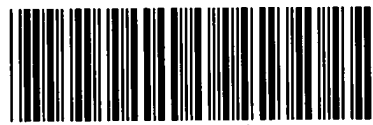


COMPANY REGISTRATION NUMBER 08683015

**ROCKLEY PHOTONICS LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2020**

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ROCKLEY PHOTONICS LIMITED
FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2020

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ROCKLEY PHOTONICS LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

The Board of Directors

Dr A. G. Rickman
Mr M. Karanth
Mr C. L. Rooney

Company Secretary

Mrs A. L. Finn

Registered Office

3rd Floor
1 Ashley Road
Altrincham
Cheshire
WA14 2DT
United Kingdom

Auditor

Ernst & Young LLP
1 Cambridge Business Park
Cowley Road
Cambridge
CB4 0WZ
United Kingdom

Bankers

Bank of America Merrill Lynch
2 King Edward Street
London
EC1A 1HQ
United Kingdom

Solicitors / General Counsel

Pillsbury Winthrop Shaw Pittman LLP
Tower 42, Level 21
25 Old Broad Street
London
EC2N 1HQ
United Kingdom

ROCKLEY PHOTONICS LIMITED

THE STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2020

The directors present the Strategic Report of Rockley Photonics Limited (the "Company") for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

Rockley Photonics Limited and its subsidiary entities (together, "we", "us", "our", "Rockley" or "the Company") was founded in 2013. We specialize in the research and development of integrated silicon photonics chipsets and have developed a versatile, application specific, third-generation silicon photonics platform specifically designed for the optical integration challenges facing numerous mega-trend markets. We have partnered with multiple tier-1 customers across the markets to deliver complex optical systems required for transformational sensor, communications, and medical product realization.

BUSINESS REVIEW

At 31 December 2020 the Group was in the seventh full year of the development phase of its business plan and recorded a 9% increase in revenue at \$22.3m. Spend on research and development increased from \$67.5m to \$76.7m.

On 11 August 2021 the Company completed its business combination with SC Health Corp. ("SC Health") and in connection with the closing, the Company and its subsidiaries became wholly-owned subsidiaries of Rockley Photonics Holdings Limited and commenced trading on the NYSE under the new ticker symbol "RKLY" beginning August 12, 2021. The transaction was approved by SC Health's shareholders and the High Court of Justice of England and Wales approved the Scheme of Arrangement on August 6 and August 9, 2021, respectively.

The approximately \$167.8 million in gross proceeds available to Rockley following the combination is expected to enable the Company to accelerate the commercial launch of its unique sensing platform and execute the 2023 and 2024 revenue projections as outlined in prior investor presentations. The platform is positioned to revolutionize consumer health and wellness by enabling continuous, non-invasive monitoring of multiple biomarkers, including core body temperature, blood pressure, body hydration, alcohol, lactate, and glucose, among others. Rockley is working closely and deeply with some of the world's largest manufacturers in the consumer electronics and wearables industry to develop a "clinic-on-the-wrist" digital health sensor system. Rockley's end-to-end sensing platform will combine hardware and application firmware in a module for OEM manufacturers that can be augmented with cloud analytics for certain clinical/medical partnership applications, enabling them to provide meaningful and actionable insights to their end users.

For further details on the business outlook please refer to Rockley Photonics website at www.rockleyphotonics.com.

See also the post balance sheet event note below for further details.

PRIOR YEAR ADJUSTMENTS

As part of the transition to the listing on the NYSE as noted above in the Strategic Report, results for prior years were restated to US GAAP. In undertaking this detailed exercise, the Directors also identified a number of prior year errors that have been corrected in these IFRS based accounts. The adjustments are discussed in detail in note 1 on pages 19 to 20.

MANAGEMENT TEAM

The team is expanding according to plan with further world-class talent recruited during the year.

ROCKLEY PHOTONICS LIMITED

THE STRATEGIC REPORT (CONTINUED)

YEAR ENDED 31 DECEMBER 2020

PERFORMANCE INDICATORS

During this development phase traditional financial key performance indicators are not considered to be relevant and instead the Directors have monitored the financial performance of the Group by reference to the detailed budgets contained within the business plan. The Directors also regularly consider non-financial performance aspects, such as the progress of the technical development and whether this is on course with the business plan. For the year ended 31 December 2020 the Directors are satisfied with the overall performance of the Group, which is largely on track with the business plan.

FUTURE DEVELOPMENTS

These are discussed in the business review section on page 2.

PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of risks and uncertainties which could impact the Group's long-term performance. It is subject to the same general risks and uncertainties as any other business for example, the impact of changes in the general economic conditions including currency and interest rate fluctuations and the impact of competition, natural disasters and sourcing of materials.

Senior management conducts regular risk reviews to establish the likelihood and impact of risks assessed.

Outlined below is a description of the principal risks and uncertainties that are specific to the business. Not all these factors are within the Group's control. There may be other risks and uncertainties which are unknown to the Group or which may not be material now but could turn out to be material in the future. These risks and uncertainties are also discussed in more detail in documents filed under the investor section of the Rockley Photonics website.

(a) Global pandemic

The COVID-19 global pandemic has prompted extraordinary measures by governments and businesses to control the spread of COVID-19 in most or all regions throughout the world. These actions have included travel bans, quarantines, and similar mandates for individuals to substantially restrict normal activities and for businesses to curtail normal operations.

The COVID-19 pandemic has impacted our operational efficiency and caused some delays in operational activities. We continue to take cautious steps to protect our workforce, support community efforts, and follow local government guidelines. Certain key laboratory employees and facilities have continued internal testing and laboratory work to the extent necessary to service customer commitments. The remaining non-essential workforce were recommended to continue performing their duties from home. The ongoing impact will depend on the duration of the pandemic which is being mitigated by the vaccination of the general population and gradual easing of restrictions

ROCKLEY PHOTONICS LIMITED

THE STRATEGIC REPORT (CONTINUED)

YEAR ENDED 31 DECEMBER 2020

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

(b) Brexit

The United Kingdom's exiting of the European Union on 31 January 2021, as well as the single market and customs union (commonly referred to as 'Brexit'), has caused some minor disruption to our business but the impact has been minimal. We continue to monitor for any uncertainty surrounding our business, including relationships with existing and future customers, suppliers and employees. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws, regulations and standards which could add operational complexity and costs to its business.

The Board keeps this matter under review and has undertaken various assessments. These reviews have concluded that the business's current structure and processes in place should ensure that any disruption will not be significant, although it remains alert to the ongoing practical impact of implementing the recently agreed trade deal between the UK and the EU. The Board will take any necessary action, should its operational or business model need adjusting.

(c) Customers

The Group's business, consistent with the rest of the industry, comes primarily from a few key customers. The loss of one of these customers or a significant reduction in sales to one of these customers would have a materially adverse effect on its business. The Group's strategy is to maintain a strong strategic relationship with these accounts, which it has been very successful at and grow new major accounts in order to mitigate this risk.

(d) Commercialisation

If the Company does not fully develop or commercialize its products and services, or if such products and services experience significant delays, the Company's business, financial condition, and results of operation will be materially and adversely affected.

If the end products into which the Company's products are incorporated are not fully developed and commercialized or do not achieve widespread market acceptance, or if such products experience delays, cancellations, or reductions, or if the Company's products are not selected for inclusion in its customers' end products, are not adopted in other industry verticals or use cases, or are not adopted by leading consumer and medical device companies, the Company's business will be materially and adversely affected.

(e) Key suppliers

The Group could be disrupted by the loss of a key supplier. The Group uses a number of supplier foundries in different regions, where feasible, to ensure alternative sourcing supply to reduce the risk of a natural disaster affecting the supply chain.

(f) Foreign exchange

As the Group's business is international in nature it is exposed to risks associated with changes in foreign currency rates, in particular movements in both the GBP pound and Euro. The Group seeks to reduce its exposure by regular purchasing of foreign currency, yet such methods cannot remove all currency risk to the Group's trading performance.

ROCKLEY PHOTONICS LIMITED

THE STRATEGIC REPORT (CONTINUED)

YEAR ENDED 31 DECEMBER 2020

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

(g) Intellectual property

The Group has patent, registered design and trademark protection on all key intellectual property. This protection is executed in all important markets. The Group will continue to actively monitor any intellectual property infringements.

(h) Interest rate risk

The Group has an interest-bearing liability including a term loan and convertible loan notes. Non-cash interest charges on loan notes are calculated at the time of conversion to equity based on fair market values, so interest charges can fluctuate. Any cash paid interest is at a fixed rate so will not fluctuate.

POST BALANCE SHEET EVENTS

- a) In early 2021, the Company issued convertible notes bearing interest at a rate of 5.0% per annum. The terms of the notes are similar to the 2020 Convertible Notes. The Company received \$25.0 million on January 5, 2021, \$10.0 million on January 13, 2021, and \$30.0 million on January 18, 2021. The Company also received \$11.4 million in connection with the 2020 Term Facility Loan on February 19, 2021.
- b) Rockley Photonics Holdings Limited ("HoldCo") was formed on March 11, 2021 for the purpose of effecting a merger or other similar business combination with one or more operating businesses. The Company was transferred to HoldCo on August 11, 2021 as part of the business combination noted below. HoldCo had neither engaged in any operations nor generated significant revenue through August 11, 2021.
- c) On March 19, 2021, the Company and HoldCo entered into a definitive agreement to combine with SC Health, a publicly traded special purpose acquisition company. The transaction resulted in Rockley becoming a publicly traded company as noted above.
- d) The \$2,860k of borrowings outstanding under the ("PPP") Loan was forgiven in full on 16 June 2021.
- e) On July 22, 2021, Rockley Photonics Holdings Limited's Form S-4 Registration Statement received a Notice of Effectiveness from the Securities and Exchange Commission ("SEC").
- f) On August 9, 2021, among other things, the Directors proposed and were approved by the High Court of the United Kingdom a transfer scheme of arrangement under Part 26 of the Companies Act pursuant to which our shareholders exchanged all of Rockley Photonics Limited shares for Rockley Photonics Holdings Limited Ordinary Shares, at a conversion price of \$10.00 per share. The transfer was conditional upon the approval and close of the Business Combination Agreement with SC Health.
- g) The Business Combination was completed on August 11, 2021 and in connection with the Business Combination, the Company and its subsidiary entities became a wholly owned subsidiary of HoldCo. HoldCo became a publicly traded company listed on the NYSE under the symbol "RKLY".

ROCKLEY PHOTONICS LIMITED

THE STRATEGIC REPORT (CONTINUED)

YEAR ENDED 31 DECEMBER 2020

POST BALANCE SHEET EVENTS (CONTINUED)

- h) Immediately following the completion of the Business Combination and the related organizational transactions on August 11, 2021, the following took place:
- Rockley Photonics Holdings Limited received \$126.9 million in proceeds, net of underwriting discounts and transaction costs.
 - The shareholders of SC Health and Rockley Photonics Limited hold 12,339,650 and 103,916,607 shares, or approximately 9.8% and 82.3% ownership interest in Rockley Photonics Holdings Limited, respectively.
 - The Company's issued and outstanding convertible loan notes (other than certain convertible notes issued in connection with the 2020 Term Facility Loan, of which 30% were converted to Ordinary Shares of HoldCo and 70% were converted to convertible notes of HoldCo that matures on August 31, 2022), inclusive of interest accrued thereon, converted into Ordinary Shares of HoldCo at a conversion price of \$10.00 per share.
 - The Company's issued and outstanding warrants were converted to Ordinary Shares of HoldCo.
 - In connection with the transaction, we incurred legal, accounting, and other professional fees in connection with the completion of the Business Combination of approximately \$41.5million.

INTERNAL FINANCIAL CONTROL

The Group has established policies covering the key areas of internal financial control and the appropriate procedures, controls, authority levels and reporting requirements which must be applied throughout the Group.

The key procedures that have been established in respect of internal financial control are:

- internal control: the Directors review the effectiveness of the Group's system of internal controls on a regular basis;
- financial reporting: a comprehensive system of financial reporting is in place based on the annual budget approved by the board. The results of the Group are reported monthly along with an analysis of key variances, and year-end forecasts are updated on a regular basis; and
- expenditure appraisal: applications for significant expenditure of either a revenue or capital nature are made in a format which places emphasis of the commercial and strategic justification as well as the cost effectiveness. All significant projects require specific board approval.

No system can provide absolute assurance against material misstatement or loss, but the group's systems are designed to provide reasonable assurance as to the reliability of financial information, ensuring proper control over expenditure, assets and liabilities.

The statement about how the Board considers stakeholders in its decision-making is contained in the section 172 statement in the Directors' Report.



Director, Mr C. L. Rooney

Approved by the directors on 20 December 2021

ROCKLEY PHOTONICS LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2020

The directors have the pleasure in presenting their report and the consolidated financial statements of the company for the year ended 31 December 2020.

DIRECTORS

The directors who served the company during the period and up to the date of approval of these financial statements unless otherwise indicated were as follows:

Dr A. G. Rickman

Mr J. A. Burgess (resigned 31 March 2020)

Mr R. J. Rickman (resigned 11 August 2021)

Mr M. H. K. Hirvonen (resigned 11 August 2021)

Mr S. Rikhi (resigned 11 August 2021)

Dr C. A. Brown (resigned 11 August 2021)

Mr J Ma (appointed 21 January 2020, resigned 11 August 2021)

Professor M. A. Parker (appointed 26 March 2020, resigned 11 August 2021)

Mr M. Karanth (appointed 11 August 2021)

Mr C.L. Rooney (appointed 11 August 2021)

BUSINESS REVIEW

As review of the business, post balance sheet events and future developments is included in the Strategic Report.

DIVIDENDS

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2020 (2019 - \$nil).

DONATIONS

During the year the Group made no political or charitable donations (2019: nil).

DIRECTORS' LIABILITIES

As permitted by the articles of association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by section 234 of the companies act 2006. The indemnity was in force throughout the last financial year and is currently in force. The company also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors.

STATEMENT BY THE DIRECTORS IN PERFORMANCE OF THEIR STATUTORY DUTIES IN ACCORDANCE WITH S172(1) COMPANIES ACT 2006

The Board of Directors of Rockley Photonics Limited consider, both individually and together, that they have acted in the way they consider in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in the decisions taken during the year ended 31 December 2020 and in creating future business plans ('our plans'):

(a) Our plans are designed to have a long-term beneficial impact on the Company and to contribute to its success in providing our customers with products and services of the highest functionality and quality. We achieve these objectives by continuing to invest in both our R&D team and the teams that support them.

ROCKLEY PHOTONICS LIMITED

THE DIRECTORS' REPORT (CONTINUED)

YEAR ENDED 31 DECEMBER 2020

STATEMENT BY THE DIRECTORS IN PERFORMANCE OF THEIR STATUTORY DUTIES IN ACCORDANCE WITH S172(1) COMPANIES ACT 2006 (CONTINUED)

(b) Our employees are fundamental to the delivery of our plans. We aim to be a responsible and attractive employer in our approach to the pay and benefits our employees receive and the opportunities they have to grow their careers. We believe that people lie at the heart of our business. We have an open and inclusive culture that supports teamwork as well as empowering people to achieve their potential. We embrace diversity and focus on recruiting and retaining outstanding individuals.

(c) Our plans are informed by extensive engagement with customers, enabling us to gain an in depth understanding of their needs and priorities. We provide our customers with world class technology solutions, to help them achieve their goals. We also aim to act responsibly and fairly in how we engage with our suppliers and all other stakeholders.

(d) Our plans consider the impact of the Company's operations on the community and the environment. We encourage our employees to support the communities they work in.

(e) As the Board of Directors, our intention is to behave responsibly and ensure that management operate the business in a responsible manner, operating within the high standards of business conduct and good governance expected for a business such as ours and in doing so, will contribute to the delivery of our plans.

(f) As the Board of Directors, our intention is to behave responsibly toward our shareholders and treat them fairly and equally, so they too may benefit from the successful delivery of our plans.

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group and parent company 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 IFRSs as adopted by the European Union and UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the group and parent company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

ROCKLEY PHOTONICS LIMITED

THE DIRECTORS' REPORT (CONTINUED)

YEAR ENDED 31 DECEMBER 2020

DIRECTORS' RESPONSIBILITIES STATEMENT (CONTINUED)

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

GOING CONCERN BASIS

The consolidated financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have taken account of all information available about the future up to 31 December 2022 (the "going concern period").

The Group has incurred net losses since inception, has an accumulated deficit of \$228.8 million as of 31 December 2020 and negative cash flow from operations of \$46.4 million for the year ended 31 December, 2020 and expects to incur losses from operations for the foreseeable future. As of 31 October 2021, the Group had cash and cash equivalents of approximately \$112.9million. The consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business.

Our future liquidity needs during the going concern period, and ability to address those needs, will largely be determined by our ability to obtain additional financing on terms acceptable to us. Our parent company Rockley Photonics Holdings Limited will continue to seek additional capital through the sale of debt or equity, or other arrangements, however, there can be no assurance that they will be able to raise additional capital when needed or under acceptable terms, if at all. If we are unable to obtain additional financing, operations may be scaled back or discontinued. Rockley Photonics Holdings Limited has confirmed in writing that it will continue to support Rockley Photonics Limited throughout the going concern period.

The directors acknowledge that there is some element of risk in any fundraising and that this therefore represents a material uncertainty which may cast significant doubt over the ability of the Company and the Group to continue as a going concern for the period to 31 December 2022. However, given the current cash position and the number of funding options under consideration, the track record the business has of raising funds, and the anticipated interest in future raises, the directors are confident that the planned funding round will also be successful and provide the funds required to complete the development phase and provide working capital for the marketing phase of the business plan.

Although there will be a short-term impact from the COVID-19 virus we remain very confident of the future for the Rockley business. Rockley's technology underpins and enables many solutions that have been highlighted / will be needed following this pandemic such as the requirement for better sensor products, more remote working demands and higher data-centre infrastructure requirements and we will be at the forefront of these developments.

At this time the Directors have a reasonable expectation that required funding will be agreed and received in line with the terms and conditions assumed in the Directors' cash flow forecasts, hence they have concluded that the Group and the Company will be able to continue in operation for the foreseeable future. The Directors have therefore concluded that it is appropriate to prepare these financial statements on a going concern basis. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group or Company was unable to continue as a going concern.

RESEARCH AND DEVELOPMENT

\$74.7m was spent on research and development by the Group during 2020 (2019 - \$67.1m). Under IAS 38 "Intangible Assets" the Group has expensed all research and development expenditure as the criteria for capitalization has not been met. The Group continues to invest in developing all of our chipset product lines.

ROCKLEY PHOTONICS LIMITED

THE DIRECTORS' REPORT (CONTINUED)

YEAR ENDED 31 DECEMBER 2020

FINANCIAL RISK MANAGEMENT

Details of the Group's financial risk management objectives and policies are disclosed in the Strategic report on pages 2 to 6, and in Note 3 to the consolidated financial statements.

STRATEGIC REPORT

In accordance with Section 414C(11) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 the Group has set out in the Strategic Report the information required by Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

AUDITORS

The auditor, Ernst and Young LLP was appointed during the year. Pursuant to Section 487(2) of the Companies Act 2006, the auditor will be deemed to be reappointed and therefore Ernst & Young LLP will continue in office for the financial period 1st January 2021 to 31 December 2021.

DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors confirm that:

- so far as each 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 directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Approved by the directors on 20 December 2021 and signed on behalf of the directors by:

Ciaran Rooney

Mr C. L. Rooney
Director

ROCKLEY PHOTONICS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROCKLEY PHOTONICS LIMITED

Opinion

We have audited the financial statements of Rockley Photonics Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31 December 2020 which comprise the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Parent Company Statement of Financial Position, the Parent Company Statement of Changes in Equity and the related notes 1 to 29 (in respect of the group) and A to Q (in respect of the parent company), including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

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

Basis for opinion

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

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

Material uncertainty related to going concern

We draw attention to note 2 in the financial statements, which indicates that at 31 December 2020 the group has an accumulated deficit of \$228.8 million and negative cash flow from operations of \$46.4 million for the year ended 31 December 2020. The group is forecasting to require further funding to continue its planned product development and support its ability to continue as going concern until 31 December 2022. As stated in note 2, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the group's and company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

ROCKLEY PHOTONICS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROCKLEY PHOTONICS LIMITED (CONTINUED)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or 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 parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

ROCKLEY PHOTONICS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROCKLEY PHOTONICS LIMITED (CONTINUED)

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.

Explanation as to what extent the audit was considered 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 irregularities, including fraud. 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 or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are International Financial Reporting Standards, United Kingdom Generally Accepted Accounting Practice, Companies Act 2006, Data Protection Act 1998, Health and Safety at Work Act 1974, HRMC regulations. The Coronavirus Act 2020 Functions of Her Majesty's Revenue and Customs (Coronavirus Job Retention Scheme), UK Bribery Act, Equality Act and Anti-Money Laundering Regulations.
- We understood how Rockley Photonics Limited is complying with those frameworks by making enquiries of those charged with governance and management. We understood the potential incentive and ability to override the controls. We considered management's attitude and tone from the top to embed a culture of honesty and ethical behaviour whereby a strong emphasis is placed on fraud prevention which may reduce opportunities for fraud to take place. We further understood the adoption of accounting standards and considered the compliance with the above laws.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by obtaining and reading internal policies, holding enquiries of management and those charged with governance and the in-house legal counsel as to any fraud risk framework within the entity. Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved Enquiry of management and those charged with governance as to any fraud risk framework within the entity, including whether a formal fraud risk assessment is completed.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved;
 - Enquiry of management and those charged with governance around actual and potential litigation and claims.
 - Enquiry of entity staff in tax and compliance functions to identify any instances of non-compliance with laws and regulations, including communications with regulators and tax authorities.
 - Reading minutes of meetings of those charged with governance.
 - Enquiry of management over reports to whistleblowing hotlines.
 - Reading financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.
 - Auditing the risk of management override of controls, including through testing journal entries and other adjustments for appropriateness.
 - Data analytics to highlight potentially anomalous transactions in areas of the business which are determined to have an elevated fraud risk.
 - Evaluating the business rationale of significant transactions outside the normal course of business, and;

ROCKLEY PHOTONICS LIMITED

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROCKLEY PHOTONICS LIMITED
(CONTINUED)**

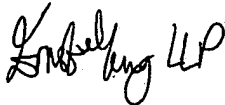
Auditor's responsibilities for the audit of the financial statements (continued)

- o Challenging judgements made by management. This included corroborating the inputs and considering contradictory evidence.

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.



Ruth Logan (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Cambridge

21 December 2021

ROCKLEY PHOTONICS LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2020

	Note	2020 \$'000	Restated* 2019 \$'000
Continuing Operations			
Revenue from contracts with customers	4	22,343	20,492
Cost of providing services		(26,311)	(34,260)
Gross Loss		(3,968)	(13,768)
Administrative expenses		(70,813)	(46,157)
Net gain on foreign currency translation		237	750
Operating loss from continuing operations	5	(74,544)	(59,175)
Finance Costs	8	(378)	(1,061)
Interest and other income	8	30	282
Change in fair value of derivatives	20	(20,163)	(2,603)
Share of Loss of equity accounted investee	14	(1,274)	(1,280)
Loss before taxation		(96,329)	(63,837)
Income taxes	9	15,888	13,931
Loss after taxation		(80,441)	(49,906)
Other comprehensive income:			
Foreign exchange differences on translation to presentational currency		(502)	(405)
Equity investments at FVOCI – net change in fair value	14	-	1
Total comprehensive loss for the financial period attributable to equity holders		(80,943)	(50,310)

All of the activities of the group are classed as continuing.

All of the loss for the period is attributable to the equity holders of Rockley Photonics Limited.

*The restatement adjustments are discussed in detail in note 1 on pages 19 to 20.

The notes on pages 19 to 58 form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Note	2020 \$'000	Restated* 2019 \$'000	Restated* 2018 \$'000
Assets				
Non-current assets				
Property, plant and equipment	10	4,050	4,746	3,030
Intangible assets	11	3,052	-	-
Right of use Assets	12	3,618	4,832	4,523
Equity Accounted Investee	14	5,202	1,486	2,767
		15,922	11,064	10,320
Current assets				
Trade and other receivables	15	24,501	25,555	21,134
Cash and cash equivalents	16	19,228	20,904	11,358
		43,729	46,459	32,492
Total assets		59,651	57,523	42,812
Equity				
Called up share capital	23	-	-	-
Share premium		164,096	159,788	105,711
Equity settled share based payments reserve	24	37,258	28,843	20,096
Foreign currency translation reserves		(4,240)	(3,738)	(3,333)
Retained earnings		(228,798)	(148,357)	(98,452)
Total equity		(31,684)	36,536	24,022
Liabilities				
Current liabilities				
Trade and other payables	17	14,808	15,294	9,136
Short term bank loan	18	2,860	1,949	3,807
Convertible loan notes	20	71,944	-	-
Current portion of long term lease liabilities	13	596	2,015	1,724
		90,208	19,258	14,667
Non-current liabilities				
Long term bank loan		-	-	1,605
Long term lease liabilities	13	1,127	1,729	2,518
		1,127	1,729	4,123
Total liabilities		91,335	20,987	18,790
Total equity and liabilities		59,651	57,523	42,812

*The restatement adjustments are discussed in detail in note 1 on pages 19 to 20.

The financial statements on pages 15 – 58 were approved by the directors and authorised for issue on 20 December 2021, and are signed on their behalf by:

Ciaran Rooney

C. Rooney
Director

Company Registration Number: 08683015

The notes on pages 19 to 58 form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2020

	Equity Share capital \$'000	Share premium \$'000	Equity- settled share based payment reserve \$'000	Foreign currency translation reserve \$'000	Retained earnings \$'000	Total Shareholder's equity \$'000
Balance At 1st January 2019 as previously stated	-	108,529	8,356	(3,332)	(89,180)	24,373
Effect of restatement (a)	-	-	-	1	7	8
Effect of restatement (b)	-	-	-	-	290	290
Effect of restatement (c)	-	-	-	-	(774)	(774)
Effect of restatement (d)	-	-	-	1	(504)	(503)
Effect of restatement (e)	-	(2,818)	11,740	(2)	(8,440)	480
Effect of restatement (h)	-	-	-	-	82	82
Effect of restatement (i)	-	-	-	(1)	67	66
Restated At 1 January 2019	-	105,711	20,096	(3,333)	(98,452)	24,022
Loss for the period	-	-	-	-	(49,906)	(49,906)
Other comprehensive expense for the period	-	-	-	-	1	1
Exchange differences on translating foreign operations	-	-	-	(405)	-	(405)
Issue of ordinary share capital	-	54,077	-	-	-	54,077
Share option compensation charge	-	-	8,747	-	-	8,747
Restated At 31 December 2019	-	159,788	28,843	(3,738)	(148,357)	36,536
Loss for the period	-	-	-	-	(80,441)	(80,441)
Other comprehensive expense for the period	-	-	-	-	-	-
Exchange differences on translating foreign operations	-	-	-	(502)	-	(502)
Issue of ordinary share capital	-	4,308	-	-	-	4,308
Share option compensation charge	-	-	8,415	-	-	8,415
At 31 December 2020	-	164,096	37,258	(4,240)	(228,798)	(31,684)

The restatement adjustments (a) to (i) are discussed in detail in note 1 on pages 19 to 20.

The notes on pages 19 to 58 form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2020

	Note	Year ended 31 Dec 2020 \$'000	Restated* Year ended 31 Dec 2019 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash used in operations	29	(59,983)	(46,303)
Corporation taxes received		13,579	11,163
Net cash used in operating activities		(46,404)	(35,140)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		29	281
Interest paid		(184)	(415)
Payment for investment in associate		(4,990)	-
Purchase of property, plant and equipment		(1,990)	(2,805)
Purchase of assets under construction		-	(602)
Net cash used in investing activities		(7,135)	(3,541)
CASHFLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of new shares		2,011	53,884
Repayment of borrowings and leasing liabilities		(2,021)	(2,408)
Loans taken out in year		54,391	-
Repayment of loans in year		(2,003)	(3,628)
Net cash generated from financing activities		52,378	47,848
Net (decrease)/increase in cash and cash equivalents		(1,161)	9,167
Cash and cash equivalents at the beginning of the period		20,904	11,358
Effects of exchange rate fluctuations on cash held		(515)	379
Cash and cash equivalents at the end of the period	16	19,228	20,904

*The restatement adjustments are discussed in detail in note 1 on pages 19 to 20.

The notes on pages 19 to 58 form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. RESTATEMENT OF 2019 CONSOLIDATED FINANCIAL STATEMENTS

As part of the transition to the parent company's listing on the NYSE as noted in the Strategic Report, results for prior years were restated to US GAAP. In undertaking this detailed exercise, the Directors identified a number of prior year errors that have been corrected in these IFRS financial statements. The adjustments are discussed in detail below with the impact then shown on the relevant financial statements on pages 21 to 24:

- a. Right of use asset (ROU), property - Corrections to calculations in respect of US property leases due to errors in the initial adoption of IFRS 16 as of 1 January 2019.
- b. Right of use asset (ROU), equipment lease - Correction to record as an ROU asset prepaid development expenditure used to fund a machine used by a supplier. The supplier has the right to purchase the machine once the cost has been reimbursed via credit notes for services performed so the financial statements have been corrected to record it as a ROU equipment lease. Related costs had previously been expensed in the 2018 and 2019 annual accounts.
- c. Deferred Tax – The Directors have reconsidered the ability of the company to generate sufficient taxable profits in the foreseeable future in order to support the recoverability of a deferred tax asset and have concluded that the previous recognition of a deferred tax asset was not appropriate. Accordingly the financial statements have been restated to de-recognise the deferred tax asset for losses previously reported.
- d. Share of Loss of equity accounted investee - Amendment to adjust the value of the Company's share of loss of the equity accounted investee after establishing that the investee had capitalised rather than expensed certain costs which were not in accordance with IFRS reporting.
- e. Share based payments and warrants valuation - Correction to the expense previously recorded for share based payments as a detailed review established that previous "fair market values" (FMVs) used for calculating the expense had been understated as they used discounted strike prices and did not have any interpolation between value points applied. The correct approach under IFRS 2 has now been adopted using FMV's before any discounts and interpolation between value points applied has significantly increased the share-based payment expense. In addition, the fair value of warrants issued in association with the arrangement of equity capital has also been corrected, resulting in an increased offset against share premium.
- f. 2019 Convertible Loan Note (CLN) - Correction was made to the changes in fair market value of the 2019 CLN used for recording expenses as noted at (e) above. The change resulted in a loss on FMV rather than a gain as previously reported.
- g. Cost of providing services - The cost of providing services was previously based on costs relating to individual milestones completed and invoiced. In reviewing this approach for the 2020 accounts the Directors identified that the costs of providing services should be based on the full cost incurred for a specific project and not just in respect of costs relating to invoiced milestones. There was no impact on the operating loss from making this amendment as this was simply a reallocation from research and development costs to costs of providing services.
- h. Revenue, Principal versus Agent considerations – The Directors reassessed whether the Company acted in the capacity of a Principal or an Agent in respect of revenue transactions related to goods and/or services rendered by third-parties. Based on this analysis, the Directors concluded that the Company acted in the capacity of a Principal and should have recorded our revenue on a gross basis. Accordingly, the Directors have made a prior year correction and recorded revenue on a gross basis. The Company is deemed to be the principal on these transactions since the third-party goods and services are combined with the development services promised to the customers, and thus, the transactions are recorded on a gross basis.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. RESTATEMENT OF 2019 CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- i. Foreign exchange differences – Corrections to foreign currency translation differences which were previously shown as movements in the foreign currency translation reserves rather than through the income statement and foreign currency translation differences arising from the translation of the other prior year errors where the adjustments are denominated in a currency other than the presentational currency.

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

RESTATED 2019 CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2019 As Previously Stated \$'000	(a) \$'000	(b) \$'000	(c) \$'000	(d) \$'000	(e) \$'000	(f) \$'000	(g) \$'000	(h) \$'000	(i) \$'000	2019 Restated \$'000
Continuing Operations												
Revenue from contracts with customers	4	20,163	-	-	-	-	-	-	-	329	-	20,492
Cost of providing services		(11,501)	-	-	-	-	-	-	(22,348)	(411)	-	(34,260)
Gross Profit/(Loss)		8,662	-	-	-	-	-	-	(22,348)	(82)	-	(13,768)
Administrative expenses		(67,105)	163	970	-	-	(2,643)	-	22,348	-	110	(46,157)
Net gain on foreign currency translation		750	-	-	-	-	-	-	-	-	-	750
Operating loss from continuing operations	5	(57,693)	163	970	-	-	(2,643)	-	-	(82)	110	(59,175)
Finance Costs	8	(950)	4	(115)	-	-	-	-	-	-	-	(1,061)
Interest and other income	8	3,153	-	-	-	-	(2,871)	-	-	-	-	282
Change in fair value of derivatives	19	366	-	-	-	-	(2,958)	-	-	-	(11)	(2,603)
Share of Loss of equity accounted investee	14	(86)	-	-	-	(1,197)	-	-	-	-	3	(1,280)
Loss before taxation		(55,210)	167	855	-	(1,197)	(2,643)	(5,829)	-	(82)	102	(63,837)
Income taxes	9	13,907	-	-	16	-	-	-	-	-	8	13,931
Loss after taxation		(41,303)	167	855	16	(1,197)	(2,643)	(5,829)	-	(82)	110	(49,906)
Other comprehensive income:												
Foreign exchange differences on translation to presentational currency		(1,585)	-	85	(1)	(110)	191	-	-	-	1,015	(405)
Equity investments at FVOCI – net change in fair value	14	(137)	-	-	-	134	-	-	-	-	4	1
Total comprehensive loss for the financial period attributable to equity holders		(43,025)	167	940	15	(1,173)	(2,452)	(5,829)	-	(82)	1,129	(50,310)

The restatement adjustments (a) to (i) are discussed in detail in note 1 on pages 19 to 20.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
RESTATED 2019 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		2019 As Previously Stated	(a)	(b)	(c)	(d)	(e)	(f)	(h)	(i)	2019 Restated
	Note	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets											
Non-current assets											
Property, plant and equipment	10	4,744	-	-	-	-	-	-	-	2	4,746
Intangible assets	11	-	-	-	-	-	-	-	-	-	-
Right of use Assets	12	2,071	141	2,503	-	-	-	-	-	117	4,832
Deferred tax assets	9	1,046	-	-	(1,046)	-	-	-	-	-	-
Equity Accounted Investee	14	3,263	-	-	-	(1,777)	-	-	-	-	1,486
		11,124	141	2,503	(1,046)	(1,777)	-	-	-	119	11,064
Current assets											
Trade and other receivables	15	25,565	-	-	-	-	-	-	-	(10)	25,555
Cash and cash equivalents	16	20,904	-	-	-	-	-	-	-	-	20,904
		46,469	-	-	-	-	-	-	-	(10)	46,459
Total assets		57,593	141	2,503	(1,046)	(1,777)	-	-	-	109	57,523
Equity											
Called up share capital	23	-	-	-	-	-	-	-	-	-	-
Share premium		160,448	-	-	-	(3,618)	2,958	-	-	-	159,788
Equity settled share based payments reserve	24	14,184	-	-	-	-	14,659	-	-	-	28,843
Foreign currency translation reserves		(2,782)	(1)	84	-	(210)	192	-	-	(1,021)	(3,738)
Retained earnings		(93,049)	7	290	(774)	(504)	(8,441)	2,871	82	1,066	(98,452)
Change in fair value of equity investments in year		(137)	-	-	-	134	-	-	-	4	1
Losses in year		(41,303)	167	855	16	(1,197)	(2,643)	(5,829)	(82)	110	(49,906)
Total equity		37,361	173	1,229	(758)	(1,777)	149	-	-	159	36,536
Liabilities											
Current liabilities											
Trade and other payables	17	15,199	-	-	(16)	-	117	-	-	(6)	15,294
Short term bank loan	18	1,949	-	-	-	-	-	-	-	-	1,949
Convertible loan notes	20	-	-	-	-	-	-	-	-	-	-
Current portion of long term lease liabilities	13	801	(16)	1,274	-	-	-	-	-	(44)	2,015
		17,949	(16)	1,274	(16)	-	117	-	-	(50)	19,258
Non-current liabilities											
Convertible loan notes	20	-	-	-	-	-	-	-	-	-	-
Derivative liability		266	-	-	-	-	(266)	-	-	-	-
Long term lease liabilities	13	1,745	(16)	-	-	-	-	-	-	-	1,729
Deferred tax liabilities	9	272	-	-	(272)	-	-	-	-	-	-
		2,283	(16)	-	(272)	-	(266)	-	-	-	1,729
Total liabilities		20,232	(32)	1,274	(288)	-	(149)	-	-	(50)	20,987
Total equity and liabilities		57,593	141	2,503	(1,046)	(1,777)	-	-	-	109	57,523

The restatement adjustments (a) to (i) are discussed in detail in note 1 on pages 19 to 20.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

RESTATED 2018 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2018 As Previously Stated	(a)	(b)	(c)	(d)	(e)	(h)	(i)	2018 Restated
Note	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets									
Non-current assets									
Property, plant and equipment	3,030	-	-	-	-	-	-	-	3,030
Intangible assets	-	-	-	-	-	-	-	-	-
Right of use Assets	-	1,540	2,874	-	-	-	-	109	4,523
Deferred tax assets	1,046	-	-	(1,046)	-	-	-	-	-
Equity Accounted Investee	3,486	-	-	-	(503)	-	-	(216)	2,767
	7,562	1,540	2,874	(1,046)	(503)	-	-	(107)	10,320
Current assets									
Trade and other receivables	21,052	-	-	-	-	-	82	-	21,134
Cash and cash equivalents	11,358	-	-	-	-	-	-	-	11,358
	32,410	-	-	-	-	-	82	-	32,492
Total assets	39,972	1,540	2,874	(1,046)	(503)	-	82	(107)	42,812
Equity									
Called up share capital	-	-	-	-	-	-	-	-	-
Share premium	108,529	-	-	-	-	(2,818)	-	-	105,711
Equity settled share based payments reserve	8,356	-	-	-	-	11,740	-	-	20,096
Foreign currency translation reserves	(3,332)	1	-	-	1	(2)	-	(1)	(3,333)
Retained earnings	(68,255)	9	-	(668)	-	(6,011)	-	-	(74,925)
Losses in year	(20,925)	(2)	290	(106)	(504)	(2,429)	82	67	(23,527)
Total equity	24,373	8	290	(774)	(503)	480	82	66	24,022
Liabilities									
Current liabilities									
Trade and other payables	9,283	(299)	-	-	-	152	-	-	9,136
Short term bank loan	3,807	-	-	-	-	-	-	-	3,807
Convertible loan notes	-	-	-	-	-	-	-	-	-
Current portion of long term lease liabilities	-	502	1,310	-	-	-	-	(88)	1,724
	13,090	203	1,310	-	-	152	-	(88)	14,667
Non-current liabilities									
Convertible loan notes	-	-	-	-	-	-	-	-	-
Long term bank loan	1,605	-	-	-	-	-	-	-	1,605
Derivative liability	632	-	-	-	-	(632)	-	-	-
Long term lease liabilities	-	1,329	1,274	-	-	-	-	(85)	2,518
Deferred tax liabilities	272	-	-	(272)	-	-	-	-	-
	2,509	1,329	1,274	(272)	-	(632)	-	(85)	4,123
Total liabilities	15,599	1,532	2,584	(272)	-	(480)	-	(173)	18,790
Total equity and liabilities	39,972	1,540	2,874	(1,046)	(503)	-	82	(107)	42,812

The restatement adjustments (a) to (i) are discussed in detail in note 1 on pages 19 to 20.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

RESTATE 2019 CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2019 As Previously Stated \$'000	(a) \$'000	(b) \$'000	(c) \$'000	(d) \$'000	(e) \$'000	(f) \$'000	2019 Restated \$'000
CASH FLOWS FROM OPERATING ACTIVITIES									
Cash used in operations	29	(48,251)	323	1,340	(24)	86	(74)	307	(46,303)
Corporation taxes received		11,163	-	-	-	-	-	-	11,163
Net cash used in operating activities		(37,098)	323	1,340	(24)	86	(74)	307	(35,140)
CASH FLOWS FROM INVESTING ACTIVITIES									
Interest received		281	-	-	-	-	-	-	281
Interest paid		(415)	-	-	-	-	-	-	(415)
Payment for investment in associate		-	-	-	-	-	-	-	-
Purchase of property, plant and equipment		(2,677)	-	-	-	-	-	(128)	(2,805)
Purchase of assets under construction		(602)	-	-	-	-	-	-	(602)
Net cash used in investing activities		(3,413)	-	-	-	-	-	(128)	(3,541)
CASH FLOWS FROM FINANCING ACTIVITIES									
Proceeds from issue of new shares		53,884	-	-	-	-	-	-	53,884
Repayment of borrowings and leasing liabilities		(745)	(323)	(1,340)	-	-	-	-	(2,408)
Loans taken out in year		-	-	-	-	-	-	-	-
Repayment of loans in year		(3,628)	-	-	-	-	-	-	(3,628)
Net cash generated from financing activities		49,511	(323)	(1,340)	-	-	-	-	47,848
Net Increase in cash and cash equivalents		9,000	-	-	(24)	86	(74)	179	9,167
Cash and cash equivalents at the beginning of the period		11,358	-	-	-	-	-	-	11,358
Effects of exchange rate fluctuations on cash held		546	-	-	24	(86)	74	(179)	379
Cash and cash equivalents at the end of the period	16	20,904	-	-	-	-	-	-	20,904

The restatement adjustments (a) to (f) are discussed in detail in note 1 on pages 19 to 20.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES

General information

Rockley Photonics Limited (the "Company" or the "Parent Company") and its subsidiaries (together "the Group") specialise in the research and development of integrated silicon photonics chipsets and has developed a highly versatile, application specific, third-generation silicon photonics platform specifically designed for the optical integration challenges facing numerous mega-trend markets. We have partnered with multiple tier-1 customers across the markets it serves to deliver complex optical systems required for transformational sensor, communications, and medical product realization.

At 31 December 2020 the group was still in the development phase of its business plan and recorded \$22.3m of development turnover for the period (2019 - \$20.5m).

Going concern

The consolidated financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have taken account of all information available about the future up to 31 December 2022 (the "going concern period").

The Group has incurred net losses since inception, has an accumulated deficit of \$228.8 million as of 31 December, 2020 and negative cash flow from operations of \$46.4 million for the year ended 31 December, 2020 and expects to incur losses from operations for the foreseeable future. As of 31 October 2021, the Group had cash and cash equivalents of approximately \$112.9 million. The consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business.

Our future liquidity needs during the going concern period, and ability to address those needs, will largely be determined by our ability to obtain additional financing on terms acceptable to us. Our parent company Rockley Photonics Holdings Limited will continue to seek additional capital through the sale of debt or equity, or other arrangements, however, there can be no assurance that we will be able to raise additional capital when needed or under acceptable terms, if at all. If they are unable to obtain additional financing, operations may be scaled back or discontinued. Rockley Photonics Holdings Limited has confirmed in writing that it will continue to support Rockley Photonics Limited throughout the going concern period.

The directors acknowledge that there is some element of risk in any fundraising and that this therefore represents a material uncertainty which may cast significant doubt over the ability of the Company and the Group to continue as a going concern for the period to 31 December 2022. However, given the current cash position and the number of funding options under consideration, the track record the business has of raising funds, and the anticipated interest in future raises, the directors are confident that the planned funding round will also be successful and provide the funds required to complete the development phase and provide working capital for the marketing phase of the business plan.

Although there will be a short-term impact from the COVID-19 virus we remain very confident of the future for the Rockley business. Rockley's technology underpins and enables many solutions that have been highlighted / will be needed following this pandemic such as the requirement for better sensor products, more remote working demands and higher data-centre infrastructure requirements and we will be at the forefront of these developments.

At this time the Directors have a reasonable expectation that required funding will be agreed and received in line with the terms and conditions assumed in the Directors' cash flow forecasts, hence they have concluded that the Group and the Company will be able to continue in operation for the foreseeable future. The Directors have therefore concluded that it is appropriate to prepare these financial statements on a going concern basis. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group or Company was unable to continue as a going concern.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING POLICIES (CONTINUED)

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS's) issued by the International Accounting Standards Board (IASB) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2020 and applied in accordance with the Companies Act 2006. These include International Accounting Standards (IAS), as issued by the IASB and with those of the Standing Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The consolidated financial statements have been prepared on the historical cost basis except for certain financial assets and financial liabilities that are measured at fair value through profit or loss, as discussed in the accounting policies below. The Group's financial statements are presented in United States Dollars.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Rockley Photonics Limited (the "Company" or "Rockley") and wholly-owned subsidiaries, together 'the Group'. Control is achieved where the Company has power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investors returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. All intra-Group transactions are eliminated on consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-recognised from the date that control ceases.

New standards, interpretations and amendments not yet effective

The following newly issued but not yet effective standards, interpretations and amendments, which have not been applied in these financial statements, will or may have an effect on the Company financial statements in future:

IFRS 10 and IAS 28

Sale or contribution of assets between an investor and its associate or joint venture (effective date not set).

IFRS 17

Insurance contracts (effective 1 January 2021).

None of the other standards, interpretations and amendments which are effective for periods beginning after 1 January 2020 and which have not been adopted early, are expected to have a material effect on the financial statements.

Segmental reporting

No operating segments are reported which is in a manner consistent with the internal reporting provided to the Rockley chief operating decision maker for the use in strategic decision making and monitoring of performance. The group considers the chief operating decision maker to be the executive board.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING POLICIES (CONTINUED)

Associates

Associates are all entities over which the group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting after initially being recognised at cost.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses of the investee in profit or loss, and the group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the group.

The carrying amounts of equity-accounted investments is tested for impairment in accordance with the policy described in the note below.

As of 31 December 2020 the Group had a 24.9% interest carried at a value of \$5.2m (2019: \$1.5m) investment in Hengtong Rockley Technology Co., Ltd (HRT) and has two board members. The remaining interest of 75.1% is held by Hengtong Optical Network Technology Co., Ltd., who have three board members, including the Chairman. The Group exercises significant influence over HRT's operation and therefore accounts for its investment in HRT as an associate.

Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Revenue recognition

We generate our revenue principally from development services, which entails developing the customer-specific designs of photonics chips. Revenue are recognized when control of promised goods and services are transferred to customers in an amount that reflects the expected consideration in exchange for those products and services. This principle is achieved by applying the following five-step approach:

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

- *Identification of the contract with a customer* – A contract with a customer exists when we enter into an enforceable contract with a customer that defines each party's rights regarding the goods or services to be transferred and identifies the payment terms related to these goods or services, the contract has commercial substance, and we determine that collection of substantially all consideration for goods or services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. We consider the terms and conditions of the contracts and customary business practices in identifying contracts under IFRS 15.
- *Identification of the performance obligations in the contract* – Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both capable of being distinct and are distinct in the context of the contract. To the extent a contract includes multiple promised goods or services, we apply judgment to determine whether promised goods or services are capable of being distinct and distinct in the context of the contract. If these criteria are not met, the promised goods or services are accounted for as a combined performance obligation. The individual components of the development services are generally capable of being distinct but not distinct in the context of the contract unless all the goods and services within a certain milestone of the contract are completed. Generally, the deliverables associated with each milestone, when combined, are distinct performance obligations (refer to Note 4, *Revenue*, for details).
- *Determination of the transaction price* – The transaction price is determined based on the consideration to which we are entitled in exchange for transferring goods or services to the customer. The nature of the revenue contracts gives rise to variable consideration as the variable amounts generally become due only upon achievement of certain milestones, and the customer has provided acceptance. The amount of variable consideration that is included in the transaction price is constrained and is included in the transaction price only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue will not occur when the uncertainty is resolved. None of the contracts contain a significant financing component.
- *Allocation of the transaction price to the performance obligations in the contract* – Contracts that contain multiple performance obligations requires an allocation of the transaction price to each performance obligation based on a relative standalone selling price ("SSP"). For contracts that include variable consideration, we utilize the variable consideration allocation exception, whereby the variable consideration is only allocated to the performance obligations that are satisfied during the period.
- *Recognition of revenue when or as performance obligations are satisfied* – We satisfy performance obligations at a point in time for the development services since the customers do not simultaneously receive and consume the benefits, we do not create or enhance an asset that the customer controls, and we do not have an enforceable right to payment for the performance completed to date. The contracts also contain substantive acceptance terms for each milestone due to its complexity. Revenue is recognized at the time the related performance obligation is satisfied with the transfer of a promised good or service to a customer, e.g., upon achievement of the milestone and acceptance by the customer.
- *Principal versus agent considerations* – In transactions for goods or services where we engage third-parties to participate in its contract fulfilment, it evaluates whether it is the principal or an agent in the transaction. Our analysis considers whether third-party goods and services are combined with other goods or services in providing the specified good or services to the customer. Under IFRS 15, if we determine that it is acting in a principal capacity, transactions are recorded on a gross basis. If we determine that it is acting in an agent capacity, transactions are recorded on a net basis. We are deemed to be the principal in the transactions since the third-party goods and services are combined with the development services promised to the customer, and thus, the transactions are recorded on a gross basis.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

- *Contract balances* – The timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable is recorded at the invoiced amount, net of an allowance for doubtful accounts. A receivable is recognized in the period we deliver goods or provide services, or when the right to consideration is unconditional. We generally have the right to invoice the customer upon achievement of a certain milestone, or at the time, the third-party goods and services have been provided or rendered. The payment terms on invoiced amounts are typically 30-45 days. In situations where revenue recognition occurs before invoicing, an unbilled receivable is created, which represents a contract asset.
- *Deferred revenue* – Deferred revenue primarily consists of amounts that have been invoiced but not yet recognized as revenue and primarily pertain to third-party goods and services that have been invoiced to the customer, but the performance obligation has not yet been satisfied.
- *Remaining performance obligation* – The typical duration of the design contracts is between one to three years. Customers typically have the right to terminate their contracts for cause if we fail to perform. Due to the variable consideration constraint, no amount of the transaction price was allocated to remaining performance obligations.
- *Costs to obtain and fulfil a contract* – Incremental costs incurred to obtain a contract with a customer are required to be capitalized and amortized over the period in which the goods and services are transferred to the customer. We have not incurred any incremental costs in connection with the revenue contracts and, therefore, no amounts were capitalized on the consolidated balance sheets during the periods presented. We recognize an asset from the costs to fulfil a contract only if, the costs relate directly to a contract, the costs generate or enhance resources of the Company that will be used in satisfying a performance obligation in the future, and the costs are expected to be recovered.

Research and development

Research and development expense consists primarily of personnel costs for our engineers and third parties engaged in the design and development of our products, software and technology, including salary, bonus and share-based compensation expense, project material costs, services and depreciation. Such costs are charged to research and development expense as they are incurred.

Property, Plant and equipment

Property, Plant and equipment are initially recorded at cost of purchase or construction and are depreciated on a straight-line basis, except for land, which is not depreciated. Estimated useful lives of major classes of depreciable assets are as follows:

Computer & lab equipment	- 3 years
Fixtures and fittings	- 4 years
Motor Vehicles	- 3 years

Repairs and maintenance costs are recognised as expenses as incurred.

Intangible assets

Software is initially recorded at cost of purchase and is depreciated over an estimated useful life of one year, on a straight-line basis.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

On 25 November, 2020, we acquired certain technologies from TruTouch Technologies, Inc. ("Trutouch"). The consideration for the purchased technology was \$3.1 million and consisted of \$0.8 million in cash and \$2.3 million in equity. The cash payments consisted of \$0.3 million paid prior to the close of the transaction, and an additional \$0.5 million was paid in April 2021. The equity component of the consideration was 139,879 shares of ordinary stock in Rockley Photonics Limited, with a fair value of \$16.43 per share or \$2.3 million in total.

We accounted for the transaction as an asset acquisition as substantially all of the estimated fair value of the gross assets acquired was concentrated in a single identified asset, in-process research & development ("IPR&D"). We allocated the total purchase price consideration of \$3.1 million to IPR&D asset as the asset was purchased solely for the research and development activities and will be incorporated in efforts and milestones to be undertaken by the Company to design and develop a new application to expand its presence in the healthcare and well-being markets. The IPR&D asset is reported as an indefinite-lived intangible asset and subject to impairment whenever events or changes in circumstances indicate that the carrying amount of the asset might not be recoverable. Upon completion of our new product development cycle that incorporates Trutouch technology, the IPR&D asset will be amortized over the useful life of the developed technology that underpins our product. In the event the Company abandons the project, the entire IPR&D asset will be written off in full.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, call and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Leases

Initial recognition and measurement

The Group initially recognises a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term.

The lease liability is measured at the present value of the lease payments to be made over the lease term. The lease payments include fixed payments, purchase options at exercise price (where payment is reasonably certain), expected amount of residual value guarantees, termination option penalties (where payment is considered reasonably certain) and variable lease payments that depend on an index or rate.

The right-of-use asset is initially measured at the amount of the lease liability, adjusted for lease prepayments, lease incentives received, the Group's initial direct costs and an estimate of restoration, removal and dismantling costs.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Subsequent measurement

After the commencement date, the Group measures the lease liability by:

- (a) Increasing the carrying amount to reflect interest on the lease liability;
- (b) Reducing the carrying amount to reflect the lease payments made; and
- (c) Re-measuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in substance fixed lease payments or on the occurrence of other specific events.

Interest on the lease liability in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. Interest charges are included in finance cost in the income statement.

The related right-of-use asset is accounted for using the Cost model in IAS 16 and depreciated and charged in accordance with the depreciation requirements of IAS 16 Property, Plant and Equipment as disclosed in the accounting policy for Property, Plant and Equipment. Adjustments are made to the carrying value of the right of use asset where the lease liability is re-measured in accordance with the above.

Right of use assets are tested for impairment in accordance with IAS 36 Impairment of assets as disclosed in the accounting policy in impairment.

Short term and low value leases

The Group has made an accounting policy election, by class of underlying asset, not to recognise lease assets and lease liabilities for leases with a lease term of 12 months or less (i.e., short-term leases).

The Group has made an accounting policy election on a lease-by-lease basis, not to recognise lease assets on leases for which the underlying asset is of low value.

Lease payments on short term and low value leases are accounted for on a straight line bases over the term of the lease or other systematic basis if considered more appropriate. Short term and low value lease payments are included in operating expenses in the income statements.

- (a) Reducing the carrying amount to reflect the lease payments made; and
- (b) Re-measuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in substance fixed lease payments or on the occurrence of other specific events.

Interest on the lease liability in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or leases and leases of low-value assets, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING POLICIES (CONTINUED)

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the statement of financial position date.

Deferred income taxes are provided on a liability method, whereby deferred income tax assets are recognized for deductible temporary differences, operating losses, and tax loss carry forwards, and deferred income tax liabilities are recognized for taxable temporary differences. Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered. Deferred income tax assets are reduced by a valuation allowance when, considering all sources of taxable income, in the opinion of management, it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised, or liability is settled, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise, income tax is recognised in the income statement.

Research and development tax credits not received at the year end date are included as current assets within the Consolidated Statement of Financial Position, amounts receivable are included within taxation in the Consolidated Statement Profit and Loss and other Comprehensive Income.

Equity

(i) Share capital

The Share capital is determined using the nominal value of shares that have been issued.

(j) Share premium

The share premium account represents premiums received on the initial issuing of the share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

(k) Equity-settled share based payments

The share based payment reserve represents the cumulative amount which has been expensed in the Consolidated Statement of Comprehensive Income in connection with equity settled share based payments, less any amounts transferred to the profit and loss account on the exercise of share options.

(l) Foreign currency translation

The foreign exchange reserve represents exchange differences in relation to translation of operations in USD. The year-end exchange rates used were: EUR 1.23 (2019:1.12); GBP was 1.36 (2019: 1.32).

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Under IFRS 9, where financial liabilities are subsequently measured at fair value, any element of the fair value gain or loss arising that is attributable to changes in credit risk is recognised in other comprehensive income. Under the Group's previous accounting policy, such amounts were recognised within net operating costs. The Group is also not exposed to a significant concentration of credit risk, and accordingly the impact of applying an expected credit loss model to its financial assets was not material.

(a) Financial Assets and Liabilities

Recognition, Initial Measurement, and Derecognition

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities is described below.

Recognition, Initial Measurement, and Derecognition Continued

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled, or expires.

Classification and Subsequent Measurement of Financial Assets

For subsequent measurement, financial assets are classified as loans and receivables into the following categories upon initial recognition:

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than twelve months after the consolidated balance sheet date, which are classified as non-current assets.

Financial instruments classified as loans and receivables are initially recorded at the fair value plus transaction costs at the time the transactions are executed. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment.

Impairment

At the end of each reporting period, financial assets are assessed for indication of impairment. If there is objective evidence that impairment exists, the loss is recognized in profit or loss. The impairment loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

Classification and Subsequent Measurement of Financial Liabilities

The Group's financial liabilities include trade and other payables, derivative liability (warrants related to loan) and debt. Financial liabilities other than derivatives are initially measured at fair value net of transaction costs and subsequently measured at amortized cost using the effective interest rate method. Derivative financial instruments are accounted for at fair value through profit and loss at each reporting period. Derivative financial instruments are recorded at fair value using the Black-Scholes options pricing model, Monte Carlo Simulation model, or a binomial option pricing model.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

(b) Trade receivables

Trade receivables are recognised at fair value, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivable is impaired.

(c) Trade payables

Trade payables are recognised at fair value.

(d) Share capital

Ordinary shares are classified as equity.

(e) Warrants

The Company may issue warrants for services rendered. All goods and services received in exchange for the grant of any warrants are measured at their fair values. Where vendors are rewarded warrants, the fair value of the services are determined by the fair value of the services received. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions). All warrants are ultimately recognized as an expense in profit or loss with a corresponding credit in the share-based payment reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

(f) Derivatives

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss.

Foreign currency translation

(a) Functional and presentational currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in United States Dollars, which is the Group's presentational currency.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation (continued)

(b) Transaction and balances

Transactions in foreign currencies are recorded at the rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the income statement.

(c) Group companies

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into United States Dollars as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- PP&E and depreciation are translated at an average rate over the life of the Asset.
- Income and expenses for each income statement are translated at the average exchange rate for the period where these approximate the exchange rate at the date of the transaction; and
- Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (and attributed to non-controlling interest as appropriate).

Employee benefits

(a) Share-based compensation

The Group operates a number of equity-settled and cash-settled, share-based compensation plans.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the date of the grant of the equity-settled share-based payments are expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair values are measured by use of the Black-Scholes pricing model.

For cash-settled share-based payments, a liability are recognised for the goods or services acquired over the vesting period, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability are re-measured, with any changes in fair value recognised in profit or loss for the year.

If options lapse during the vesting period, no additional expense is charged to the income statement and no adjustment is made to that already charged.

Significant management judgement in applying accounting policies and estimation of uncertainty

When preparing the financial statements, management makes judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

Significant management judgements

The following are the judgements made by management in applying the accounting policies of the Group that have the most significant effect on the financial statements.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING POLICIES (CONTINUED)

Significant management judgements (continued)

(a) Assessing the amount of deferred tax asset that has been recognised

The amount of the deferred tax asset included in the Consolidated Statement of Financial Position of the Group are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. In estimating the amount of the deferred tax asset that may be recognised the Directors make judgements, based on current budgets and forecasts, about the amount of future taxable profits and the timing of when these will be realised. Details are contained in Note 9.

(b) R&D tax credit recognition

On 28 May 2020, the 2019 claim was paid in full and the company received funds of £11,172,905 (\$14,283,000), as provided for in the 2019 accounts. The Company is currently working with its advisors on the claim for the period 1 January to 31 December 2020. At this stage the draft claim for 2020 totals £12,946,566 (\$17,411,000). As claims for the last three years have been paid in full, the Company expect the 2020 claim to be paid in full and accordingly, recorded 100% receivable, or £12,946,566 (\$17,411,000) in the 2020 accounts.

(c) Estimation uncertainty

Information about estimates and assumptions that may have the most significant effect on recognition and measurement of assets, liabilities, income and expenses are provided below. Actual results may be substantially different

(d) Fair values for share-based compensation

The establishment of fair values in respect of employee services received in exchange for share options require the exercise of judgement and estimation in respect of the life of the option, the expected dividend yield and the expected volatility of the underlying shares. The calculated value for the latter may not accurately reflect the future share price movements given the Group's stage of development, whilst a value benchmarked against peers may not control for factors unique to either business. Details are contained in Note 24.

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose us to a variety of commercial and financial risks, foreign exchange risks and liquidity risks. The Group's overall financial risk management programme focuses on minimising the cost of borrowings whilst retaining the flexibility of funding opportunities, to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Group's board of directors.

(a) Foreign exchange risks

The Group operates internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Sterling (£) and the Euro (€).

The Group considers foreign exchange to be a risk and seeks to minimise its effects by holding bank deposit accounts in the respective currencies to hedge against known foreign exchange exposures only and are not used for speculative purposes.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group had the following current assets and liabilities denominated in currencies other than the functional currency of the Group (US Dollars):

	Sterling £'000	Euros €'000
Year ended 31 December 2020		
Trade and other receivables denominated in foreign currency	13,079	137
Cash balances denominated in foreign currency	3,909	287
Loan balance denominated in foreign currency	-	-
Trade and other payables denominated in foreign currency	(615)	(724)
Net current assets denominated in foreign currency	16,373	(300)
Restated Year ended 31 December 2019		
Trade and other receivables denominated in foreign currency	12,012	240
Cash balances denominated in foreign currency	3,197	425
Loan balance denominated in foreign currency	-	(864)
Trade and other payables denominated in foreign currency	(1,076)	(823)
Net current assets denominated in foreign currency	14,133	(1,022)

(b) Liquidity risks

Liquidity risk is that the Group might be unable to meet its obligations and arises from trade and other payables. The Group manages liquidity risk by maintaining adequate reserves and bank balances and by continuously monitoring forecasts and actual cash flows.

4. REVENUE

The Group's revenue is analysed as follows:

	2020 \$'000	Restated 2019 \$'000
Services transferred at a point in time	22,343	20,492
By primary Geographical markets		
USA	17,037	13,783
Other Countries	5,306	6,709
Total	22,343	20,492

We satisfy performance obligations at a point in time for the development services since the customers do not simultaneously receive and consume the benefits, we do not create or enhance an asset that the customer controls, and we do not have an enforceable right to payment for the performance completed to date. The contracts also contain substantive acceptance terms for each milestone due to its complexity. Revenue are recognized at the time the related performance obligation are satisfied with the transfer of a promised good or service to customers, e.g., upon achievement of the milestone and acceptance by the customer.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****5. OPERATING LOSS FOR THE YEAR**

Operating loss from continuing operations is stated after charging:

	2020	Restated 2019
	\$'000	\$'000
Depreciation of owned fixed assets	2,348	1,693
Depreciation of right to use assets	1,075	1,015
Research and development expense	76,747	67,463
Auditor's remuneration		
- fees payable to company auditor for the audit of the consolidated financial statements and parent company financial statements	183	65
- audit of subsidiary	31	46
- tax related services	262	170
- Reporting required by law or regulation to be provided by the auditor	1,370	-
- other	44	35
Short term lease rentals:		
- Land and buildings	315	205
- Plant and equipment	24	459

Research and development expense noted above include amounts reported in cost of providing services.

6: STAFF COSTS

The average number of staff employed by the group (including directors) during the financial period amounted to:

	2020	2019
	No	No
Number of research and development staff	138	111
Number of SG&A staff	35	29
	173	140

The aggregate payroll costs of the above were:

	2020	Restated 2019
	\$'000	\$'000
Wages and salaries	28,993	22,958
Social security and other employment provision costs	4,525	3,803
Expense of share-based payments	8,308	6,208
	41,826	32,969

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****7. KEY MANAGEMENT COMPENSATION**

The Directors are of the opinion that the key management of the Group comprises the executive board of Directors of Rockley Photonics Limited, consisting of the persons listed as Directors on page 7. These persons have authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

Details of aggregate key management emoluments for the year (being the same as Director's emoluments) are as follows:

	2020	Restated 2019
	\$'000	\$'000
Salaries and other short term employee benefits	788	708
Social security costs	37	7
Expense of share-based payments	269	222
	1,094	937

During the period six (2019 – Five) Directors were granted share options under the Group's share based compensation plan. Nil share options were exercised by Directors during the year (2019 – nil). At 31 December 2020 the number of Directors who were participating in the Group's share based compensation plans was ten (2019 – Five).

Remuneration of highest paid director:

	2020	2019
	\$'000	\$'000
Total remuneration	599	495

8. FINANCE COST AND INCOME

	2020	Restated 2019
	\$'000	\$'000
Finance Cost		
Interest on convertible loan note	111	286
Interest on right to use assets	140	266
Interest on loan	127	509
	378	1,061

	2020	Restated 2019
	\$'000	\$'000
Finance Income		
Interest and other income	30	282
	30	282

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****9. INCOME TAXES****Income tax recognised in profit or loss**

	2020 \$'000	Restated 2019 \$'000
Current tax credit		
Foreign tax charges	719	352
Research and Development tax credit	(16,607)	(14,283)
Adjustment in respect of prior year	-	-
Deferred tax		
Foreign deferred taxes	-	-
	(15,888)	(13,931)

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These measures included an increase to the UK corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date.

Reconciliation of the total tax credit

The tax charge for the year differs from that calculated by applying the pro-rated standard rate of corporation tax in the UK of 19.00% (2019 – 19.00%). The differences are explained below:

	2020 \$'000	Restated 2019 \$'000
Loss on ordinary activities before corporation tax	(96,329)	(63,837)
At the standard rate of corporation tax in the UK	(18,303)	(12,129)
Effects of:		
Expenses not deductible for tax purposes	574	460
Income not taxable for tax purposes	-	(637)
Deferred tax not recognised	19,450	11,733
Research and development credit	(16,607)	(14,283)
Adjustment to prior periods	(1,002)	925
Total tax credit	(15,888)	(13,931)

Deferred tax balances

Deferred income taxes are provided on a liability method, whereby deferred income tax assets are recognized for deductible temporary differences, operating losses, and tax loss carry forwards, and deferred income tax liabilities are recognized for taxable temporary differences. Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered. Deferred income tax assets are reduced by a valuation allowance when, considering all sources of taxable income, in the opinion of management, it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realized, or liability is settled, based on tax rates and laws enacted or substantively enacted at the statement of financial position date. The Group has unrecognised deferred tax assets relating to tax losses to the value of \$1,177,000 (2019: \$1,177,000). The deferred tax asset has not been recognised given uncertainty over the period in which it can be realised.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. PROPERTY, PLANT AND EQUIPMENT

	Computer & Lab equipment \$'000	Fixtures & fittings \$'000	Motor Vehicles \$'000	Assets under Construction \$'000	Total \$'000
COST					
At 31st December 2018	4,412	734	31	-	5,177
Additions	2,687	236	-	602	3,525
Disposals	(246)	-	-	-	(246)
At 31st December 2019	6,853	970	31	602	8,456
Reclassification as intangible	(207)	-	-	-	(207)
Foreign currency revaluation	(18)	(2)	-	59	39
Additions	1,855	-	-	27	1,882
Reclassification of assets under construction	661	-	-	(661)	-
Disposals	(318)	-	-	-	(318)
At 31st December 2020	8,826	968	31	27	9,852
DEPRECIATION					
At 31st December 2018	1,942	174	31	-	2,147
Provided in Year	1,510	181	-	-	1,691
On disposals	(128)	-	-	-	(128)
At 31st December 2019	3,324	355	31	-	3,710
Reclassification as intangible	(143)	-	-	-	(143)
Foreign currency revaluation	(6)	(1)	-	-	(7)
Provided in the year	2,165	183	-	-	2,348
Disposals	(106)	-	-	-	(106)
At 31st December 2020	5,234	537	31	-	5,802
NET BOOK VALUE					
Net book value at 31st December 2020	3,592	431	-	27	4,050
Net book value at 31st December 2019	3,529	615	-	602	4,746
The net book value of computer equipment held under finance leases at 31 December 2020 is \$nil (2019 - \$64,000).					

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. INTANGIBLE ASSETS

	In progress research and development \$'000	Software \$'000	Total \$'000
COST			
At 31 December 2019	-	-	-
Reclassification from computer and lab equipment	-	207	207
Additions	3,048	11	3,059
Disposals	-	(3)	(3)
At 31 December 2020	3,048	215	3,263
AMORTISATION			
At 31 December 2019	-	-	-
Reclassification from computer and lab equipment	-	143	143
On disposals	-	(2)	(2)
Provided in the year	-	70	70
At 31st December 2020	-	211	211
NET BOOK VALUE			
Net book value at 31st December 2020	3,048	4	3,052
Net book value at 31st December 2019	-	-	-

Additions to in progress research and development reflect the purchase of the Trutouch know-how and technology.

12. RIGHT OF USE ASSETS

	UK Equipment \$'000	US Property \$'000	Total \$'000
COST			
Restated At 31st December 2019	3,105	3,250	6,355
Foreign currency revaluation	(139)	-	(139)
At 31st December 2020	2,966	3,250	6,216
DEPRECIATION			
Restated At 31st December 2019	485	1,038	1,523
Provided in the year	349	726	1,075
At 31st December 2020	834	1,764	2,598
NET BOOK VALUE			
Net book value at 31st December 2020	2,132	1,486	3,618
Restated Net book value at 31st December 2019	2,620	2,212	4,832

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. LEASES

Lease liabilities are presented in the statement of financial position as follows:

	2020	Restated 2019
	\$'000	\$'000
Current	596	2,015
Non-current	1,127	1,729
	1,723	3,744

The Group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. The expense relating to payments not included in the measurement of the lease liability is \$339,000 (2019 - \$664,000 restated) as shown in Note 5.

The future aggregate minimum lease payments under non-cancellable operating leases and not covered by the IFRS 16 disclosure are as follows:

	2020		2019	
	Property \$'000	Equipment \$'000	Property \$'000	Equipment \$'000
Group No later than one year	122	-	79	-

14. INVESTMENTS IN ASSOCIATES

Set out below is the associate of the group as of 31 December 2020 which, in the opinion of the directors, is material to the group. The entity listed below has share capital consisting solely of ordinary shares, which are held directly by the group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

	2020	Restated 2019
	\$'000	\$'000
As at 1 January	1,486	2,767
Investment in Associate	4,990	-
Share of Loss of equity accounted investee	(1,274)	(1,280)
Net change in fair value	-	(1)
	5,202	1,486

Details of the Group's principal associate is provided below.

Company Name: Hengtong Rockley Technology Co., Ltd

Country of incorporation and principal place of business: China

Proportion of ownership interest: 24.9%

Principal Activities: Manufacture and sale of optical fiber transceivers based on silicon photonics chipsets

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. TRADE AND OTHER RECEIVABLES

	2020	Restated 2019
	\$'000	\$'000
Current assets		
Other receivables	5	345
Current Tax Asset	17,411	14,982
Trade receivables	1,642	3,506
Amount owed by Associate	2,906	2,877
VAT recoverable	607	1,044
Prepayments and contract assets	1,930	2,801
	24,501	25,555

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

All of the group's trade and other receivables in the comparative periods have been reviewed for indicators of impairment. None have been identified.

16. CASH AND CASH EQUIVALENTS

	2020	2019
	\$'000	\$'000
Cash and cash equivalents	19,228	20,904

Included within Cash and cash equivalents is \$51,768 (2019 - \$103,535) of funds restricted against an Irrevocable Standby Letter of Credit dated November 20, 2015 drawn on Silicon Valley Bank in favour of 21st Century Techbanq Pasadena, LLC, landlord of the office and laboratory premises leased by Rockley Photonics, Inc. in Pasadena, California, USA, expiring 20th November 2016 and automatically extending annually at a reduced sum until 15th May 2021.

A charge of \$27,298 (2019 - \$nil) over the Company's bank accounts is held by Silicon Valley Bank in respect of business charge card balances.

The group's overall interest rate risk is explained in note 3 "Financial risk management":

17. TRADE AND OTHER PAYABLES

	2020	Restated 2019
	\$'000	\$'000
Amounts falling due within one year		
Trade payables	4,360	8,335
PAYE, social security and other taxes	816	233
Cash-settled share based payments	706	435
Accruals and contract liabilities	8,926	6,291
	14,808	15,294

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. BORROWINGS

	2020 \$'000	2019 \$'000
Bank Loans	2,860	1,949
TOTAL BORROWINGS	2,860	1,949
SPLIT BETWEEN		
No later than 1 Year	2,860	1,949
Later than 1 Year but no later than 5 Years	-	-

The 2019 balance of \$1,949k relates to a 2017 bank loan that was repaid in full in May 2020.

On 21 April 2020, we received loan proceeds of \$2,860k ("PPP Loan") under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act, provides for loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. The PPP Loan and accrued interest are forgivable after twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The \$2,860k of borrowings outstanding under the ("PPP") Loan was forgiven in full on 16 June 2021.

19. FAIR VALUE MEASUREMENTS

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires management to make judgments and consider factors specific to the asset or liability.

As of 31 December 2020 and 31 December 2019, the carrying value of certain financial instruments, such as cash equivalents, accounts receivable, other receivable, prepaid expenses and other current assets, trade payable and other current accrued liabilities, approximate fair value due to their relatively short maturities and low market interest rates, if applicable.

Changes in the fair value of debt that are accounted for at fair value are presented as gains or losses in the consolidated statements of operations and comprehensive loss under Change in Fair Value of Debt Instruments.

3.0% - 2020 Convertible Notes

On 9 March 2020, we issued \$21.3 million of 3.0% Convertible Notes and elected the fair value option of accounting for this debt instrument (see Note 20, Convertible Loan Notes for details). As of 31 December 2020, the contractual outstanding principal of the 3.0% Convertible Notes Due 2025 was \$21.3 million and the fair value was \$32.1 million. As of 31 December 2020, we measured fair value using a binomial lattice model (which is discussed in further detail below) with the following significant inputs:

Fair Value per share of ordinary shares	\$20.28
Risk-free interest rate	0.08% - 0.10%
Expected volatility	55%
Expected term, in years	0.14 - 4.19
Discount yield	48.4%
Conversion price discount	25% - 40%

For the year ended 31 December 2020, we recorded a \$10.8 million loss from change in fair value of debt in connection with the initial issuance and subsequent fair value remeasurement of the 3.0% Convertible Notes, as follows:

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FAIR VALUE MEASUREMENTS (CONTINUED)

	\$'000
Fair Value at 9 March 2020	21,281
Add: Loss from change in fair value	10,825
Fair value at 31 December, 2020	32,106

A binomial lattice model was used to determine the fair value of the 3.0% Convertible Notes Due 2025 based on assumptions as to when these would be converted or redeemed at each decision point. Within the lattice model, the following assumptions are made: (i) upon IPO/Sale/Merger/SPAC or maturity, the convertible notes may be converted to ordinary shares or redeemed at principal and accrued interest; and (ii) upon qualified financing event, the convertible notes will automatically convert to ordinary shares. The lattice model uses the stock price, conversion price, maturity date, risk-free rate, estimated stock volatility and estimated credit spread. We remeasure the fair value of the debt instrument and record the change as a gain or loss from change in fair value of debt in the statements of operations and comprehensive loss for each reporting period.

8.00% - 2020 Convertible Notes

On 19 February 2020, we issued \$8.0 million of 8.0% Convertible Notes and elected the fair value option of accounting for this debt instrument (see Note 20, Convertible Loan Notes for details). As of 31 December 2020, the contractual outstanding principal of the 8.0% Convertible Notes Due 2027 was \$8.0 million and the fair value was \$14.8 million (including embedded warrants). As of 31 December 2020, we measured fair value using a binomial lattice model (which is discussed in further detail below) with the following significant inputs:

Fair Value per share of ordinary shares	\$20.28
Risk-free interest rate	0.08% -0.52%
Expected volatility	55%
Expected term, in years	0.14 – 6.14
Discount yield	35%
Conversion price discount	25% – 40%

For the year ended 31 December 2020, we recorded a \$4.4million loss from change in fair value of debt in connection with the initial issuance and subsequent fair value remeasurement of the 8.0% Convertible Notes, as follows:

	\$'000
Fair Value at 19 February 2020	10,415
Add: Loss from change in fair value	4,374
Fair value at 31 December, 2020	14,789

A binomial lattice model was used to determine the fair value of the 8.0% Convertible Notes Due 2025 based on assumptions as to when these would be converted or redeemed at each decision point. Within the lattice model, the following assumptions are made: (i) upon IPO/Sale/Merger/SPAC or maturity, the convertible notes may be converted to ordinary shares or put at 125% of principal and accrued interest; and (ii) upon financing event, the convertible notes may be converted to ordinary shares. We remeasure the fair value of the debt instrument and record the change as a gain or loss from change in fair value of debt in the statements of operations and comprehensive loss for each reporting period.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FAIR VALUE MEASUREMENTS (CONTINUED)

We issued liability classified warrants in conjunction with the issuance of the 8.0% Convertible Notes. We evaluated the terms of these warrants and noted that under IFRS 7, our potential obligation to settle the warrants only when the exercise of contingencies is met. Due to this provision, IFRS 7 requires that these warrants be classified as liabilities and combined within the 8.0% Convertible Notes. The fair value of these warrants is embedded within the fair value of the 8.0% Convertible Notes presented in the table above.

2020 Term Facility Loan

On 29 September 2020, we issued \$35.0 million of convertible notes and elected the fair value option of accounting for this debt instrument (see Note 20, Convertible Loan Notes for details). As of 31 December 2020, the contractual outstanding principal of the 2020 Term Facility Loan was \$22.5 million and the fair value was \$25.1 million. As of 31 December 2020, we measured fair value using a binomial lattice model and discounted cash flow approach for various exit event scenario, with the following significant inputs:

Fair Value per share of ordinary shares	\$20.28
Risk-free interest rate	0.21%
Expected volatility	55%
Expected term, in years	0.14 – 4.13
Discount yield	35%

For the year ended 31 December 2020, we recorded a \$1.7 million loss from change in fair value of debt in connection with the initial issuance and subsequent fair value remeasurement of the 2020 Term Loan Facility, as follows :

	\$'000
Fair Value at 19 February 2020	23,320
Add: Loss from change in fair value	1,729
Fair value at 31 December, 2020	25,049

A binomial lattice model was used to determine the fair value of the 2020 Term Facility Loan based on assumptions as to when these would be converted upon IPO/Sale/Merger/SPAC. Upon such event, the convertible notes will be paid off as following: (i) if par value exit, repayment of base multiple times principal plus unpaid interest; (ii) if greater value exit, repayment of base multiple plus add-on multiple ratio times principal plus accrued interest.

We used the probability weighted discounted cash flow approach to determine if the 2020 Term Facility Loan would be converted upon qualified financing or maturity. Upon the qualified financing, the convertible notes will not be converted and will remain outstanding until maturity and put at 280% principal plus unpaid interest. Upon maturity, the convertible notes will be repaid at a full principal balance. We remeasure the fair value of the debt instrument and record the change as a gain or loss from change in fair value of debt in the statements of operations and comprehensive loss for each reporting period.

2019 Convertible Notes

During 2019, we issued convertible loan notes in an aggregate principal amount of \$15.0 million (see Note 20, "Convertible Loan Notes" for details). We elected to account for the 2019 Convertible Notes at fair value. Management believes that the fair value option better reflects the underlying economics of the 2019 Convertible Notes, which contains embedded derivatives. The notes were converted to ordinary shares due to a qualified financing event in June 2019. During 2019, the 2019 Convertible Notes were converted into 1,336,344 ordinary shares.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. CONVERTIBLE LOAN NOTES

The following table summarises the information relating to our long term debt.

	31 December 2020		
	Principal \$'000	Fair Value Adjustment \$'000	Net \$'000
3% - 2020 Convertible Notes	21,281	10,825	32,106
8% - 2020 Convertible Notes	8,000	6,789	14,789
2020 Term Facility Loan	22,500	2,549	25,049
Total Long-term debt	51,781	20,163	71,944
Less: current portion of long-term debt	(51,781)	(20,163)	(71,944)
Long term debt, net of current portion	-	-	-

Future minimum payments under the debt agreements as of 31 December 2020 are as follows:

Year Ending 31 December:	Convertible Notes \$'000
2021	-
2022	-
2023	-
2024	-
2025	66,281
Thereafter	10,000
Total future minimum payments	76,281
Less: Current portion of Debt principal	-
Non-current portion of debt principal	76,281

3.0% – 2020 Convertible Notes

On 9 March 2020, we issued convertible loan notes in an aggregate principal amount of \$21.3 million (the “3.0% Convertible Notes”). The 3.0% Convertible Notes mature on the fifth anniversary date of the instrument and bear interest at a rate of 3.0% per annum. The 3.0% Convertible Notes contain no financial covenants. We accrued but unpaid interest of \$0.3 million for the year ended 31 December 2020. The 3.0% Convertible Notes were issued in two tranches – \$20.0 million on 9 March, 2020 and \$1.3 million on 20 October 2020. The 3.0% Convertible Notes were convertible as follows:

- (a) If in an equity financing raised total proceeds for the Company of not less than \$10.0 million then the outstanding principal amount of all notes and any unpaid accrued interest shall automatically convert into the most senior class of equity share at a conversion price of \$14.298 per share; or
- (b) if an equity financing is not raised for the Company, then the outstanding principal amount of all notes and any unpaid accrued interest may convert into the most senior class of share at a conversion price of \$14.298 per share.
- (c) At an exit event, redeem the outstanding notes for an amount equal to the outstanding principal plus accrued interests or convert the outstanding principal amount of all notes and any unpaid accrued interest thereon into the most senior class of share of the Company, at a conversion price equal to the issuance price of \$14.298 per share.
- (d) At the maturity date, convert into the most senior class of shares at a conversion price equal to the issuance price of \$14.298 per share.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONVERTIBLE LOAN NOTES (CONTINUED)

We elected to account for the 3.0% Convertible Notes at fair value as of the issuance date. Management believes that the fair value option better reflects the underlying economics of the 3.0% Convertible Notes. Under the fair value election, changes in fair value are reported in the consolidated statements of operations and comprehensive loss under Change in Fair Value of Debt Instruments. For the year ended 31 December 2020, we recorded a loss of \$10.8 million which is shown as Fair Value Adjustment in the table at the beginning of this Note 20. See Note 19, Fair Value Measurements for information about the assumptions we used to measure the fair value of the 3.0% Convertible Notes.

8.00% – 2020 Convertible Notes

On 19 February 2020, we issued convertible loan notes to our board member in an aggregate principal amount of \$8.0 million (the "8.0% Convertible Notes"). The 8.0% Convertible Notes mature on the seventh anniversary date of the instrument and bear interest at a rate of 8.0% per annum. The 8.0% Convertible Notes contain no financial covenants. We accrued but unpaid interest of \$0.6 million for the year ended 31 December 2020. The 8.0% Convertible Notes were convertible as follows

- (a) In the event of an equity financing, the outstanding principal amount of all notes and any unpaid accrued interest shall automatically convert into the most senior class of share at a conversion price being the lower of 14.298 per share or a discounted subscription price of the equity shares; or
- (b) (b) At an exit event, convert the outstanding principal amount of all notes and any unpaid accrued interest thereon into the most senior class of share of the Company, at a conversion price, equal to a 25% discount to the Series E issuance price of \$14.298 per share.
- (c) (c) At the maturity date, convert into the most senior class of equity share at a conversion price of \$14.298.

We elected to account for the 8.0% Convertible Notes at fair value as of the issuance date. Management believes that the fair value option better reflects the underlying economics of the 8.0% Convertible Notes. Under the fair value election, changes in fair value are reported in the consolidated statements of operations and comprehensive loss under Change in Fair Value of Debt Instruments. For the year ended 31 December 2020, we recorded a loss of \$6.8 million which is shown as Fair Value Adjustment in the table at the beginning of this Note 20. See Note 19, Fair Value Measurements for information about the assumptions we used to measure the fair value of 8.0% Convertible Notes.

In conjunction with the 8.0% Convertible Notes, we also issued the holder warrants ("Investor Warrants") which are convertible into Ordinary Shares of the Company. The warrants have an exercise price of \$0.00001 per share and will only become exercisable if we fail to achieve certain revenue and contribution margin targets in 2021 and 2022. The number of shares that the warrants will convert into varies according to the proportion of the revenue and contribution targets ultimately achieved. The value of the warrants is embedded within the 8.0% Convertible Notes.

2020 Term Facility Loan.

On 29 September 2020, we secured a term facility loan of \$35.0 million from Argentum ("2020 Term Facility Loan"). The 2020 Term Facility Loan matures on 29 March 2025 and bears interest at a rate of 2.0% per annum. The 2020 Term Facility Loan has no financial covenants. We may extend the maturity date through the filing of an extension request up to an additional one year. The 2020 Term Facility Loan may be voluntarily prepaid in full (no partial repayments), plus the applicable repayment premium payable. The Company paid interest of \$0.1 million for the year ended 31 December 2020.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONVERTIBLE LOAN NOTES (CONTINUED)

The Company shall repay the aggregate amount of the loans utilized in full on the maturity date, subject to no Qualified Exit occurring at the time plus the applicable repayment premium payable. The Qualified Exit means: 1) qualified listing—a flotation or a public offering, the value of which is equal to or exceeds the free float value of \$350.0 million; 2) non-qualified trade. As of 31 December 2020, the total amount borrowed was \$22.5 million.

Upon any occurrence of a non-qualified trade sale or qualified listing, amounts due to Argentum will be discharged in full by way of conversion into our most senior class of shares.

We elected to account for the 2020 Term Facility Loan at fair value as of the issuance date. Management believes that the fair value option better reflects the underlying economics of the 2020 Term Facility Loan. Under the fair value election, changes in fair value are reported in the consolidated statements of operations and *comprehensive loss under Change in Fair Value of Debt Instruments*. For the year ended 31 December 2020, we recorded a loss of \$2.5 million which is shown as Fair Value Adjustment in the table at the beginning of this Note 20. See Note 19, Fair Value Measurements for information about the assumptions we used to measure the fair value of 2020 Term Facility Loan

2019 Convertible Notes

During 2019, we issued convertible loan notes in an aggregate principal amount of \$15.0 million

("2019 Convertible Notes"). The 2019 Convertible Notes mature on the second anniversary date of the instrument and bore interest at a rate of 8.0% per annum. The 2019 Convertible Notes were issued in two tranches—\$6.7 million on 5 March 2019 and \$8.3 million on 27 March 2019. The 2019 Convertible Notes were convertible as follows:

- (a) if in an equity financing raised total proceeds for the Company of not less than \$10.0 million then the outstanding principal amount of all notes and any unpaid accrued interest shall automatically convert into the most senior class of share at a conversion price of \$11.4384, equal to a 20% discount to the Series E issuance price of \$14.298 per share; or
- (b) At an exit event, convert the outstanding principal amount of all notes and any unpaid accrued interest thereon into the most senior class of share of the Company, at a conversion price equal to the Series E issuance price of \$14.298 per share.
- (c) At the maturity date, convert into the most senior class of share at a conversion price equal to the Series E issuance price of \$14.298.

We elected to account for the 2019 Convertible Notes at fair value as of the issuance date. Management believes that the fair value option better reflects the underlying economics of the 2019 Convertible Notes, which contains embedded derivatives. Under the fair value election, changes in fair value are reported in the consolidated statements of operations and *comprehensive loss under Change in Fair Value of Debt Instruments*.

On 12 June 2019, we received equity financing of \$24.0 million, resulting in the automatic conversion of the 2019 Convertible Notes. Upon settlement, we recorded interest expense in the amount of \$0.3 million for the amount that would have been accrued from the issuance date to the settlement date at annual rate of 8%, on the \$15.0 million of principal under the terms of the 2019 Convertible Notes. To extinguish the 2019 Convertible Notes, 1,336,344 ordinary shares were issued. A loss of \$3.0 million was generated on the extinguishment of the liability during the conversion based on the difference between the fair value of the shares at \$13.65 and the conversion price of \$11.44 and was recorded in statements of operations and *comprehensive loss under change in fair value of debt instruments*.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONVERTIBLE LOAN NOTES (CONTINUED)

The impact on the financial statements of the convertible loan note and their conversion is summarised below:

	2020	Restated
	\$'000	2019
		\$'000
Convertible Loan Note:		
Balance at 1st January 2020	-	-
Face Value of Notes Issued	51,266	15,000
<i>Derivative element</i>		
Conversion options	-	-
Warrants	515	-
Interest Expense	-	286
Fair value adjustments	20,163	2,958
Conversion to Equity	-	(18,244)
Balance at 31st December 2020	71,944	-
Impact on Profit & Loss Account	2020	2019
	\$'000	\$'000
Interest Expense	-	(286)
Change in fair value	(20,163)	-
Loss on extinguishment of liability	-	(2,958)
Net Finance Income	(20,163)	(3,244)
Transfer from Retained Earnings	-	-
Net impact on Retained Earnings	(20,163)	3,244
Impact on equity	2020	2019
	\$'000	\$'000
Share capital	-	-
Share premium	-	18,244
Total	-	18,244

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****21. FINANCIAL ASSETS AND LIABILITIES**

Trade and other receivables, cash and cash equivalents, and trade and other payables are measured at amortised cost. Cash-settled share-based payment liabilities are stated at their fair value. The accounting policies applied are set out in Note 2. The carrying amounts of financial assets and liabilities as of 31 December 2020 are categorised as follows:

	2020	Restated 2019
Carrying value of financial assets and liabilities within the Consolidated Statement of Financial Position:		
Financial assets		
Trade and other receivables	21,964	21,710
Cash and cash equivalents	19,228	20,904
Financial assets at amortised cost	41,192	42,614
Financial liabilities		
Trade and other payables at amortised cost	5,176	8,568
Loan	2,860	1,949
Financial liabilities at amortised cost	8,036	10,517
Cash-settled share-based payments due < 1 year	706	435
Financial liabilities at fair value	706	435

All financial liabilities at amortised cost based on contractual undiscounted payments are due for settlement within six months.

22. FINANCIAL COMMITMENTS

Financial commitments in respect of expenditure contracted for but not provided for, are as follows:

	2020	2019
	\$'000	\$'000
Research and development expenditure		
Engineering R&D partner programs	3,042	3,346

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. SHARE CAPITAL

	2020 \$'000	2019 \$'000
Allotted, called up and fully paid		
33,637,762 ordinary shares of £0.00001 each (2019 – 33,337,115 ordinary shares of £0.0001 each)	-	-
	-	-

During the year the company issued 300,647 new shares of £0.00001 each. (2019 – 4,121,423 new shares of £0.0001). Proceeds were \$4,455,000 (2019: \$54,746,000).

	Shares issued No.	Subscription Price \$	Share premium \$'000
Share options exercised	7,813	5.36	42
Warrants exercised - 2019	5,523		7
Acquisition of in progress R & D	139,879	14.298	2,298
Investment Round E Ordinary £0.00001 shares	147,432	14.298	2,108
	300,647		4,455

24. SHARE-BASED PAYMENTS

The Company has established a number of share-based incentive schemes for current employees, directors, vendors and others, which include Share Appreciation Rights ("SARs"), Share Option Scheme and Warrants.

Cash-settled share-based payments – Share Appreciation Rights

On, the 12th November 2013, the Company issued to certain employees SARs that require the company to pay the intrinsic value of the SARs to the employee at the date of exercise. These SARs vest over a period of 4 years, provided the employee remains in the employment of the Group.

A summary of the SARs granted as of 31 December 2020 are as follows (table adjusted for 10 for 1 share split):

	As at 31 Dec 2020 No.	Exercise price Per SAR £/\$	As at 31 Dec 2019 No.	As at 31 Dec 2018 No.
Stock Appreciation Rights – 12th November 2013	30,000	£0.00001	30,000	30,000

As of 31 December 2020, the Company had recorded liabilities of \$706,000 (2019 - \$435,000) in respect of these SARs. The fair value of the SARs has been based on \$20.28 (2019 - \$12.98) being the assessed fair value of Company's shares as of 31 December 2020. The Company recorded total expenses of \$265,000 (2019 – (\$23,000)) during the year ended 31 December 2020 in respect of SARs. As of 31 December 2020 the total intrinsic value of the vested SARs was \$706,000 (2019 - \$435,000).

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SHARE BASED PAYMENTS (CONTINUED)

The company has issued share options to certain individuals to subscribe for ordinary shares of the Company. All of the share options have been granted under the Company's 2013 equity incentive plan. A summary of the share options granted as of 31 December 2020 is as follows:

<u>Scheme</u>	<u>Exercise</u>	<u>Total issued</u>	<u>Total</u>			<u>Total</u>	<u>Total</u>
<u>Pool</u>	<u>Price</u>	<u>as at 31 Dec</u>	<u>exercisable</u>	<u>Granted</u>	<u>Exercised</u>	<u>issued</u>	<u>exercisable</u>
<u>Year</u>	<u>£/\$</u>	<u>2019</u>	<u>2019</u>	<u>No.</u>	<u>No.</u>	<u>as at 31</u>	<u>as at 31</u>
		<u>No.</u>	<u>No.</u>			<u>Dec 2020</u>	<u>Dec 2020</u>
				<u>No.</u>	<u>No.</u>	<u>No.</u>	<u>No.</u>
2013	£0.00001	325,500	325,500	-	-	325,500	325,500
2014	\$0.439	851,200	851,200	-	-	851,200	851,200
2015	\$1.331	1,391,250	1,391,250	-	-	1,391,250	1,391,250
2016	\$4.300	201,500	170,108	-	-	162,500	162,500
2017	\$5.130	1,236,130	682,911	-	-	1,191,963	958,863
2018	\$5.363	805,685	318,755	-	(7,813)	704,997	457,583
2019	\$9.290	1,093,148	90,488	-	-	475,504	210,656
2020	\$8.670			2,328,385	-	2,104,130	335,761
Totals		5,904,413	3,830,212	2,328,385	(7,813)	7,207,044	4,693,313

All options vest over the earlier of 4 years of service from grant or start of service, with typically 25% becoming exercisable on the first anniversary of the grant or start of service and the balance becoming exercisable in equal monthly portions over the following 36 months.

The fair values of options granted during the period were determined using a Black Scholes option pricing model that takes into account factors specific to the share option plans, such as the vesting period. The following principal assumptions were used in the valuation:

	31 Dec 2020	31 Dec 2019
Weighted average share price at date of grant	\$8.670	\$9.290
Volatility	50.29%-52.45%	50.40%-51.37%
Vesting period (years of service from date of grant)	4 years	4 years
Dividend yield	0.0%	0.0%
Risk-free investment rate	0.30%-1.75%	1.42%-1.88%
Weighted average fair value at date of grant	\$10.58-19.96	\$13.21-13.52
Weighted average exercise price at date of grant	\$8.670	\$9.290

The underlying expected volatility was determined by reference to equity volatilities and metrics calculated from comparable listed companies.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SHARE BASED PAYMENTS (CONTINUED)

Equity-settled share based payments – Warrants

The Company has issued warrant certificates to certain individuals to subscribe for ordinary shares of the Company. The warrant certificates entitle the holder to subscribe for ordinary shares of the Company, the volume dependent upon the individual achieving certain share capital investment targets. A summary of the warrants granted as of 31 December 2020 are as follows:

	As at 31 Dec 2020	Exercise price Per Warrant £/\$	As at 31 Dec 2019
	No.		No.
Equity Warrant Instruments Feb 2014	51,000	\$1.000	51,000
Equity Warrant Instruments Sep 2014	13,950	\$1.000	13,950
Equity Warrant Instruments Oct 2015	137,540	\$2.671	137,540
Equity Warrant Instruments Nov 2016	12,840	\$8.646	12,840
Equity Warrant Instruments Dec 2016	65,420	\$8.646	65,420
Equity Warrant Instruments Jan 2017	64,180	\$8.646	64,180
Equity Warrant Instruments Apr 2017	2,840	\$8.646	2,840
Equity Warrant Instruments May 2017	52,050	\$8.646	52,050
Equity Warrant Instruments Feb 2018	215,250	\$9.500	215,250
Equity Warrant Instruments Mar 2018	10,530	\$9.500	10,530
Equity Warrant Instruments Apr 2018	52,632	\$9.500	52,632
Equity Warrant Instruments June 2019	130,699	£0.00001	130,976
Equity Warrant Instruments June 2019	18,027	\$11.4384	31,599
Equity Warrant Instruments June 2019	104,910	\$14.298	104,910
Equity Warrant Instruments July 2019	700	£0.00001	700
Equity Warrant Instruments Oct 2019	-	\$1.331	5,246
Equity Warrant Instruments Oct 2019	700	£0.00001	700
Equity Warrant Instruments Nov 2019	27,976	\$14.298	27,976
Equity Warrant Instruments Oct 2020	19,243	\$11.4384	-
Equity Warrant Instruments Nov 2020	2,273	\$11.4384	-
Equity Warrant Instruments Nov 2020	30,343	\$9.500	-
	1,013,103		980,339

The Company issued warrant instruments in conjunction with the \$8 million 8% convertible loan notes described in Note 20 above. The number of warrants to be issued was capped at 100% of warrant holders fully diluted share holding post conversion of the loan notes. The warrants will only become exercisable if the company fails to achieve certain revenue and contribution margin targets in 2021 and 2022. The number of warrants exercisable at a price per share of \$0.00001 is variable according to the proportion of the revenue and contribution targets achieved.

The fair values of the warrants granted during the period were determined using the same Black Scholes option pricing model and the same principal assumptions that were applied to the valuation of the options above.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SHARE BASED PAYMENTS (CONTINUED)

During the year the Group recognised a total expense relating to share-based payments in respect of its SARs, Share Options and Warrants as follows:

	Year ended 31 Dec 2020 \$'000	Restated Year ended 31 Dec 2019 \$'000
Share Appreciation Rights	265	(23)
Share Options	8,043	6,231
	8,308	6,208

25. ULTIMATE CONTROLLING PARTY

Following completion of the business combination on 11 August 2021, the Company's became a wholly-owned subsidiary of Rockley Photonics Holding Limited. The consolidated financial statements are available at our website at www.rockleyphotonics.com under investor section.

26. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries have been eliminated on consolidation.

During the year the Group made sales to its associate company, Hengtong Rockley Technology Co., Ltd, of \$5,306,250 (2019 - \$6,709,000). As of 31 December 2020, the balance owed by Hengtong Rockley Technology Co., Ltd amounted to \$3,283,250 (2019 - \$2,877,000). The Group also purchased goods from Hengtong Rockley Technology Co., Ltd amounting to \$261,832 (2019 - \$34,080). As of 31 December 2020 the balance owed was \$182,312 (2019 - \$nil).

During the year ended 31 December 2020 the Group purchased services and reimbursed expenses from Rockley Ventures Limited, amounting to \$564,552 (2019 - \$810,221). Rockley Ventures Limited is a company in which Dr A. G. Rickman is a director and shareholder. As of 31 December 2020, the balance owed to Rockley Ventures Limited amounted to \$nil (2019 - \$60,982).

During the year ended 31 December 2020 the Group purchased services amounting to \$20,247 (2019 - \$177,926) from Reach for Infinity, a limited liability partnership in which Mr S Rikhi is a partner. As of 31 December 2020, the balance owed to Reach for Infinity amounted to \$nil (2019 - \$15,532).

During the year ended 31 December 2020 the Group purchased services amounting to \$56,660 (2019 - \$52,530) from Dr A. G. Rickman trading as Haredown Estate. As of 31 December 2020, the balance owed to Dr A. G. Rickman trading as Haredown Estate was \$nil (2019 - \$nil).

During the year the Group purchased services and reimbursed expenses from Mr R. J. Rickman amounting to \$8,091 (2019 - \$10,262). As at 31 December 2020, the balance owed to Mr R. J. Rickman was \$nil (2019 - \$969).

During the year ended 31 December 2020 the Group purchased services from Rockley Management HK Ltd amounting to \$204,278 (2019 - \$825,835). Rockley Management HK Ltd is a company in which Mr R. J. Rickman and Dr A. G. Rickman are directors and shareholders. As of 31 December 2020, the balance owed to Rockley Management HK Ltd was \$nil (2019 - \$nil).

During the year ended 31 December 2020 the Group purchased services and reimbursed expenses from Hirvonventures OY amounting to \$103,509 (2019 - \$113,314) Hirvonventures OY is a company in which Mr M.H.K. Hirvonen is a director and shareholder. As of 31st December 2020, the balance owed to Hirvonventures OY was \$nil (2019 - \$nil).

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

RELATED PARTY TRANSACTIONS (CONTINUED)

During the year ended 31 December 2020 the Group reimbursed expenses from Mr J. A. Burgess amounting to \$33,764 (2019 - \$7,047). As of 31 December 2020, the balance owed to Mr J. A. Burgess was \$nil (2019 - \$nil).

During the year ended 31 December 2020 the Group reimbursed expenses from Dr C. A. Brown amounting to \$143 (2019 - \$6,145). As of 31 December 2020, the balance owed to Dr C. A. Brown was \$nil (2019 - \$nil).

27. CONTINGENT LIABILITIES

Rockley's products incorporate third party technology, usually under licence. Inadvertent actions may expose the Group to the risk of infringing third party intellectual property rights. Potential claims can still be submitted many years after a product has been deployed. Any such claims are vigorously defended. As of 31 December 2020 the Group is not aware of any such claims.

28. POST BALANCE SHEET EVENTS

In early 2021, the Company issued convertible notes bearing interest at a rate of 5.0% per annum. The terms of the notes were similar to the 2020 Convertible Notes. We received \$25.0 million on 5 January 2021, \$10.0 million on 13 January 2021, and \$30.0 million on 18 January 2021. We also received \$11.4 million in connection with the 2020 Term Facility Loan on 19 February 2021.

Rockley Photonics Holdings Limited ("HoldCo") was formed on 11 March 2021 for the purpose of effecting a merger or other similar business combination with one or more operating businesses. HoldCo had neither engaged in any operations nor generated significant revenue through 30 June 2021.

On 19 March 2021, the Company entered into a definitive agreement to combine with SC Health Corporation ("SC Health"), a publicly traded special purpose acquisition company. The transaction resulted in Rockley becoming a publicly traded company as noted above.

The \$2,860k of borrowings outstanding under the ("PPP") Loan was forgiven in full on 16 June 2021.

On 22 July 2021, Rockley Photonics Holdings Limited's Form S-4 Registration Statement received a Notice of Effectiveness from the Securities and Exchange Commission ("SEC").

On 9 August 2021, among other things, we proposed and was approved by the High Court of the United Kingdom a transfer scheme of arrangement under Part 26 of the Companies Act pursuant to which our shareholders exchanged all of Rockley Photonics Limited shares for Rockley Photonics Holdings Limited Ordinary Shares, at a conversion price of \$10.00 per share. The transfer was conditional upon the approval of the Business Combination Agreement.

The Business Combination was consummated on 11 August 2021 and the Company and its wholly-owned subsidiary became a wholly owned subsidiary of Rockley Photonics Holdings Limited. Rockley Photonics Holdings Limited became a publicly traded company listed on the NYSE under the symbol "RKLY"

Immediately following the completion of the Business Combination and the related organizational transactions on 11 August 2021, the following took place:

- Rockley Photonics Holdings Limited received \$126.9 million in proceeds, net of underwriting discounts and commissions.
- The shareholders of SC Health and Rockley Photonics Limited hold 12,339,650 and 103,916,607 shares, or approximately 9.8% and 82.3% ownership interest in Rockley Photonics Holdings Limited, respectively.

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

POST BALANCE SHEET EVENTS (CONTINUED)

- The Company's issued and outstanding convertible loan notes (other than certain convertible notes issued in connection with the 2020 Term Facility Loan, of which 30% were converted to Ordinary Shares of HoldCo and 70% were converted to convertible notes of HoldCo that mature on 31 August 2022), inclusive of interest accrued thereon, converted into Ordinary Shares of HoldCo at a conversion price of \$10.00 per share.
- The Company's issued and outstanding warrants were converted to Ordinary Shares of HoldCo.
- In connection with the transaction, we incurred legal, accounting, and other professional fees in connection with the completion of the Business Combination of approximately \$41.5million.

29. CASH FLOWS FROM OPERATING ACTIVITIES

	2020	Restated 2019
	\$'000	\$'000
Loss for the year	(80,441)	(49,906)
<i>Adjustments to reconcile operating loss to net cash flows from operating activities</i>		
Income tax gain recognised in profit or loss	(15,888)	(13,931)
Investment income recognised in profit or loss	(30)	(282)
Interest cost recognised in profit or loss	378	1,061
Depreciation and amortisation of non-current assets	2,418	1,690
Depreciation of right of use assets	1,075	1,014
Expense recognised on share-based payments	8,308	6,207
Loss on investment	1,274	1,280
Change in fair value of derivatives	20,163	2,603
Foreign exchange movements	(237)	(758)
Movements in working capital		
Increase in trade and other receivables	3,483	(1,439)
Increase in trade and other payables	(757)	6,181
Cash settled share based payment	271	(23)
	(59,983)	(46,303)

These notes form part of the consolidated financial statements

ROCKLEY PHOTONICS LIMITED

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

YEAR ENDED 31 DECEMBER 2020

		2020	Restated*
	Note	\$'000	2019 \$'000
ASSETS			
Non-current asset			
Property, plant and equipment	E	624	780
Intangible assets	F	3,048	-
Right of use Assets	12	2,132	2,620
Investments	D	3	3
Investment in associate	14	5,202	1,486
		11,009	4,889
Current assets			
Trade and other receivables	G	41,811	33,384
Cash and cash equivalents	H	18,527	19,940
		60,338	53,324
		71,347	58,213
Equity			
Called up share capital	L	-	-
Share premium		164,096	159,788
Equity settled share based payments reserve	24	37,258	28,843
Retained earnings		(243,243)	(159,887)
		(41,889)	28,744
LIABILITIES			
Current liabilities			
Trade and other payables	I	40,586	25,854
Short term bank loan	M	-	1,949
Convertible loan notes	20	71,944	-
Current portion of long term lease liabilities		-	1,231
Cash settled share based payment liabilities	17	706	435
		113,236	29,469
		-	-
Total liabilities		113,236	29,469
Total equity and liabilities		71,347	58,213

The company made a loss of \$79,773,000 for the year ended 31 December 2020 (2019 loss of \$50,318,000)

*The restatement adjustments are discussed in detail in note 1 on pages 19 to 20.

The financial statements on pages 59 - 73 were approved by the directors and authorised for issue on 20 December 2021, and are signed on their behalf by:

Ciaran Rooney

Mr C. L. Rooney
Director

Company Registration Number 08683015

The notes on pages 61 to 73 form part of the parent company financial statements.

ROCKLEY PHOTONICS LIMITED

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

31 DECEMBER 2020

	Equity Share capital \$'000	Share premium \$'000	Equity- settled share based payments reserve \$'000	Retained earnings \$'000	Total shareholders' equity £'000
Balance At 1st January 2019 as previously stated	-	108,529	8,356	(101,757)	15,128
Effect of restatement (b)	-	-	-	290	290
Effect of restatement (d)	-	-	-	(503)	(503)
Effect of restatement (e)	-	(2,818)	11,740	(8,442)	480
Effect of restatement (h)	-	-	-	82	82
Effect of restatement (i)	-	-	-	66	66
Restated At 1 January 2019	-	105,711	20,096	(110,264)	15,543
Loss for the period	-	-	-	(50,318)	(50,318)
Other comprehensive expense for the period	-	-	-	1	1
Exchange differences on translation	-	-	-	694	694
Issue of ordinary share capital	-	54,077	-	-	54,077
Share option compensation charge	-	-	8,747	-	8,747
Restated At 31 December 2019	-	159,788	28,843	(159,887)	28,744
Loss for the period	-	-	-	(79,773)	(79,773)
Other comprehensive expense for the period	-	-	-	-	-
Exchange differences on translation	-	-	-	(3,583)	(3,583)
Issue of ordinary share capital	-	4,308	-	-	4,308
Share option compensation charge	-	-	8,415	-	8,415
At 31 December 2020	-	164,096	37,258	(243,243)	(41,889)

The restatement adjustments (a) to (i) are discussed in detail in note 1 on pages 19 to 20.

The notes on pages 61 to 73 form part of the parent company financial statements.

ROCKLEY PHOTONICS LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

A. RESTATEMENT OF 2019 FINANCIAL STATEMENTS

As part of the transition to the listing on the NYSE as noted in the Strategic Report, results for prior years were restated to US GAAP. In undertaking this detailed exercise, we identified a number of prior year errors that have been corrected into these IFRS based accounts. The adjustments are discussed in detail on note 1 to the consolidated financial statements on pages 19 to 20. The impact of these adjustments on the parent company financial statements are summarised on below:

RESTATED 2019 PARENT COMPANY STATEMENT OF FINANCIAL POSITION

	Note	2019 As Previously Stated \$'000	(b) \$'000	(d) \$'000	(e) \$'000	(f) \$'000	(h) \$'000	(i) \$'000	2019 Restated \$'000
ASSETS									
Non-current asset									
Property, plant and equipment	E	780	-	-	-	-	-	-	780
Intangible assets	F	-	-	-	-	-	-	-	-
Right of use Assets	12	-	2,503	-	-	-	-	117	2,620
Investments	D	3	-	-	-	-	-	-	3
Investment in associate	14	3,263	-	(1,678)	-	-	-	(99)	1,486
		4,046	2,503	(1,678)	-	-	-	18	4,889
Current assets									
Trade and other receivables	G	30,940	-	-	2,443	-	-	1	33,384
Cash and cash equivalents	H	19,940	-	-	-	-	-	-	19,940
		50,880	-	-	2,443	-	-	1	53,324
		54,926	2,503	(1,678)	2,443	-	-	19	58,213
Equity									
Called up share capital	L	-	-	-	-	-	-	-	-
Share premium		160,448	-	-	(3,618)	2,958	-	-	159,788
Equity settled share based payments reserve	24	14,184	-	-	14,659	-	-	-	28,843
Retained earnings		(148,083)	1,229	(1,678)	(8,449)	(2,958)	-	52	(159,887)
		26,549	1,229	(1,678)	2,592	-	-	52	28,744
LIABILITIES									
Current liabilities									
Trade and other payables	I	25,844	-	-	-	-	-	10	25,854
Short term bank loan	M	1,949	-	-	-	-	-	-	1,949
Convertible loan notes	20	-	-	-	-	-	-	-	-
Current portion of long term lease liabilities		-	1,274	-	-	-	-	(43)	1,231
Cash settled share based payment liabilities	17	318	-	-	117	-	-	-	435
		28,111	1,274	-	117	-	-	(33)	29,469
Non-current liabilities									
Long term bank loan	M	-	-	-	-	-	-	-	-
Convertible loan notes	20	-	-	-	-	-	-	-	-
Derivative liability		266	-	-	(266)	-	-	-	-
Deferred tax liabilities	9	-	-	-	-	-	-	-	-
		266	-	-	(266)	-	-	-	-
Total liabilities		28,377	1,274	-	(149)	-	-	(33)	29,469
Total equity and liabilities		54,926	2,503	(1,678)	2,443	-	-	19	58,213

The restatement adjustments (a) to (i) are discussed in detail in note 1 on pages 19 to 20.

These notes form part of the parent company financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

B. ACCOUNTING POLICIES

Statement of compliance with FRS 101.

These financial statements (the parent company financial statements) were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and in accordance with applicable accounting standards.

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006. The results of Rockley Photonics Limited are included in the consolidated financial statements of Rockley Photonics Limited which are included on pages 15 to 58.

The accounting policies which follow set out those policies which apply in preparing the parent company financial statements for the year ended 31 December 2020. The parent company financial statements are presented in United States Dollars (USD) and all values are rounded to the nearest thousand (\$'000) except when otherwise indicated.

Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have taken account of all information available about the future up to 31 December 2022 (the "going concern period").

The Company has incurred net losses since inception, has an accumulated deficit of \$243.2 million as of 31 December 2020 and expects to incur losses from operations for the foreseeable future. As of 31 October 2021, the Company had cash and cash equivalents of approximately \$110.3 million. The financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business.

Our future liquidity needs during the going concern period, and ability to address those needs, will largely be determined by our ability to obtain additional financing on terms acceptable to us. Our parent company Rockley Photonics Holdings Limited will continue to seek additional capital through the sale of debt or equity, or other arrangements, however, there can be no assurance that we will be able to raise additional capital when needed or under acceptable terms, if at all. If they are unable to obtain additional financing, operations may be scaled back or discontinued. Rockley Photonics Holdings Limited has confirmed in writing that it will continue to support Rockley Photonics Limited throughout the going concern period.

The directors acknowledge that there is some element of risk in any fundraising and that this therefore represents a material uncertainty for the Company, which could have a significant impact on the Company's ability to continue as a going concern. However, given the current cash position and the number of funding options under consideration, the track record the business has of raising funds, and the anticipated interest in future raises, the directors are confident that the planned funding round will also be successful and provide the funds required to complete the development phase and provide working capital for the marketing phase of the business plan.

Although there will be a short-term impact from the COVID-19 virus we remain very confident of the future for the Rockley business. Rockley's technology underpins and enables many solutions that have been highlighted / will be needed following this pandemic such as the requirement for better sensor products, more remote working demands and higher data-centre infrastructure requirements and we will be at the forefront of these developments.

These notes form part of the parent company financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

ACCOUNTING POLICIES (CONTINUED)

Going concern (continued)

For these reasons, the directors are satisfied that the Group will have adequate resources to continue to operate for the foreseeable future. Accordingly, the directors have prepared these financial statements on the going concern basis.

Basis of preparation

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- The requirements of paragraphs 45(b) and 46-52 of IFRS 2 'Share Based Payments';
- The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 'Business Combinations';
- The requirements of IFRS 7 'Financial Instruments: Disclosures';
- The requirements of paragraphs 91-99 of IFRS 13 'Fair Value Measurement';
- The requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 'Presentation of Financial Statements';
- The requirements of IAS 7 'Statement of Cash Flows';
- The requirements of paragraph 73(e) of IAS 16 'Property, Plant and Equipment';
- The requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies';
- The requirements of paragraph 17 of IAS 24 'Related Party Disclosures';
- The requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- The requirements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 'Impairment of Assets'.

Research and development

Research and development expenditure is written off in the period in which it is incurred.

Property, plant and equipment

Property, plant and equipment are initially recorded at cost of purchase or construction and are depreciated on a straight-line basis, except for land, which is not depreciated. Estimated useful lives of major classes of depreciable assets are as follows:

Computer and lab equipment	- 3 years
Fixtures and fittings	- 4 years

Repairs and maintenance costs are recognised as expenses as incurred.

Cash and cash equivalents

Cash and cash equivalents comprises of cash on hand, call and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

These notes form part of the parent company financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

ACCOUNTING POLICIES (CONTINUED)

Leases

Initial recognition and measurement

The Group initially recognises a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term.

The lease liability is measured at the present value of the lease payments to be made over the lease term. The lease payments include fixed payments, purchase options at exercise price (where payment is reasonably certain), expected amount of residual value guarantees, termination option penalties (where payment is considered reasonably certain) and variable lease payments that depend on an index or rate.

The right-of-use asset is initially measured at the amount of the lease liability, adjusted for lease prepayments, lease incentives received, the Group's initial direct costs and an estimate of restoration, removal and dismantling costs.

Subsequent measurement

After the commencement date, the Group measures the lease liability by:

- (a) Increasing the carrying amount to reflect interest on the lease liability;
- (b) Reducing the carrying amount to reflect the lease payments made; and
- (c) Re-measuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in substance fixed lease payments or on the occurrence of other specific events.

Interest on the lease liability in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. Interest charges are included in finance cost in the income statement.

The related right-of-use asset is accounted for using the Cost model in IAS 16 and depreciated and charged in accordance with the depreciation requirements of IAS 16 Property, Plant and Equipment as disclosed in the accounting policy for Property, Plant and Equipment. Adjustments are made to the carrying value of the right of use asset where the lease liability is re-measured in accordance with the above.

Right of use assets are tested for impairment in accordance with IAS 36 Impairment of assets as disclosed in the accounting policy in impairment.

These notes form part of the parent company financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Short term and low value leases

The Group has made an accounting policy election, by class of underlying asset, not to recognise lease assets and lease liabilities for leases with a lease term of 12 months or less (i.e., short-term leases).

The Group has made an accounting policy election on a lease-by-lease basis, not to recognise lease assets on leases for which the underlying asset is of low value.

Lease payments on short term and low value leases are accounted for on a straight line bases over the term of the lease or other systematic basis if considered more appropriate. Short term and low value lease payments are included in operating expenses in the income statements.

- (a) Reducing the carrying amount to reflect the lease payments made; and
- (b) Re-measuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in substance fixed lease payments or on the occurrence of other specific events.

Interest on the lease liability in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or leases and leases of low-value assets, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the statement of financial position date.

Deferred income taxes are provided on a liability method, whereby deferred income tax assets are recognized for deductible temporary differences, operating losses, and tax loss carry forwards, and deferred income tax liabilities are recognized for taxable temporary differences. Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered. Deferred income tax assets are reduced by a valuation allowance when, considering all sources of taxable income, in the opinion of management, it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised, or liability is settled, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise, income tax is recognised in the income statement.

Research and development tax credits not received at the year end date are included as current assets within the Consolidated Statement of Financial Position, amounts receivable are included within taxation in the Consolidated Statement of Comprehensive Income.

These notes form part of the parent company financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

(a) Trade receivables

Trade receivables are recognised at fair value, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivable is impaired.

(b) Trade payables

Trade payables are recognised at fair value.

(c) Share capital

Ordinary shares are classified as equity.

Foreign currency translation

Transactions in foreign currencies are recorded at the rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the income statement.

Employee benefits - Share-based compensation

The Group operates a number of equity-settled and cash-settled, share based compensation plans. Equity-settled share-based payments and warrants are measured at fair value at the date of grant. The fair value determined at the date of the grant 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. Fair value is measured by use of the Black-Scholes pricing model or a binomial option valuation model as appropriate depending on the terms of the options. For cash-settled share-based payments, a liability is recognised for the goods or services acquired over the vesting period, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognised in profit or loss for the year. If options lapse during the vesting period, no additional expense is charged to the income statement and no adjustment is made to that already charged.

These notes form part of the parent company financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

ACCOUNTING POLICIES (CONTINUED)

Significant management judgement in applying accounting policies and estimation of uncertainty

When preparing the financial statements, management makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

The following are the judgements made by management in applying the accounting policies of the Group that have the most significant effect on the financial statements.

(a) Assessing the amount of deferred tax asset that has been recognised

The amount of the deferred tax asset included in the balance sheet of the Group is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. In estimating the amount of the deferred tax asset that may be recognised the Directors make judgements, based on current budgets and forecasts, about the amount of future taxable profits and the timing of when these will be realised. Details are contained in note 9.

(b) R&D tax credit recognition

On 28 May 2020, the 2019 claim was paid in full and the company received funds of £11,172,905 (\$14,283,000), as provided for in the 2019 accounts. The company is currently working with its advisors on the claim for the period January 1 to December 31, 2020. At this stage the draft claim for 2020 totals £12,946,566 (\$17,411,000). As claims for the last three years have been paid in full, the company expect the 2020 claim to be paid in full so has provided to receive 100%, or £12,946,566 (\$17,411,000) in preparing the 2020 accounts.

(c) Estimation uncertainty

Information about estimates and assumptions that may have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different

(d) Fair values for share-based compensation

The establishment of fair values in respect of employee services received in exchange for share options require the exercise of judgement and estimation in respect of the life of the option, the expected dividend yield and the expected volatility of the underlying shares. A calculated value for the latter may not accurately reflect the future share price movements given the Group's stage of development, whilst a value benchmarked against peers may not control for factors unique to either business. Details are contained in Note 24.

C. LOSS FOR THE YEAR

As permitted by Section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements. The parent company's loss after tax was \$79,773,000 (2019 – loss: \$50,318,000).

Director's emoluments are disclosed in Note 7 on page 39. The parent company had an average of 33 employees including directors during the year (2019 – 25). The audit fee for the parent company is as disclosed in Note 5 on page 38.

These notes form part of the parent company financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

ACCOUNTING POLICIES (CONTINUED)

D. FIXED ASSET INVESTMENTS

	2020 \$'000	2019 \$'000
Cost as at 1 January and 31 December	3	3

The parent company's interest in Group's subsidiaries at the end of the report period are as follows:

Name of subsidiary	Registered Address	Place of incorporation	Proportion of ownership interest and voting power held by the Group	
Rockley Photonics Inc	Trust Center, 1209 Orange Street Wilmington, New Castle DE 19801	USA	100%	100%
Rockley Photonics Oy	c/o Azets Insights Oy Elielinaukio 5 B 00100 Helsinki, Finland	Finland	100%	100%
Rockley Photonics Ireland Limited	13-18 City Quay Dublin 2 D02 ED70 Ireland	Eire	100%	100%
Rockley Photonics Hong Kong Limited	Unit 402, 4th Floor Fairmont House, No.8 Colton Tree Drive Admiralty, Hong Kong	Hong Kong	100%	100%

The principal activity of all of the subsidiary undertakings, other than the dormant Rockley Photonics Hong Kong Limited, is that of research and development of silicon photonic sensing solutions for the consumer health and wellness market.

All of the subsidiaries undertakings are included within the consolidated financial statements of Rockley Photonics Limited.

Rockley Photonics Hong Kong Limited was incorporated in Hong Kong on 22 March 2019.

These notes form part of the parent company financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

E. PROPERTY, PLANT AND EQUIPMENT

	Computer and lab equipment \$'000	Fixtures & fittings \$'000	Assets under Construction \$'000	Total \$'000
COST				
At 1 January 2019	18	15	-	33
Additions	253	-	602	855
At 31st December 2019	271	15	602	888
Reclassification to intangibles	(110)	-	-	(110)
Foreign currency revaluation	(17)	(1)	-	(18)
Additions	127	-	-	127
Reclassification of assets under construction	602	-	(602)	-
At 31st December 2020	873	14	-	887
DEPRECIATION				
At 1 January 2019	14	8	-	22
Provided in the year	82	4	-	86
At 31st December 2019	96	12	-	108
Reclassification to intangibles	(69)	-	-	(69)
Foreign currency revaluation	(6)	(1)	-	(7)
Provided in the year	229	2	-	231
At 31st December 2020	250	13	-	263
NET BOOK VALUE				
Net book value at 31st December 2020	623	1	-	624
Net book value at 31st December 2019	175	3	602	780

The net book value of computer equipment held under finance leases at 31 December 2020 is \$nil (2019:\$nil).

F. INTANGIBLE ASSETS

	In progress research and development \$'000	Software \$'000	Total \$'000
COST			
At 31 December 2019	-	-	-
Reclassification from computer and lab equipment	-	110	110
Additions	3,048	-	3,048
Foreign currency revaluation	-	-	-
At 31 December 2020	3,048	110	3,158
AMORTISATION			
At 31 December 2019	-	-	-
Reclassification from computer and lab equipment	-	69	69
Foreign currency revaluation	-	-	-
Provided in the year	-	41	41
At 31 December 2020	-	110	110
NET BOOK VALUE			
Net book value at 31st December 2020	3,048	-	3,048
Net book value at 31st December 2019	-	-	-

Additions to In progress research and development reflect the asset purchase of the Trutouch know-how and technology.

These notes form part of the parent company financial statements

ROCKLEY PHOTONICS LIMITED**NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS****G. TRADE AND OTHER RECEIVABLES**

	2020	Restated 2019
	\$'000	\$'000
Amounts falling due within one year		
Amounts owed from group undertakings	17,433	10,042
Trade receivables	1,642	3,506
Amount owed by Associate	2,906	2,877
Other receivables	17,414	15,034
VAT recoverable	441	1,014
Prepayments and contract assets	1,975	911
Total trade and other receivables	41,811	33,384

H. CASH AND CASH EQUIVALENTS

	2020	2019
	\$'000	\$'000
Cash and cash equivalents	18,527	19,940

The group's overall interest rate risk is explained in Note 3 "Financial risk management":

I. TRADE AND OTHER PAYABLES

	2020	Restated 2019
	\$'000	\$'000
Amounts falling due within one year		
Trade payables	4,820	7,533
PAYE, social security and other taxes	-	135
Amount due to group undertakings	31,231	15,328
Accruals and contract liabilities	4,535	2,858
Other Creditors	-	-
Total trade and other payables	40,586	25,854

These notes form part of the parent company financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

J. FINANCIAL ASSETS AND LIABILITIES

Trade and other receivables, cash and cash equivalents, and trade and other payables are measured at amortised cost. Cash-settled share-based payment liabilities are stated at their fair value. The accounting policies applied are set out in Note B. The carrying amounts of financial assets and liabilities as at 31 December 2020 are categorised as follows:

	2020 \$'000	Restated 2019 \$'000
Carrying value of financial assets and liabilities within the parent company balance sheet:		
Financial assets		
Trade and other receivables	21,962	21,417
Cash and cash equivalents	18,527	19,940
Financial assets at amortised cost	40,489	41,357
Financial liabilities		
Trade and other payables at amortised cost	4,820	7,668
Cash-settled share-based payments due <1 year	706	435
Derivative	266	266
Financial liabilities at fair value through profit and loss	972	701

All financial liabilities at amortised cost based on contractual undiscounted payments are due for settlement within six months.

K. FINANCIAL COMMITMENTS

The future aggregate minimum lease payments under non-cancellable operating leases and not covered by the IFRS 16 disclosure are as follows:

	2020		2019	
	Property \$'000	Equipment \$'000	Property \$'000	Equipment \$'000
Company				
No later than one year	77	-	47	-

Financial commitments in respect of expenditure contracted for but not provided for, are as follows:

	2020 \$'000	2019 \$'000
Research and development expenditure		
Engineering R&D partner programs	1,695	3,346

These notes form part of the parent company financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

L. SHARE CAPITAL

	2020 £'000	2019 £'000
Allotted, called up and fully paid		
33,637,762 ordinary shares of £0.00001 each (2019 – 33,337,115)	-	-
Ordinary shares of £0.00001 each	-	-

During the year ended 31 December 2020 the company issued 300,647 new shares of £0.00001 each. (2019 – 4,121,423 new shares of £0.00001). Proceeds were \$4,455,000 (2019: \$54,746,000).

M. BORROWINGS

	2020 \$'000	2019 \$'000
Bank Loans	-	1,949
TOTAL BORROWINGS	-	1,949
SPLIT BETWEEN		
No later than 1 Year	-	1,949
Later than 1 Year but no later than 5 Years	-	-

No new bank loans were taken out in 2020. Please see Note 18 to the Consolidated Financial Statements for full details of the loans.

N. SHARE BASED PAYMENTS

Information on the Company' Share Appreciation Rights, Share Option Scheme and Warrants are given in note 24 to the consolidated financial statements.

O. POST BALANCE SHEET EVENTS

See Note 28 above.

P. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2020 the Company made sales to its associate company, Hengtong Rockley Technology Co., Ltd, of \$5,306,250 (2019 - \$6,709,000). At 31 December 2020, the balance owed by Hengtong Rockley Technology Co., Ltd amounted to \$3,283,250 (2019 - \$2,877,000). The Company also purchased goods from Hengtong Rockley Technology Co., Ltd amounting to \$261,832 (2019 – \$34,080). As of 31 December 2020 the balance owed was \$182,312 (2019 – \$nil).

During the year ended 31 December 2020 the Company purchased services and reimbursed expenses from Rockley Ventures Limited, amounting to \$564,552 (2019 - \$810,221). Rockley Ventures Limited is a company in which Dr A. G. Rickman is a director and shareholder. As of 31 December 2020, the balance owed to Rockley Ventures Limited amounted to \$nil (2019 - \$60,982).

During the year ended 31 December 2020 the Company purchased services amounting to \$20,247 (2019 – \$177,926) from Reach for Infinity, a limited liability partnership in which Mr S Rikhi is a partner. As of 31 December 2020, the balance owed to Reach for Infinity amounted to \$nil (2019 - \$15,532).

These notes form part of the parent company financial statements

ROCKLEY PHOTONICS LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

P. RELATED PARTY TRANSACTIONS (CONTINUED)

During the year ended 31 December 2020 the Company purchased services amounting to \$56,660 (2019 - \$52,530) from Dr A. G. Rickman trading as Haredown Estate. As of 31 December 2020, the balance owed to Dr A. G. Rickman trading as Haredown Estate was \$nil (2019 - \$nil).

During the ended 31 December 2020 year the Company purchased services and reimbursed expenses from Mr R. J. Rickman amounting to \$8,091 (2019 - \$10,262). As of 31 December 2020, the balance owed to Mr R. J. Rickman was \$nil (2019 - \$969).

During the year ended 31 December 2020 the Company purchased services from Rockley Management HK Ltd amounting to \$204,278 (2019 - \$825,835). Rockley Management HK Ltd is a company in which Mr R. J. Rickman and Dr A. G. Rickman are directors and shareholders. As of 31 December 2020, the balance owed to Rockley Management HK Ltd was \$nil (2019 - \$nil).

During the year ended 31 December 2020 the Company purchased services and reimbursed expenses from Hirvonventures OY amounting to \$103,509 (2019 - \$113,314) Hirvonventures OY is a company in which Mr M.H.K. Hirvonen is a director and shareholder. As of 31 December 2020, the balance owed to Hirvonventures OY was \$nil (2019 - \$nil).

During the year ended 31 December 2020 the Company reimbursed expenses from Mr J. A. Burgess amounting to \$33,764 (2019 - \$7,047). As of 31 December 2020, the balance owed to Mr. J. A. Burgess was \$nil (2019 - \$nil).

During the year ended 31 December 2020 the Company reimbursed expenses from Dr C. A. Brown amounting to \$143 (2019 - \$6,145). As of 31 December 2020, the balance owed to Dr C. A. Brown was \$nil (2019 - \$nil).

Q. PARENT AND ULTIMATE PARENT UNDERTAKING

Following completion of the business combination on 11 August 2021, the Company's became a wholly-owned subsidiary of Rockley Photonics Holding Limited. Our consolidated financial statements are available at www.rockleyphotonics.com under the investor section.

These notes form part of the parent company financial statements