate changes		<u>81,433</u>	<u>3,728</u>
Cash and cash equivalents at end of year		<u><u>12,140,428</u></u>	<u><u>9,752,439</u></u>

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. Accounting policies

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

a) 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 financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

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. The consolidated financial statements are also presented in US Dollars. Foreign operations are included in accordance with the policies set out below.

XMOS Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements in relation to the presentation of a cash flow statement and remuneration of key management personnel, which are presented alongside the consolidated financial statements. FRS 102 includes an exemption from certain of the disclosure requirements of Sections 11 and 12 for qualifying entities. The parent Company has taken this exemption in respect of its separate financial statements.

b) Change in accounting policy and prior period adjustment

During 2020 the directors reviewed the Company's accounting treatment for costs incurred in the development of new xCORE semiconductor chips. Previously these costs were expensed as incurred but moving forward these costs will be capitalised as an intangible fixed asset and amortised on a straight-line basis over four years. Amortisation will begin when a new chip reaches volume production. Accordingly, the Group and Company comparative figures in the statement of comprehensive income, balance sheet and equity statement and notes have been restated to reflect these changes in accounting policy as a prior period adjustment. Further details are included in note 23.

The directors have also reviewed the Company's accounting treatment for the share for share acquisition of Setem Technologies Inc in 2017. This review has concluded that in line with the Companies Act 2006, the premium arising on the transaction should have been classed as a merger reserve rather than credited to share premium and that a separate reserve should have been created for the value of the warrants that were issued as purchase consideration. Accordingly, in order to correct for these errors, the Group and Company comparative figures in the balance sheet and statement of changes in equity have been restated. The effect of this is to increase the value of the merger reserve as at 1 January 2019 by \$1,738,600 with a decrease in share premium by the same amount and to increase the value of the equity reserve as at 1 January 2019 by \$366,110 with a decrease to the profit and loss account by the same amount. There is no impact arising on the prior year Income Statement or total equity at 1 January 2019 from these corrections.

c) 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.

Business combinations are accounted for under the purchase method. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation. In accordance with Section 35 of FRS 102, Section 19 of FRS 102 has not been applied in these financial statements in respect of business combinations effected prior to the date of transition.

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

1. Accounting policies (continued)

d) Going concern

These financial statements have been prepared on a going concern basis. The Group had a year-end cash balance of \$12,140,428. Subsequent to the balance sheet date, the Group has extended its venture debt facility such that it has access to additional funds of up to \$8,000,000 in addition to the drawn venture debt loan amount as at 31 December 2020. See note 25.

The directors have carefully considered the impact of the COVID-19 pandemic on the business, as well as the impact of other factors such as the global supply shortage in the semi-conductor industry, and particularly how revenue may be affected. 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 and it is therefore appropriate to adopt the going concern basis in preparing the annual financial statements.

e) Business combinations and Intangible assets

Business combinations are accounted for using the acquisition method. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are included at fair value. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

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.

Goodwill is initially measured at cost, being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. 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 synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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. The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment annually and when circumstances indicate that the carrying amount may be impaired. Amortisation is provided on all intangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset, as follows:

Goodwill	straight-line over 36 months
Intellectual property	straight-line over 36 months

f) Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research is recognised as an expense when it is incurred.

Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight-line basis over their expected useful economic lives. Amortisation begins when the intangible asset is available for use, i.e. when it is in the location and available to generate revenue at scale.

The expected useful economic life of development costs are estimated based on business plans which set out the development plan and time to market for the associated project.

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2020

1. Accounting policies (continued)

f) Research and development (continued)

If it is not possible to distinguish between the research phase and the development phase of an internal project the expenditure is treated as if it were all incurred in the research phase only.

g) Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets 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 estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

h) Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. 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.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a finance transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the balance sheet when, and only when, there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

- (a) Returns to the holder are (i) a fixed amount; or (ii) a fixed rate of return over the life of the instrument; or (iii) a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate; or (iv) some combination of such fixed rate and variable rate, providing that both rates are positive.
- (b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
- (c) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in relevant taxation or law.
- (d) There are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provisions described in (c).

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) **For the year ended 31 December 2020**

1. Accounting policies (continued)

h) Financial instruments (continued)

Debt instruments that are classified as payable or receivable within one year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment. Other debt instruments not meeting these conditions are measured at fair value through profit or loss. Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

The discounted value of the liability portion of a loan with a convertible warrant option or conversion option is determined using an effective interest rate for an equivalent loan with a non-convertible warrant option or conversion. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity. The remainder of the proceeds are allocated to the conversion option. This is recognised and included in shareholders' funds. The applicable interest or 'discount' is recognised in the profit and loss account over the period of the borrowing.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all the risks and rewards of ownership of the financial asset, or c) the Group, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Investments

In the Company balance sheet, investments are measured at cost less impairment.

(iii) Equity instruments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

(v) Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

The fair value of the deferred purchase consideration is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

i) Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Cost is calculated using the FIFO (first-in, first-out) method. Provision is made for obsolete, slow-moving or defective items where appropriate.

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) **For the year ended 31 December 2020**

1. Accounting policies (continued)

j) 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

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

The recoverable amount of goodwill is derived from measurement of the present value of the future cash flows of the cash-generating units of which the goodwill is a part. Any impairment loss in respect of a CGU is allocated first to the goodwill attached to that CGU, and then to other assets within that CGU on a pro rata basis.

Where indicators exist for a decrease in impairment loss for assets other than goodwill, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired 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. Where a reversal of impairment occurs in respect of a CGU, the reversal is applied first to the assets (other than goodwill) of the CGU on a pro rata basis and then to any goodwill allocated to that CGU. Impairment of goodwill is never reversed.

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.

k) 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

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) **For the year ended 31 December 2020**

1. Accounting policies (continued)

k) Taxation (continued)

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. Deferred tax relating to property, plant and equipment measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset.

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

l) Government grants

Government grants are recognised when there is reasonable assurance that the Company will comply with the conditions attached to the grant and that the grant will be received. Grants are classified as relating either to revenue or to assets. Grants relating to revenue are recognised in income over the period in which the related costs are recognised. Grants relating to assets are recognised over the expected useful life of the asset. Where part of a grant relating to an asset is deferred, it is recognised as deferred income.

m) Turnover

Turnover is stated net of VAT and trade discounts and is recognised when the significant risks and rewards are considered to have been transferred to the buyer. Turnover from sales to direct customers 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.

Sales to distributors are made under agreements providing distributor price adjustments and rights of return under certain circumstances. Revenue and costs relating to distributor sales are deferred until products are sold by the distributors to the distributor's end customers. Revenue recognition depends on notification from the distributor that the product has been sold to the distributor's end customer.

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

Allowances for end customer sales returns are recorded based on historical experience and for known pending customer returns or allowances.

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) **For the year ended 31 December 2020**

1. Accounting policies (continued)

n) 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.

o) Interest receivable

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue 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.

p) Borrowing costs

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

q) 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.

r) Leases

Assets held under finance leases, hire purchase contracts and other similar arrangements, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets at the fair value of the leased asset (or, if lower, the present value of the minimum lease payments as determined at the inception of the lease) and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020

1. Accounting policies (continued)

r) Leases (continued)

lease obligations are recorded as liabilities, while the interest elements are charged to profit or loss over the period of the leases to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

s) Share-based payments

The Company issues equity-settled share options to employees within the Group. 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.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

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 grant date fair value of such instruments is estimated using a Black-Scholes option valuation model. This Black-Scholes option valuation model, and therefore the calculation of the fair value of the underlying instrument, requires the use of assumptions, including expected stock price volatility, the estimated life of each award and the estimated dividend yield. The total gross amount of recognised expenses associated with share-based payments is set out in note 10.

Goodwill, Intellectual Property and Investments

Determining whether the carrying values of goodwill, intellectual property 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

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2020

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

Goodwill, Intellectual Property and Investments (continued)

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, intellectual property and investments in subsidiary undertakings are shown in notes 12 and 13 respectively.

Financial instruments

Convertible loan note

It is necessary to determine an effective interest rate for this compound financial instrument to enable the present value of the future cash flows of this loan to be calculated as if it were a loan without any conversion opportunities. Such a rate has been selected with reference to market data.

It is uncertain how a 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 the convertible loan note are provided in note 17.

Venture debt facility

The venture debt facility entered into by the Company grants a warrant to the lender to subscribe for up to \$1.5m worth of the Company's shares. As such the debt facility is a compound financial instrument and requires that the instrument be split between a loan liability and equity.

The liability element is calculated using an estimated interest rate as if the facility operates without any access to an associated equity warrant. The initial liability is the present value of future cashflows calculated by applying this estimated interest rate with the remaining value of the instrument being classed as equity and classified as an equity reserve. Further details are provided in notes 17 and 19.

Key source 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.

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 18 for further details.

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

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2020

2. Turnover

All turnover 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:

	2020	2019
	\$	\$
Europe	5,981,361	4,842,724
Americas	1,976,570	1,206,335
Asia	5,829,845	3,237,844
	<u>13,787,776</u>	<u>9,286,903</u>

3. Finance (costs)/income

	2020	2019
	\$	\$
Bank interest receivable	30,402	167,862
Bank interest payable and similar expenses	(401,504)	(72,433)
Financial instruments finance costs	(682,851)	(176,983)
	<u>(1,053,953)</u>	<u>(81,554)</u>

4. Loss before taxation

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

	2020	2019
	\$	\$
Depreciation of tangible fixed assets (note 11)	240,546	248,098
Amortisation of intangible fixed assets (note 12)	1,037,174	1,227,881
Research and development	5,573,269	5,116,712
Operating lease rentals – land and buildings	350,142	327,476
Cost of stock recognised as expense	5,497,084	3,684,760
Government grants in respect of research and development projects included as Other income	(1,116,709)	(1,052,057)
Loss on foreign currency transactions	331,274	12,912
	<u>331,274</u>	<u>12,912</u>

Amortisation and depreciation charges are included within Administrative expenses. Included within the cost of sales expense is a stock impairment charge of \$197,413 (2019: \$177,275).

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

	2020	2019
	\$	\$
Fees payable to the Group's auditor and its associates for the audit of the Group's financial statements	<u>64,926</u>	<u>64,252</u>

	2020	2019
	\$	\$
Taxation compliance services	4,784	11,440
Other taxation advisory services	<u>8,201</u>	<u>3,050</u>

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2020

5. Staff numbers and costs

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

	Group 2020 Number	2019 Number	Company 2020 Number	2019 Number
Research and development	37	37	26	25
Sales and marketing	18	25	14	19
General and administration	8	6	6	6
	<u>63</u>	<u>68</u>	<u>46</u>	<u>50</u>

Their aggregate remuneration comprised:

	Group		Company	
	2020 \$	2019 \$	2020 \$	2019 \$
Wages and salaries	8,445,969	8,336,180	5,812,555	5,449,271
Social security costs	743,115	741,374	564,954	563,262
Other pension costs	183,524	188,014	183,524	188,014
Share-based payments (note 10)	49,333	738,079	49,333	738,079
	<u>9,421,941</u>	<u>10,003,647</u>	<u>6,610,366</u>	<u>6,938,626</u>

The Group operates a defined contribution retirement scheme for all qualifying employees. The total expense charged to the profit and loss account in the year ended 31 December 2020 was \$183,524 (2019: \$188,014).

6. Directors' remuneration

	2020 \$	2019 \$
Emoluments	527,439	565,738
Company contribution to money purchase pension schemes	15,092	11,278
	<u>542,531</u>	<u>577,016</u>

Remuneration of the highest paid director	2020 \$	2019 \$
Emoluments	329,784	330,534
Company contribution to money purchase pension schemes	15,092	11,278
	<u>344,876</u>	<u>341,812</u>

The highest paid director did not exercise any share options in either year.

	Number	Number
The number of directors who:		
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>4</u>	<u>4</u>

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2020

7. Tax on loss

The tax credit comprises:

	2020 \$	2019 \$
Current tax on loss		
UK corporation tax	(1,607,524)	(1,080,929)
Foreign tax	1,364	(4,192)
	<u>(1,606,160)</u>	<u>(1,085,121)</u>
Adjustments in respect of prior years	54,642	(33,000)
	<u>(1,551,518)</u>	<u>(1,118,121)</u>
Total current tax, being tax on loss		

The standard rate of tax applied to the reported loss is 19% (2019: 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 \$9,971,974 (2019: \$9,039,857).

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:

	2020 \$	2019 Restated \$
Loss on ordinary activities before tax	<u>(6,799,752)</u>	<u>(9,278,932)</u>
	\$	\$
Tax on Group loss on ordinary activities at standard UK corporation tax rate of 19% (2019: 19%)	(1,291,953)	(1,762,997)
Effects of:		
Expenses not deductible for tax purposes	865,242	413,471
Depreciation in excess of capital allowances	14,127	27,791
Adjustment in respect of pensions	-	(8,820)
Research and development tax credit claim	(1,112,873)	(1,080,929)
Other effects of R&D relief	467,550	600,446
Movement in losses carried forward	(378,290)	725,191
Higher tax rates on overseas earnings	-	726
Income not taxable for tax purposes	(106,781)	-
Foreign exchange	(63,182)	-
Adjustments in respect of prior years	54,642	(33,000)
	<u>(1,551,518)</u>	<u>(1,118,121)</u>
Group total tax credit for the year		

The standard rate of tax applied to the reported loss is 19% (2019: 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%.

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2020

8. Loss attributable to the Company

The loss for the financial year dealt with in the financial statements of the Company was \$4,631,100 (2019 Restated: \$9,467,514). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented in respect of the Company.

9. 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, and the vesting period is four years. The maximum term of the options is ten years and the options are all equity-settled. Options are forfeited if the employee leaves the Group before the options vest. 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, 9,958,710 Ordinary share options were issued to employees (2019: 49,322,301), 500,000 Ordinary share options were issued to non-executive directors and advisors (2019: 1,520,524) and 8,072,291 options (2019: 1,599,682) were exercised to buy Ordinary shares.

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

	2020		2019	
	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	145,522,277	0.0003	103,035,591	0.0003
Granted during the year	10,458,710	0.0001	50,842,825	0.0001
Exercised during the year	(8,072,291)	0.0001	(1,599,682)	0.0001
Lapsed during the year	(7,024,510)	0.0003	(6,756,457)	0.0003
Outstanding at the end of the year	140,884,186		145,522,277	

During the year, 99,587 Z share options were issued to employees (2019: 493,223), 5,000 Z share options were issued to non-executive directors and advisors (2019: 15,205) and nil options (2019: nil) were exercised.

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

	2020		2019	
	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	1,447,217	0.7091	1,022,354	0.7091
Granted during the year	104,587	0.6117	508,428	0.7091
Exercised during the year	-	n/a	-	n/a
Lapsed during the year	(164,957)	0.7091	(83,565)	0.7091
Outstanding at the end of the year	1,386,847		1,447,217	

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2020

10. Share-based payments (continued)

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 \$49,333 (2019: \$738,079) related to equity-settled share-based payment transactions.

10. Tangible fixed assets

Group	Leasehold improvements \$	Computer equipment \$	Total \$
Cost			
At 1 January 2020	473,885	465,804	939,689
Additions	-	174,582	174,582
Disposals	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 December 2020	473,885	640,386	1,114,271
Depreciation			
At 1 January 2020	197,301	338,901	536,202
Charge for the year	92,187	148,359	240,546
Disposals	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 December 2020	289,488	487,260	776,748
Net book value			
At 31 December 2020	<u>184,397</u>	<u>153,126</u>	<u>337,523</u>
At 31 December 2019	<u>276,584</u>	<u>126,903</u>	<u>403,487</u>

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2020

11. Tangible fixed assets (continued)

Company	Leasehold improvements \$	Computer equipment \$	Total \$
Cost			
At 1 January 2020	355,372	401,304	756,676
Additions	-	167,058	167,058
Disposals	-	-	-
At 31 December 2020	<u>355,372</u>	<u>568,362</u>	<u>923,734</u>
Depreciation			
At 1 January 2020	166,617	303,324	469,941
Charge for the year	74,355	130,715	205,070
Disposals	-	-	-
At 31 December 2020	<u>240,972</u>	<u>434,039</u>	<u>665,011</u>
Net book value			
At 31 December 2020	<u>114,400</u>	<u>134,323</u>	<u>248,723</u>
At 31 December 2019	<u>188,755</u>	<u>97,980</u>	<u>286,735</u>

11. Intangible assets

Group	Development costs Restated \$	Intellectual property \$	Goodwill \$	Total Restated \$
Cost				
At 1 January 2020	2,043,932	1,800,000	2,511,523	6,355,455
Additions	2,125,620	-	-	2,125,620
At 31 December 2020	<u>4,169,552</u>	<u>1,800,000</u>	<u>2,511,523</u>	<u>8,481,075</u>
Amortisation				
At 1 January 2020	-	1,600,000	1,674,349	3,274,349
Charge for the year	-	200,000	837,174	1,037,174
At 31 December 2020	<u>-</u>	<u>1,800,000</u>	<u>2,302,229</u>	<u>4,102,229</u>
Net book value				
At 31 December 2020	<u>4,169,552</u>	<u>-</u>	<u>-</u>	<u>4,169,552</u>
At 31 December 2019	<u>2,043,932</u>	<u>200,000</u>	<u>837,174</u>	<u>3,081,106</u>

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2020

12. Intangible assets (continued)

The development costs of the xcore.ai chip comprise internal staff costs and costs for external consultancy, IP and tape out charges incurred in the development of the xcore.ai chip. 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.

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 being the period considered appropriate for these types of assets. The goodwill resulting from the Setem Technologies Inc acquisition last year is being amortised on a straight-line basis over a three-year period, being the period considered appropriate.

Company	Development costs Restated \$	Total Restated \$
Cost		
At 1 January 2020	2,043,932	2,043,932
Additions	2,125,620	2,125,620
At 31 December 2020	<u>4,169,552</u>	<u>4,169,552</u>
Amortisation		
At 1 January 2020	-	-
Charge for the year	-	-
At 31 December 2020	<u>-</u>	<u>-</u>
Net book value		
At 31 December 2020	<u>4,169,552</u>	<u>4,169,552</u>
At 31 December 2019	<u>2,043,932</u>	<u>2,043,932</u>

12. Fixed asset investments

Subsidiary undertakings	2020 \$	Company 2019 \$
Cost	4,030,814	4,030,814
Provision for impairment	(2,284,582)	(2,284,582)
Carrying value	<u>1,746,232</u>	<u>1,746,232</u>

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2020

13. Fixed asset investments (continued)

Investments

The parent 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 \$390,136 (2019: \$204,755) and as at 31 December 2020 net assets were \$907,831 (2019: \$484,695).

XMOS Semiconductor India PVT Ltd made a loss during the year of \$6,971 (2019: loss of \$11,939) and as at 31 December 2020 net assets were \$18,764 (2019: \$25,735).

XMOS Asia Ltd made a profit during the year of \$29,713 (2018: profit of \$15,009) and as at 31 December 2020 net assets were \$79,857 (2019: \$50,144).

XMOS GK made a profit during the year of \$224 (2019: \$9,177) and as at 31 December 2020 net assets were \$56,583 (2019: \$56,261).

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.

	2020 \$	2019 \$
Investments in subsidiary companies		
XMOS Inc	1,743,026	1,743,026
XMOS Asia Ltd	1,287	1,287
XMOS GK	98	98
XMOS Semiconductor India PVT Ltd	1,821	1,821
	<u>1,746,232</u>	<u>1,746,232</u>

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2020

13. Stocks

	Group and Company	
	2020	2019
	\$	\$
Raw materials and consumables	-	8,385
Work in progress	837,682	682,856
Finished goods and goods for resale	1,005,746	1,533,616
	<u>1,843,428</u>	<u>2,224,857</u>

15. Debtors

	Group		Company	
	2020	2019	2020	2019
	\$	\$	\$	\$
Amounts falling due within one year:				
Trade debtors	1,576,149	1,186,229	1,576,149	1,186,229
VAT	69,941	45,362	68,766	43,135
Other debtors	295,479	156,965	287,823	154,897
Prepayments and accrued income	419,178	549,012	400,758	528,874
Corporation tax	1,602,331	1,237,672	1,605,601	1,215,045
	<u>3,963,078</u>	<u>3,175,240</u>	<u>3,939,097</u>	<u>3,128,180</u>

16. Creditors: amounts falling due within one year

	Group		Company	
	2020	2019	2020	2019
	\$	\$	\$	\$
Trade creditors	537,208	541,492	526,621	487,788
Amounts owed to Group undertakings	-	-	985,689	626,084
Other taxation and social security	125,158	147,612	124,872	139,161
Other creditors	20,130	80,752	1,248	6,675
Accruals and deferred income	2,743,954	2,041,730	2,645,974	1,932,957
Loan (note 17)	1,453,106	491,650	1,453,106	491,650
Deferred purchase consideration	-	1,958,960	-	1,958,960
	<u>4,879,556</u>	<u>5,262,196</u>	<u>5,737,510</u>	<u>5,643,275</u>

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

The Deferred purchase consideration balance shown in the prior year represented the discounted fair value of shares still to be issued to the Setem Technologies Inc shareholders following the acquisition of that company in 2017. These shares were issued in December 2020.

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2020

17. Creditors: amounts falling due after more than one year

	Group and Company 2020	2019
	\$	\$
Convertible loan note	7,466,720	-
Venture debt loan	2,260,986	3,399,278
	<u>9,727,706</u>	<u>3,399,278</u>

In July 2019, the Company signed a secured venture debt facility with Harbert European Growth Capital Fund of up to \$12m. The facility is available in multiple tranches to be drawn no later than March 2021 subject to certain drawdown constraints. As part of the facility, the lender has been granted a warrant to subscribe for up to \$1.5m worth of the Company's shares. 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 19).

In November 2019, the first tranche of \$4m was drawn down. All amounts are interest-bearing at a rate of 10% per annum and the loan is denominated in Euros.

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. This loan note was part of the British Business Bank's Future Fund initiative, in response to the Covid-19 pandemic, to support start-up and scale-up venture backed businesses. The convertible loan note is denominated in Sterling.

The note has a three-year term and will attract interest at an annual rate of 8%, payable either on repayment or via conversion to equity. The note will convert into equity on a future funding round, with a 20% discount. At the end of the three-year 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 is as follows:

	2020	Group and Company 2019
	\$	\$
Within one year	1,453,106	491,650
Between one and two years	1,534,308	1,355,267
Between two and five years	8,193,398	2,044,011
	<u>11,180,812</u>	<u>3,890,928</u>

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2020

18. Provision for other liabilities

	2020 \$	2019 \$
Group and Company		
At 1 January	565,000	-
Charged to profit or loss	185,000	565,000
	<u>750,000</u>	<u>565,000</u>
At 31 December	<u>750,000</u>	<u>565,000</u>

In the prior year, the Group and Company recognised a provision in relation to two matters, a contractual dispute and a product warranty issue. Due to the ongoing nature of these matters at that time the directors believed that it would be seriously prejudicial for further details of either matter to be disclosed when they may impact ongoing discussions. Therefore, the Company has claimed the exemption provided by FRS102 which allows for disclosures to be withheld.

During the current year, the contractual dispute was settled in full.

The settlement of the product warranty issue was agreed in principle by all parties by the balance sheet date but not all details of the settlement were finalised until after this date. The settlement included the receipt of financial compensation from a third party in the form of a trade discount to be crystallised by future purchases made from this third party. At the balance sheet date, this amount is contingent in nature and therefore does not meet the criteria for an asset to be recognised.

19. Called-up share capital and reserves

	2020 Number	2020 \$	2019 Number	2019 \$
Allotted, called-up and fully-paid				
Ordinary shares of £0.0001 each	61,265,551	7,470	48,172,927	6,411
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	179,355,311	29,493
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	44,486,909	5,722
	<u>480,870,138</u>	<u>71,335</u>	<u>454,284,369</u>	<u>67,870</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.

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) **For the year ended 31 December 2020**

19. Called-up share capital and reserves (continued)

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

At 31 December 2020 there were 140,884,186 (2019: 145,522,277) 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, 8,072,291 (2019: 1,599,682) 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 share options. At 31 December 2020 a total of 1,386,847 (2019: 1,447,217) 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 20,678,592 (2019: 18,368,286) Ordinary share warrants, 1,650,000 (2018: 1,650,000) 'B' share warrants and 27,136,191 (2019: 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.

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2020

20. Cash flow statement

Reconciliation of operating loss to cash generated by operations:

	2020 \$	2019 Restated \$
Operating loss	(5,745,799)	(9,197,378)
Adjustment for:		
Share-based payment charge	49,333	738,079
Amortisation of intangible assets	1,037,174	1,227,881
Depreciation of tangible fixed assets	240,547	248,098
Increase in provisions	185,000	565,000
Unrealised foreign exchange (gains)/losses	1,127,064	109,005
R&D expenditure credit	<u>(65,257)</u>	<u>(134,116)</u>
Operating cash flow before movement in working capital	(3,171,938)	(6,443,431)
Decrease/ (increase) in stocks	381,429	(101,941)
Increase in debtors	(423,179)	(618,822)
Increase/ (decrease) in creditors	<u>581,656</u>	<u>(377,335)</u>
Cash outflow from operations	(2,632,032)	(7,541,529)
R&D tax credit received	1,254,258	776,204
Net cash flows from operating activities	<u>(1,377,774)</u>	<u>(6,765,325)</u>

Net cash/(debt) reconciliation

	1 January 2020 \$	Cash flows \$	Other non-cash changes \$	31 December 2020 \$
Cash at bank and in hand	9,752,439	2,306,556	81,433	12,140,428
Bank loans	(3,890,928)	455,697	(278,861)	(3,714,092)
Convertible loan note	-	(6,400,000)	(1,066,720)	(7,466,720)
Net cash/(debt)	<u>5,861,511</u>	<u>(3,637,747)</u>	<u>(1,264,148)</u>	<u>959,616</u>

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2020

21. Related party transactions

The remuneration for key management personnel for the period totalled \$2,455,733 (2019: \$2,346,372), being remuneration included in note 6 of \$2,412,797 (2019: \$1,920,087) and share-based payment expenses of \$42,936 (2019: \$426,285). Key management are defined as the executive director of the Company plus 9 (2019: 7) members of the senior management team of the Company.

22. Financial commitments

The Company and Group had no capital commitments at the end of the year (2019: \$nil).

Total future minimum lease payments under non-cancellable operating leases in respect of the Company and the Group are as follows:

	Land and buildings	
	2020	2019
	\$	\$
Within one year	307,171	321,736
Between two and five years	164,932	466,346

23. Prior year adjustment

Consolidated statement of changes in equity

	Called-up share capital	Share premium account	Profit and loss account	Total
	\$	\$	\$	\$
At 31 December 2019 as previously stated	67,870	25,290,946	(18,730,173)	7,366,723
Changes due to prior period adjustment				
Decrease in loss for the financial year	-	-	2,043,932	2,043,932
At 1 January 2020 as restated	67,870	25,290,946	(15,948,161)	9,410,655

Company statement of changes in equity

	Called-up share capital	Share premium account	Profit and loss account	Total
	\$	\$	\$	\$
At 31 December 2019 as previously stated	67,870	25,290,946	(17,932,949)	7,425,867
Changes due to prior period adjustments				
Decrease in loss for the financial year	-	-	2,043,932	2,043,932
At 1 January 2020 as restated	67,870	25,290,946	(15,889,017)	9,469,799

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2019

23. Prior year adjustment (continued)

During 2020 the Directors reviewed the Company's accounting policy of costs incurred in the development of new silicon chip hardware and architecture. These costs include staff costs of employees, working to develop the chip and related software tools, and third party costs including consultancy, IP and tape out costs.

Previously these costs were expensed as incurred. Moving forward these costs will be capitalised as an intangible fixed asset and amortised on a straight-line basis over four years. Amortisation will begin when a new chip reaches volume production.

The directors have also reviewed the Company's accounting treatment for the share for share acquisition of Setem Technologies Inc in 2017. This review has concluded that in line with the Companies Act 2006, the premium arising on the transaction should be classed as a merger reserve rather than being part of the share premium account and that a separate reserve should have been created for the value of the warrants that were issued as purchase consideration.

Accordingly, the Group and Company comparative figures in the statement of comprehensive income, balance sheet and equity statement and notes have been restated to reflect these prior period adjustments. There was no impact on total equity as at 1 January 2019, the start of the earliest period presented in these financial statements.

The effects of the prior period adjustment are summarised below:

Group and company

	2019 \$
Statement of comprehensive income	
Administrative expenses	2,043,932
	<hr/>
Decrease in loss for the financial year	<u>2,043,932</u>

	2019 \$
Balance sheet	
Intangible fixed assets	2,043,932
	<hr/>
Increase in net assets for the financial year	<u>2,043,932</u>

24. Controlling party

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

25. Post balance sheet events

On 21 July 2021, the Company and Group extended its venture debt facility with Harbert European Growth Capital Fund such that it has access to additional funds of up to \$8,000,000 in addition to the drawn amount loan amount as at 31 December 2020. These funds will be available for drawdown until 30 June 2023.