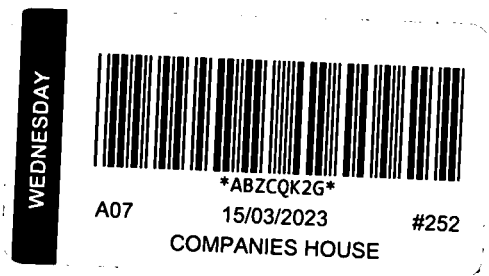


Payhawk



PAYHAWK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
31 December 2021

PAYHAWK LIMITEDContents

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**PAYHAWK LIMITED
GENERAL INFORMATION**

Directors

Hristo Borisov
Boyko Karadzhov
Vassil Terziev
Mehmed Atici
Yusuf Ozdalga

Registered office address

1 Waterhouse Square
138 Holborn
London, EC1N 2ST
United Kingdom

Company number

11747263

Auditor

Ernst & Young
Chartered Accountants
Harcourt Street
Dublin 2
D02 YA40
Ireland

PAYHAWK LIMITED DIRECTORS' REPORT

Directors

The directors who held office during the year were as follows:

Hristo Borisov (appointed on 2 January 2019)
Vassil Terziev (appointed on 19 March 2020)
Yusuf Ozdalga (appointed on 23 April 2021)
Boyko Karadzhov (appointed on 31 March 2020)
Mehmed Atici (appointed on 19 March 2020)

Principal activity

The principal activity of the Company includes promotion, distribution, marketing and sale of a next generation expense management software as a service.

Statement of Directors' Responsibilities

The directors acknowledge their responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK International Accounting Standards (UK IAS).

Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Each of the directors, whose names are listed in Corporate Information Note confirm that, to the best of their knowledge:

- Company's financial statements, which have been prepared in accordance with UK IAS, give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the Directors' report is approved:

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

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.

**PAYHAWK LIMITED
DIRECTORS' REPORT**

Future Outlook and Going Concern

The directors are confident of the future performance of the Group. The Company has enjoyed strong revenue growth and an increased customer base, which is a central driver for the future of the Company.

The Company closed \$20 million Series A financing round led by QED Investors in April 2021 and raised \$112 million in the second largest Series B in Central and Eastern Europe in November 2021 led by Greenoaks. In February 2022, the Company raised an additional \$100m in an extended Series B round led by Lightspeed Venture Partners at a valuation of \$1bn. As a result, Payhawk became the first ever Bulgarian unicorn. This equity funding provides sufficient financial resources to fund the Company's operations and growth for the foreseeable future.

The directors recognize that the COVID-19 pandemic does create risks and uncertainties, however they consider the good cash reserves provide sufficient liquidity to meet its day-to-day working capital requirements.

The Company has been monitoring the tensions in Ukraine closely and following escalations in the region and the addition of new sanctions from several countries. The Company has taken the necessary steps to ensure that Payhawk is in full compliance with those requirements. We have carried out a review of the Company's exposure to Ukraine and Russia which concluded that our exposure is very low.

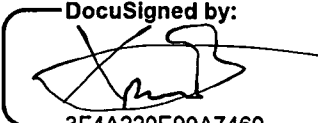
In light of the above factors, the directors have considered the financial position of the Company, its expected cash flows and liquidity position when assessing the ability of the Company to meet its operational obligations for the foreseeable future being at least 12 months from the date of approval of these financial statements and as such the directors consider it appropriate to prepare the Company financial statements on a going concern basis.

Subsidiaries

As of 31 December 2021, the Company has two fully owned subsidiaries – Payhawk EOOD and Payhawk GmbH.

The company has prepared these accounts in accordance with the small companies' regime, electing to not prepare a strategic report set out in section 415A of the companies Act 2006.

Approved by the Board on 7 March 2023 and signed on its behalf by:

DocuSigned by:

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Hristo Borisov
Director



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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PAYHAWK LIMITED

Opinion

We have audited the financial statements of Payhawk Limited (the 'company') for the year ended 31 December 2021 which comprise of the Statement of comprehensive income, Statement of financial position, the Statement of changes in equity, the Statement of cash flows and the related notes 1 to 20, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the Companies Acts 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the provisions available for small entities, in the circumstances set out in note 2.1 to the financial statements, 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.

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

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



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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 this gives to 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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has 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 company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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
- the directors were not entitled to prepare the financial statements in accordance with the small companies' regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement [set out in section ii, the directors are responsible for the preparation of the financial statements and for being satisfied that they give



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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 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 company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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 Companies Act 2006 in the United Kingdom.
- We understood how Payhawk Limited is complying with those frameworks by making inquiries of key management, and those responsible for legal and compliance matters. We also reviewed minutes of the Board and gained an understanding of the Company's governance framework.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by holding discussions with key management. We also reviewed the Company's fraud-related policies.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiring of key management and reviewing the key policies

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.



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Use of our report

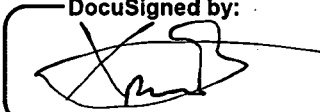
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other 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.

A handwritten signature in black ink, appearing to read 'Helen Kerr'.

Helen Kerr (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Dublin
9 March 2023

PAYHAWK LIMITED
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2021

	Notes	2021	2020
		<i>£000</i>	<i>£000</i>
Revenue from contracts with customers		614	3
Cost of sales		<u>(666)</u>	<u>(3)</u>
Gross profit		<u>(52)</u>	<u>-</u>
Other income		-	27
Sales, marketing and advertising expenses	5.1	(801)	(25)
Administrative and other operating expenses	5.2	<u>(290)</u>	<u>(46)</u>
Operating loss		<u>(1,143)</u>	<u>(44)</u>
Finance costs, net	5.3	<u>(1,353)</u>	<u>(64)</u>
Loss before taxes		<u>(2,496)</u>	<u>(108)</u>
Income tax	6	-	-
Loss for the year		<u>(2,496)</u>	<u>(108)</u>
Other comprehensive income for the year, net of taxes		<u>-</u>	<u>-</u>
Total comprehensive income for the year, net of taxes		<u>(2,496)</u>	<u>(108)</u>

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Hristo Borisov
Director

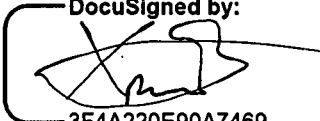
The financial statements were authorised for issue on 7 March 2023.
The notes on pages 8 to 36 are an integral part of these financial statements.

PAYHAWK LIMITED
(Registration number: 11747263)
STATEMENT OF FINANCIAL POSITION
as of 31 December 2021

	Notes	31.12.2021 £000	31.12.2020 (restated*) £000	1.01.2020 £000
ASSETS				
Non-current assets				
Plant and equipment	7	2	-	-
Investment in subsidiaries	8, 19	7,218	3,556	-
		<u>7,220</u>	<u>3,556</u>	-
Current assets				
Trade and other receivables, and other assets Cash and cash equivalents	9 10	301 77,148	9 604	-
		<u>77,449</u>	<u>613</u>	-
TOTAL ASSETS		<u>84,669</u>	<u>4,169</u>	-
EQUITY AND LIABILITIES				
Equity				
Share capital	11.1	113	66	-
Share premium	11.2	85,190	3,177	-
Other reserves	11.3, 20	1,279	1,016	-
Accumulated loss		(2,276)	(108)	-
Total equity		<u>84,306</u>	<u>4,151</u>	-
Short-term liabilities				
Trade and other payables	13	117	15	-
Related party payables	14	172	3	-
Deferred income		74	-	-
		<u>363</u>	<u>18</u>	-
Total liabilities		<u>363</u>	<u>18</u>	-
TOTAL EQUITY AND LIABILITIES		<u>84,669</u>	<u>4,169</u>	-

*Restated balances include correction of error as described in Note 20.

The Company has prepared these accounts in accordance with the small companies' regime.

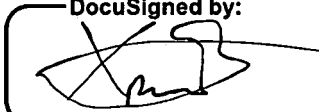
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Hristo Borisov
Director

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PAYHAWK LIMITED
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2021

	Share capital (Note 11.1)	Share premium (Note 11.2)	Other reserves (Note 11.3)	Accumulated loss	Total
	£000	£000	£000	£000	£000
At 1 January 2020	-	-	-	-	-
Loss for the year	-	-	-	(108)	(108)
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	(108)	(108)
Issue of share capital	66	3,177	-	-	3,243
Share-based payments (Note 12 and Note 20)	-	-	1,016	-	1,016
At 31 December 2020 (restated)	66	3,177	1,016	(108)	4,151
At 1 January 2021	66	3,177	1,016	(108)	4,151
Loss for the year	-	-	-	(2,496)	(2,496)
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	(2,496)	(2,496)
Issue of share capital	45	82,013	-	-	82,058
Exercise of share options (transfer)	2	-	(328)	328	2
Share-based payments (Note 12)	-	-	591	-	591
At 31 December 2021	113	85,190	1,279	(2,276)	84,306

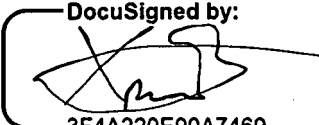
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Hristo Borisov
Director

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The notes on pages 8 to 36 are an integral part of these financial statements.

PAYHAWK LIMITED
STATEMENT OF CASH FLOWS
For the year ended 31 December 2021

	Notes	2021 £000	2020 £000
CASH FLOWS FROM OPERATING ACTIVITY			
Loss before tax		(2,496)	(108)
<i>Adjustments to reconcile loss before tax to net cash flows:</i>			
Movements in deferred income		74	-
Impairment of receivables	9	35	-
Share-based payment expense	12	17	-
Movement in accruals (cashback)		8	-
Finance costs	5.3	1,353	64
<i>Working capital changes:</i>			
(Increase) in trade receivables and other receivables		(335)	(9)
Increase in trade and other payables		271	18
Interest paid		(21)	-
Net cash flows used in operating activity		(1,094)	(35)
CASH FLOWS FROM INVESTING ACTIVITY			
Purchase of equipment		(2)	-
Investment in subsidiary		(3,088)	(2,540)
Net cash flows used in investing activity		(3,090)	(2,540)
CASH FLOWS FROM FINANCING ACTIVITY			
Proceeds from new shares issued	11	82,194	3,243
Transaction costs paid on share issue	11	(161)	-
Proceeds from exercise of share options	12	27	-
Net cash flows from financing activity		82,060	3,243
Net increase of cash and cash equivalents		77,876	668
Cash and cash equivalents at 1 January		604	-
Effect of foreign exchange differences		(1,332)	(64)
Cash and cash equivalents at 31 December	10	77,148	604

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Hristo Borisov
Director

The financial statements were authorised for issue on 7 March 2023.
The notes on pages 8 to 36 are an integral part of these financial statements.

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

1. Corporate information

PAYHAWK LIMITED is a private company limited by share capital, incorporated on 2 January 2019 in the United Kingdom, registered in England and Wales with a registration number 11747263. The address of its registered office is in 1 Waterhouse Square, 138 Holborn, London, EC1N 2ST, United Kingdom. The financial year of the Company ends on 31 December. The number of staff of the Company was 4 as of 31 December 2021 (2020: 0).

2.1 Basis of preparation

The financial statements have been prepared on a historical cost basis.

The financial statements have been prepared in pound sterling, which is also the functional currency, and all amounts have been rounded off to the nearest thousand (£000), unless stated otherwise.

The company has prepared these accounts in accordance with the small companies regime, electing to not prepare a strategic report set out in section 415A of the companies Act 2006.

Adoption of UK International Accounting Standards (UK IAS)

These statutory financial statements of PAYHAWK LIMITED were prepared under the requirements of the Companies Act 2006 and in accordance with UK International Accounting Standards (UK IAS). These financial statements are the first financial statements prepared by the Company in accordance with UK IAS. The Company adopted for the first time UK IAS, in 2021, with the date of transition being 1 January 2020. The transition to UK IAS was made in compliance with IFRS 1 First-time Adoption of International Financial Reporting Standards.

The Company applied retrospectively all selected accounting policies in accordance with UK IAS. There are no adjustments and / or reclassifications made in comparative information for the year ended 31 December 2020 in connection with the first-time adoption of UK IAS (there is no effect on the net assets as of 1 January 2020 – Note 19).

Under Section 399 of the Companies Act 2006 the company is exempt from the requirement to prepare and deliver group accounts as the company is subject to the small companies regime.

Correction of errors

The Company has restated 2020 comparatives to account for the share options granted to employees and consultants of Payhawk EOOD. More information is included in Note 20.

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

2.2 Summary of significant accounting policies

The accounting policies applied in the preparation of the financial statements is described below. The policies have been consistently applied since the Company's transition to UK IAS on 1 January 2020. Therefore, no adjustments are required for events and transactions that have taken place before the date of transition to UK IAS.

a) Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the end of each month by applying the closing exchange rate published by xe.com for the last working day of the respective month. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the exchange rate as at the date of the initial transaction (acquisition).

b) Revenue from contracts with customers

The Company provides online access services (Software as a Service) to internally-generated software *Payhawk* for automated business expense management and accounting.

Revenue from contracts with customers is recognised when control of the services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services. The Company has generally concluded that it is the principal in its revenue arrangements, because it typically controls the services before transferring them to the customer.

Online access services (Software as a Service) to internally-generated software

From 2021, the Company provided online access services (Software as a Service) to internally-generated software. The Company recognises the services as a single performance obligation and recognises revenue from them over time as the client simultaneously receives and consumes the benefits provided by the Company. The Company recognises revenue pro rata the time passed over the agreed period of the contract for access.

On 30 November 2020, the Company concluded a distribution contract with its subsidiary Payhawk EOOD; the contract provides for granting of the Payhawk software distribution and sale right, for which the Company pays, on a monthly basis, a percentage of the billed revenue from online access services recognized as cost of sales.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs its obligation before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration. The Company did not report contract assets as of 31 December 2021 and 31 December 2020.

Trade receivables

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section e) Financial instruments – initial recognition and subsequent measurement.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Company performs under the contract. The Company presents contract liabilities on a separate line in the statement of financial position as Deferred income. The Company reported contract liabilities of £74 thousand as of 31 December 2021 (2020: nil).

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

2.2 Summary of significant accounting policies (continued)

c) Taxes

Current income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Current taxes relating to items recognised directly in equity or other comprehensive income are recognised directly in equity or other comprehensive income (and not in profit or loss).

Deferred income tax

Deferred tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed by the Company at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent it has become probable that future taxable profit will be gained, which would allow recovery of the deferred tax asset.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either through other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset by the Company only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Value added tax ("VAT")

Revenue, expenses and assets are recognised net of VAT except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

2.2 Summary of significant accounting policies (continued)

d) Employee benefits

Short-term employee benefits include salaries, remunerations, interim and annual bonuses, social security contributions and annual compensated leave of employees expected to be settled wholly within twelve months after the end of the reporting period. When the Company receives a service, it is recognised as an employee benefit expense in profit or loss or capitalised in the cost of the relevant asset. Short-term employee benefits are measured at the undiscounted amount of expected costs of settlement.

The Company operates a defined benefits plan in connection with its obligation under the Bulgarian labour legislation to pay two or six gross monthly salaries to its employees upon retirement, depending on the length of their service. If an employee has worked for the Company for 10 years, the retirement benefit amounts to six gross monthly salaries upon retirement, otherwise, two gross monthly salaries. These retirement benefits are unfunded. The retirement benefit liability is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected returns on assets, future salary increases, personnel turnover rates, mortality rates, and future pension increases. Due to the long-term nature of the retirement benefits, such estimates and related valuations are subject to significant uncertainty.

Considering the young age and small number of staff, the best management's estimate is that the employee benefit liability as of 31 December 2021 and 31 December 2020 is immaterial and therefore, no liability was recognised in the financial statements.

e) Financial instruments - initial recognition and subsequent measurement

• Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade (transaction) date, i.e., the date that the Company commits to purchase or sell the asset.

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

2.2 Summary of significant accounting policies (continued)

e) Financial instruments - initial recognition and subsequent measurement (continued)

• Financial assets (continued)

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes trade receivables and related party receivables.

Derecognition

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

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

2.2 Summary of significant accounting policies (continued)

e) Financial instruments - initial recognition and subsequent measurement (continued)

• **Financial assets (continued)**

Impairment of financial assets

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

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

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

• **Financial liabilities**

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables.

Subsequent measurement

After initial recognition, financial liabilities are subsequently measured by the Company at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of comprehensive income.

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

2.2 Summary of significant accounting policies (continued)

e) Financial instruments - initial recognition and subsequent measurement (continued)

Derecognition

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

f) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

g) Fair value measurement

The Company did not report financial or non-financial assets at fair value at the reporting date. Fair values of financial instruments measured at amortised cost are disclosed in Note 18.1.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

2.2 Summary of significant accounting policies (continued)

g) Fair value measurement (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are measured at fair value on a regular basis, the Company reviews their categorization at the appropriate level of the fair value hierarchy (based on the lowest level of input of data that has a significant impact on the fair value measurement as a whole) as of the end of the reporting period and determines whether there is a need of transfer(s) from one level to another.

The Company's management determines the policies and procedures for both recurring measurement at fair value and non-recurring measurement at fair value, such as assets held for sale / distribution to the owners.

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured as per the Company's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. Management also compares, jointly with the valuation experts, the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

h) Share capital and share premium

Share capital is presented at the nominal amount of the shares issued and paid-in.

Proceeds from issued shares in excess of their nominal amount are taken to the share premium.

i) Cash dividends and non-cash distribution to owners

A liability to make cash or non-cash distributions to equity holders is recognised when the distribution is authorised and is no longer at the discretion of the Company. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognised directly in equity.

Upon the actual distribution of non-cash assets, any difference between the carrying amount of the liability recognised and the carrying amount of the assets distributed is recognised in the profit or loss for the period.

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

2.2 Summary of significant accounting policies (continued)

j) Investment in subsidiaries

Subsidiaries are those companies that are controlled by PAYHAWK LIMITED (the parent company). Investments in subsidiaries are recognised initially at cost, which comprises the consideration paid and any direct acquisition costs. Investments in subsidiaries are carried at cost of acquisition less impairment losses in the Company's separate financial statements. Further details are given in Note 8.

The Company maintains a Share Option Plan to incentivize employees of the Group and external consultants. Share options granted to employees and consultants of the Company's subsidiaries and are considered as an increase in the investment in subsidiary.

Dividends received from subsidiaries after their acquisition are recognised in profit or loss for the period. No dividends were paid in 2021 by the Company's subsidiaries.

k) Plant and equipment

Items of plant and equipment are carried at cost less the accumulated depreciation and the accumulated impairment losses, if any. Acquisition cost includes costs related to replacement of parts of the plant and equipment, and borrowing costs on long-term construction contracts, if they meet the criteria for recognition of an asset. When major inspection costs are incurred for a plant and/ or equipment, its cost is recognised in the carrying amount of the respective asset as a replacement if the asset recognition criteria are satisfied. All other repair and maintenance costs are taken to the income statement in the period in which they were incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Hardware	2 years (24 months)
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An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds, if any, and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted prospectively if expectations differ from the previous estimates, at each financial year end.

l) Lease

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company as a lessee

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

2.2 Summary of significant accounting policies (continued)

m) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset or cash-generating unit's (CGU) fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or a CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing an asset's value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by other valuation models or other available sources of information for the fair value of an asset or a cash-generating unit.

The impairment calculations are based on detailed budgets and forecast calculations which are prepared separately for each of the CGUs to which individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised as expenses in the statement of comprehensive income, namely as operating expenses.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists the Company determines the recoverable amount of the asset or the cash generating unit. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Reversal of the impairment loss is restricted so that the carrying amount would not exceed its recoverable amount nor the carrying amount (after amortisation charges) that would have been determined had no impairment loss been recognised for the asset in prior years. Such reversal of impairment loss is recognised in the statement of comprehensive income.

n) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash in bank accounts and other highly-liquid short-term investments with a maturity of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest rate method.

For the purpose of the cash flows statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

o) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects that some or all costs that are required to settle the provision will be recovered, through an insurance contract for example, the recovery is recognised as a separate asset, but only when the recovery is virtually certain. The expense relating to any provision is presented in the profit or loss net of any recoveries. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

2.2 Summary of significant accounting policies (continued)

p) Share-based payments

PAYHAWK LIMITED implemented an employee incentives plan by granting the employees options to acquire ordinary shares of the Group (ESOP). In certain cases, consultants of the Group are granted options to purchase ordinary shares of the Group. Given the specific nature of the services the Company receives, the Company has determined that their fair value cannot be determined reliably. Accordingly, the Company measures the services received and the corresponding increase in equity indirectly by using the fair value of the equity instruments provided, measured at the date the counterparties provide the services. Considering that the period for provision the services is not long, the grant date fair value of the instruments is indicative of their average fair value over the period of service provision.

PAYHAWK LIMITED applies the provisions of IFRS 2 regarding benefits based on shares issued to its employees and consultants. IFRS 2 applies to all transfers of capital instruments from the parent company or from other related enterprises to persons or organizations that provide goods or services to the relevant company. The Company has valued the services received by its employees and consultants in accordance with the requirements applicable to share-based payment transactions settled by issuing equity instruments and has recognised the increase in equity.

The fair value of the employee services received in exchange for the grant of options is recognised as an expense. Options are measured based on their grant date fair value. The fair market value of options granted to acquire ordinary shares is determined using the Black-Scholes pricing model. The model includes assumptions about the volatility of stock exchange prices, the expected life of the options, the risk-free interest rate, and the dividend yield.

At each preparation of the statement of financial position, the Company revises its estimate of the number of options expected to become exercisable. The Company reviews its estimates of the total number of options expected to vest and recognises the effect in profit or loss against the corresponding adjustment in equity.

When the options are exercised, the Company transfers the corresponding reserve to accumulated loss/retained earnings.

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

3. Significant accounting judgments, estimates and assumptions

The preparation of the financial statements requires management to apply accounting judgements, estimates and assumptions, which have effect on the amount of reported assets and liabilities, and the disclosure of the contingent liabilities at the reporting date, as well as on the income and expenses reported for the period. Uncertainties related to these assumptions and estimates may lead to actual results requiring material adjustments in the carrying amounts of the respective assets or liabilities in subsequent reporting periods.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

Determining the lease term of contracts with renewal and termination options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has a number of lease contracts that include an option to renew or terminate the lease. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, the Company considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the contract commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., significant improvements to a leased property).

The going concern principle

The Company has prepared its financial statements for the year ended 31 December 2021 on a going concern basis, which assumes continuity of current business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The future financial performance of the Company is dependent upon the wider economic environment in which it operates. Factors that particularly affect the performance of the Company include flat or negative economic growth, investor confidence, financial instruments pricing, and the existence of subcontractors and suppliers. The COVID-19 pandemic has heightened the inherent uncertainty in the Company's assessment of these factors.

Although there are uncertainties regarding the duration of the COVID-19 pandemic and that of the military conflict in Ukraine, as well as the full extent of their economic and business consequences, management will continue to monitor the situation and take further measures, if necessary, to ensure the normal continuation of the portfolio companies' operations in the foreseeable future.

Based on an analysis of the twelve months from the date of authorisation of these financial statements, management has concluded that there are no material uncertainties that may cast significant doubts as to the ability of the Company to continue to operate as a going concern and thus, it is appropriate to prepare the financial statements on a going concern basis after considering the financial forecasts, including after taking into account the following circumstances:

- The Company continues to have sufficient cash and cash equivalents amounting to £77,148 thousand as of 31 December 2021;
- The statement of financial position of the Company shows that current assets exceed the current liabilities by £77,086 thousand as of 31 December 2021 (2020: £595 thousand);
- The Company was in compliance with its financial commitments as of 31 December 2021.

Management has no plans or intentions to significantly reduce the scope of operations and / or transform the Company in the foreseeable future in a period of up to one year.

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

3. Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions

The key assumptions that relate to future and other key sources of uncertainty in the estimates at the reporting date, and for which there is a significant risk of causing material adjustments to the carrying amounts of assets and liabilities in the next reporting period, are set out below:

Useful lives of plant and equipment

Financial reporting of plant and equipment involves the use of estimates for their expected useful life and residual values, which are based on judgments of the Company's management. Further details about useful lives of plant and equipment are given in Note 2.2.

Share-based payments

The determination of the grant date fair value of options using the Black Scholes model depends on the parent company's share price, as well as on certain assumptions regarding a number of subjective variables. If any of the assumptions used in the model changes significantly, the costs of benefits in the form of options may differ significantly in the future from those recognised in the current period.

Retirement employee benefits

The retirement benefit liability is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected returns on assets, future salary increases, personnel turnover rates, mortality rates, and future pension increases. Due to the long-term nature of the retirement benefits, such estimates and related valuations are subject to significant uncertainty. Considering the young age, the employee benefit liability as of 31 December 2021 was assessed by management as immaterial and therefore, no liability was recognised in the financial statements.

Deferred tax asset

The Company reported deductible temporary differences as of 31 December 2021 (including such related to deductible tax losses). The Company has not recognized a deferred tax asset on these temporary differences of due to the uncertainty related to the timing of realisation of future taxable profits against which it can deduct the temporary differences. Additional information is disclosed in Note 6 to the financial statements.

4. Standards issued but not yet effective and not early adopted

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 16 Covid-19 Related Rent Concessions beyond 30 June 2021 (Amendments)

On 28 May 2020, the IASB issued *Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases*. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification. The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 For the year ended 31 December 2021

4. Standards issued but not yet effective and not early adopted (continued)

IFRS 17 Insurance contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 on or before the date it first applies IFRS 17. It is not expected that the standard would impact the financial position or performance of the Company.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The Board decided to propose that if a right to defer settlement for at least twelve months is subject to an entity complying with conditions after the reporting date, those conditions do not affect whether the right to defer settlement exists at the reporting date for the purpose of classifying a liability as current or non-current. Additional presentation and disclosure requirements would be applicable in such circumstances. Furthermore, the Board tentatively decided to defer the effective date to no earlier than 1 January 2024 (from 1 January 2023).

The Company will analyse and assess the impact of the new amendments on its financial position or performance.

Amendments to IFRS 3 Business combinations

In May 2020, the IASB issued Amendments to IFRS 3 *Business Combinations - Reference to the Conceptual Framework*. The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. Earlier application is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in the Amendments to References to the Conceptual Framework in IFRS Standards (March 2018). The Company will analyse and assess the impact of the new amendments on its financial position or performance.

Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The Company will analyse and assess the impact of the new amendments on its financial position or performance.

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

4. Standards issued but not yet effective and not early adopted (continued)

Amendments to IAS 37: Onerous Contracts – Costs of Fulfilling a Contract

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and must be applied prospectively. The Company will analyse and assess the impact of the new amendments on its financial position or performance.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. It is not expected that the amendments would impact the financial position or performance of the Company.

IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Company will analyse and assess the impact of the new amendments on its financial position or performance.

IAS 41 Agriculture – Taxation in fair value measurements

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted. It is not expected that the amendments would impact the financial position or performance of the Company.

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method. The amendments address the conflict between IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors’ interests in the associate or joint. It is not expected that the standard would impact the financial position or performance of the Company.

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

4. Standards issued but not yet effective and not early adopted (continued)

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies

In February 2021, the Board issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements* (the PS), in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and;
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application of the amendments to IAS 1 is permitted as long as this fact is disclosed. The Company will analyse and assess the impact of the new amendments on its financial position or performance.

Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates

In February 2021, the Board issued amendments to IAS 8, in which it introduces a new definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors. The aspect of the definition for the accounting estimates that changes in accounting estimates may result from new information or new developments is retained by the Board.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. The Company will analyse and assess the impact of the new amendments on its financial position or performance.

Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement whether such deductions are attributable for tax purposes to the liability recognised in the financial statements or to the related asset component. This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. An entity should apply the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, it should also recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for all deductible and taxable temporary differences associated with leases and decommissioning obligations. The Company will analyse and assess the impact of the new amendments on its financial position or performance.

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16. It is not expected that the amendments would impact the financial position or performance of the Company.

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

4. Standards issued but not yet effective and not early adopted (continued)

Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information

The amendment is effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted respectively with IFRS 17. For entities that first apply IFRS 17 and IFRS 9 at the same time, the amendment adds a transition option for a “classification overlay”, relating to comparative information of financial assets. An entity applying the classification overlay to a financial asset shall present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset. Also, in applying the classification overlay to a financial asset, an entity is not required to apply the impairment requirements of IFRS 9. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements. It is not expected that the amendments would impact the financial position or performance of the Company.

Amendments to IAS 1 Presentation of Financial Statements: Non-current Liabilities with Covenants

In November 2021, the Board issued an exposure draft (ED), which clarifies how to treat liabilities that are subject to covenants to be complied with, at a date subsequent to the reporting period. In particular, the Board proposes narrow scope amendments to IAS 1 which effectively reverse the 2020 amendments requiring entities to classify as current, liabilities subject to covenants that must only be complied with within the next twelve months after the reporting period, if those covenants are not met at the end of the reporting period. Instead, the proposals would require entities to present separately all non-current liabilities subject to covenants to be complied with only within twelve months after the reporting period. Furthermore, if entities do not comply with such future covenants at the end of the reporting period, additional disclosures will be required. The proposals will become effective for annual reporting periods beginning on or after 1 January 2024 and will need to be applied retrospectively in accordance with IAS 8, while early adoption is permitted. The Board has also proposed to delay the effective date of the 2020 amendments accordingly, such that entities will not be required to change current practice before the proposed amendments come into effect. The Company will analyse and assess the impact of the new amendments on its financial position or performance.

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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5. Expenses

5.1 Sales, marketing and advertising expenses

	<u>2021</u>	<u>2020</u>
	<u>£000</u>	<u>£000</u>
Online advertising and content	(407)	-
Offline campaigns	(245)	-
PR services	(69)	-
Payroll costs of Sales & Marketing personnel	(47)	(25)
Share based options cost – ESOP (Note 12)	(8)	-
Outbound	(7)	-
Other marketing expenses	(18)	-
	<u>(801)</u>	<u>(25)</u>

5.2 Administrative and other operating expenses

	<u>2021</u>	<u>2020</u>
	<u>£000</u>	<u>£000</u>
Accounting and legal services	(84)	(16)
Payroll costs of General & Administrative personnel	(56)	-
Expenses on impairment and write off	(35)	-
Short-term office leases	(34)	(4)
External recruitment services	(20)	-
Software subscriptions	(16)	-
Share based options cost – ESOP (Note 12)	(9)	-
Bank charges	(8)	(1)
Insurance	(7)	-
Know Your Customer related costs	(3)	(10)
Other	(18)	(15)
	<u>(290)</u>	<u>(46)</u>

5.3 Finance costs, net

	<u>2021</u>	<u>2020</u>
	<u>£000</u>	<u>£000</u>
Interest expenses on bank accounts	(21)	-
Realised foreign exchange differences, net	76	-
Unrealised foreign exchange differences, net	(1,408)	(64)
	<u>(1,353)</u>	<u>(64)</u>

The unrealized foreign exchange differences arise mainly on the revaluation of cash in bank accounts at the amount of €81 million.

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

6. Income tax

The major components of income tax for the years ended 31 December 2021 and 2020 are:

	<u>2021</u>	<u>2020</u>
	<u>£000</u>	<u>£000</u>
Statement of comprehensive income		
Tax expenses	-	-
Income tax expenses recognised in profit or loss	<u>-</u>	<u>-</u>

The income tax rate effective in 2021 is 19% (2020: 19%). The effective tax rate in 2022 is 19%.

A reconciliation between the income tax expense and the accounting profit multiplied by the effective tax rate for the years ended 31 December 2021 and 31 December 2020 is as follows:

	<u>2021</u>	<u>2020</u>
	<u>£000</u>	<u>£000</u>
Accounting loss before taxes	<u>(2,496)</u>	<u>(108)</u>
Income tax benefit at the effective tax rate of 19% for 2021 (2020: 19%)	474	21
Permanent tax differences	(8)	-
Temporary differences, for which no deferred tax asset has been recognised	(3)	-
Unused tax losses, for which no deferred tax asset has been recognised	<u>(463)</u>	<u>(21)</u>
Income tax expense	<u>-</u>	<u>-</u>

Deferred tax assets on deductible temporary differences, including such relating to tax loss carry forward, were not recognised by the Company as of 31 December 2021 and 31 December 2020 as there is uncertainty over future taxable profits of the Company.

Tax losses carried forward as of 31 December 2020, for which no deferred tax asset has been recognised, are as follows:

<u>Tax period</u>	<u>Period for tax losses utilisation</u>	<u>2021</u>	<u>2020</u>
		<u>£000</u>	<u>£000</u>
2020	from 2021 to 2025	21	108
2021	from 2022 to 2026	2,437	-
Statutory tax rate		<u>19%</u>	<u>19%</u>
Unrecognised deferred tax asset		<u>484</u>	<u>21</u>

The unrecognized deferred tax assets on other deductible temporary differences not related to tax losses relate to:

	<u>2021</u>	<u>2020</u>
	<u>£000</u>	<u>£000</u>
Share-based payments	<u>3</u>	-
	<u>3</u>	-

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

7. Plant and equipment

	Hardware	Total
	<u>£000</u>	<u>£000</u>
Cost:		
At 1 January 2020	-	-
Additions	-	-
At 31 December 2020	-	-
Additions	2	-
Disposals	-	-
At 31 December 2021	<u>2</u>	<u>-</u>
Depreciation:		
At 1 January 2020	-	-
Depreciation charges for the year	-	-
At 31 December 2020	-	-
Depreciation charges for the year	-	-
Disposals	-	-
At 31 December 2021	<u>-</u>	<u>-</u>
Net book value:		
At 1 January 2020	-	-
At 31 December 2020	-	-
At 31 December 2021	<u>2</u>	<u>-</u>

Impairment of plant and equipment

Based on an impairment testing of plant and equipment, the Company's management has not found indications that the assets' carrying amount exceeds their recoverable amount.

8. Investment in subsidiaries

In January 2020, the shareholders of Payhawk EOOD and PAYHAWK LIMITED signed a share swap agreement according to which the shareholders of Payhawk EOOD transformed their shares into shares of PAYHAWK LIMITED and Payhawk EOOD became a subsidiary of PAYHAWK LIMITED.

The Company maintains a Share Option Plan to incentivize employees of the Group and external consultants. The total amount of the fair value of the granted shares in 2021 and 2020 is respectively £591 thousand and £1,016 thousand, of which £574 thousand and £1,016 thousand, respectively, are granted to employees and consultants of Payhawk EOOD and are considered as an increase in the investment in subsidiary within the individual financial statements of PAYHAWK LIMITED (see Note 12 and Note 20).

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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8. Investment in subsidiaries (continued)

	Number of shares (in thousands)	Amount £000
At 1 January 2020	-	-
At 30 January 2020 Share Swap	45	506
Capital increase by resolution of 19 March 2020	3,129	1,400
Capital increase by resolution of 25 November 2020	1,369	634
Increase in investment as a result of share options grant (Note 20)	-	1,016
At 1 January 2021 (restated)	4,543	3,556
Capital increase by resolution of 30 March 2021	1,134	498
Capital increase by resolution of 27 May 2021	5,868	2,579
Increase in investment as a result of share options grant	-	574
At 31 December 2021	11,545	7,207

On 27 September 2021, the Company established Payhawk GmbH as a fully owned subsidiary. The nominal share capital of the Company amounts to €25,000, 50% of which is paid as of 31 December 2021.

	Number of shares (in thousands)	Amount £000
At 1 January 2020	-	-
At 1 January 2021	-	-
Incorporation on 27 September 2021	13	11
At 31 December 2021	13	11

9. Trade and other receivables, and other assets

Trade receivables

	2021 £000	2020 £000
Trade receivables from third-party customers, gross	102	3
Less: Accumulated impairment of bad and doubtful debts	(35)	-
Trade receivables, net of bad and doubtful debts	67	3
Prepayments	180	2
Deposits	30	-
VAT receivables	23	4
Related party receivables (Note 14)	1	-
	301	9

Trade receivables are not interest bearing and are usually settled from 10 to 30 days.

Trade receivables with nominal value of £35 thousand were fully impaired as of 31 December 2021 (31 December 2020: Nil) as a result of an analysis of their collectability conducted by the Company's management.

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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10. Cash and cash equivalents

	<u>2021</u>	<u>2020</u>
	<i>£000</i>	<i>£000</i>
Cash in bank accounts	<u>77,148</u>	<u>604</u>
	<u>77,148</u>	<u>604</u>

Cash in bank accounts is accrued at floating interest rates based on daily interest rates on bank deposits. The fair value of cash and short-term deposits as of 31 December 2021 is £77,148 thousand (31 December 2020: £604 thousand). Based on tests for expected credit losses on cash and cash equivalents, management considers their potential amount immaterial to the financial statements.

11. Share capital and reserves

11.1 Share capital

	<u>2021</u>	<u>2020</u>
	<i>£000</i>	<i>£000</i>
Deferred shares at £0.01 each (2020: £1)	4	4
Ordinary shares at £0.01 each (2020: £1)	33	35
Pre-Seed preferred shares at £0.01 each (2020: £1)	5	6
Seed preferred shares at £0.01 each (2020: £1)	21	21
Series A preferred shares at £0.01 each	25	-
Series B preferred shares at £0.01	25	-
	<u>113</u>	<u>66</u>

Set out below is the movement of share capital:

	<u>Number of ordinary shares (in thousand)</u>	<u>Registered and issued capital (in £000)</u>
At 1 January 2020	-	-
At 30 January 2020 - share swap with Payhawk EOOD	44	44
By resolution of 4 March 2020 Seed shares issued and paid	<u>22</u>	<u>22</u>
At 1 January 2021	<u>66</u>	<u>66</u>
By resolution of 8 January 2021 capital subdivision	6,642	66
By resolution of 9 April 2021 Series A shares issued and paid	2,455	25
By resolution of 27 May 2021 shares option exercise	59	1
By resolution of 22 November 2021 Series B shares issued and paid	2,025	20
By resolution of 22 November 2021 shares option exercise	<u>96</u>	<u>1</u>
At 31 December 2021	<u>11,278</u>	<u>113</u>

All shares are fully paid.

On 8 January 2021 the entire issued share capital of the Company of 66,418 shares of £1.00 each was subdivided into 6,641,800 shares of £0.01 each and in each case such shares having the rights and being subject to the same restrictions (save as to nominal value) as the existing shares.

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

11. Share capital and reserves (continued)

11.2 Share premium

	2021	2020
	£000	£000
At 1 January	3,177	-
Movement during the year	82,174	3,177
<i>Net of legal costs associated with funding rounds</i>	<u>(161)</u>	<u>-</u>
At 31 December	<u>85,190</u>	<u>3,177</u>

Movements in share premium are related to funding rounds which took place in 2020 and 2021 in PAYHAWK LIMITED.

11.3 Other capital reserves

The other reserves of the Company amounted to £1,279 thousand and £1,016 thousand, respectively, as of 31 December 2021 and 2020, and related to the reporting of share-based payment transactions (see Note 12).

12. Share-based payments

PAYHAWK LIMITED implements an employee incentives plan in the form of participations in the capital by granting the employees options to acquire ordinary shares of the Group (ESOP). The plan allows for the granting to employees and certain consultants of awards in the form of options to acquire ordinary shares. Each option grants the right to acquire one ordinary share of PAYHAWK LIMITED.

The Company estimates the grant date fair value of share options using the Black-Scholes valuation model. Black-Scholes valuation models include assumptions about the share price volatility, the expected life of options, the risk-free interest rate, and the dividend yield.

Option agreements may include a vesting schedule during which the options vest in tranches over a series of time. The options shall lapse maximum at the tenth anniversary of the option grants.

The following table lists the inputs to the model used for the years ended 31 December 2021 and 2020, respectively:

	2021	2020
Weighted average share price (£)	<u>£7.11</u>	<u>£2.11</u>
Expected volatility (%)	53.17%	49.56%
Dividend yield (%)	0.00%	0.00%
Expected life of share options (years)	6.102	5.480
Risk-free interest rate (%)	0.847%	0.308%

Expected volatility is based on historical volatility, adjusted if the historical data is not indicative of future expectations. However, in case of Payhawk, there is insufficient data on historical estimated stock prices, making it difficult to determine a reasonable historical volatility. Because of this, the Company used public peer company's data to estimate expected volatility.

PAYHAWK LIMITED
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12. Share-based payments (continued)

To determine the fair value of the share price, the Company used the market transactions with investors during the funding rounds and applied a discount of 30% on the preferred share prices. Since the share pricing model is highly sensitive to the change in the assumption for the fair value of the share price, the Company assessed the effect on equity depending on applying different levels of share price discount as follows:

Share price discount levels	Effect on equity	
	2021	2020
	£000	£000
5%	+260	+375
10%	+207	+300
20%	+103	+150

As of 31 December 2020, the Company granted equity settled share options with fair value of £1,016 thousand to employees and external consultants of Payhawk EOOD and should have recognized a respective increase in the investment in subsidiaries and other reserves – please refer to Note 20. As of 31 December 2021, the fair value of the share options granted to employees and external consultants of Payhawk EOOD is £1,590 thousand and share based payment expense for 2021 related to share option grants to Payhawk Limited employees is £17 thousand (Note 5.1 and 5.2).

	2021		2020	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
		£		£
Share options as of 1 January	751,300	0.25	-	-
Granted	225,495	3.97	852,300	0.34
Exercised	(155,588)	0.16	-	-
Cancelled (owned by terminated employees)	(16,936)	1.57	(101,000)	1.02
Share options as of 31 December	804,271	1.28	751,300	0.25
Exercisable options (vested)	415,704	0.19	325,756	0.01

In May 2021, 59,380 options were exercised and in December 2021 – 96,208 options. The weighted average prices per share at the option exercise date were £6.77 and £33.15, respectively.

13. Trade and other payables

	2021	2020
	£000	£000
Trade payables	67	12
Other liabilities	50	3
	117	15

Trade and other payables are not interest bearing and are usually settled within 30 days or depending on the agreed term, if any. As of 31 December 2021 other payables represent stamp duty payables to HMRC in relation to share options exercise of employees of Payhawk EOOD.

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

14. Related party disclosures

Subsidiaries

Payhawk GmbH and Payhawk EOOD are fully owned subsidiaries of PAYHAWK LIMITED.

The total amount of related party transactions and balances due in the current and prior period are presented as follows:

		Sales to related parties	Purchases from related parties	Amounts due from related parties	Amounts due to related parties
		<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Sales to/purchases from related parties					
<i>Subsidiaries</i>	2021	-	666	1	172
<i>Subsidiaries</i>	2020	3	3	-	3
	2021			<u>1</u>	<u>172</u>
	2020			<u>-</u>	<u>3</u>

On 30 November 2020, the Company concluded a distribution contract with its subsidiary Payhawk EOOD. The contract provides for granting of the Payhawk software distribution and sale right, for which the Company pays, on a monthly basis, a percentage of the billed revenue from online access services recognized as cost of sales.

Terms and conditions of related party transactions

Sales to and purchases from related parties are made at contracted prices. Outstanding balances at the year-end are unsecured, interest-free, and the settlement is made in cash. There were no impaired receivables from related parties at 31 December 2021 (2020: Nil). The Management assess the amount of impairment every financial year based on an analysis of the financial position of the related party and the market in which it operates.

No remuneration to key management personnel has been paid in 2021 or 2020.

15. Commitments and contingent liabilities

Capital commitments and lease commitments

The Company had no capital commitments as of 31 December 2021 and 2020.

Legal claims

No legal claims have been brought against the Company.

Others

The management of the Company does not consider that there are significant risks as a result of the dynamic fiscal and regulatory environment in Bulgaria, which would require adjustments in the financial statements for the year ended 31 December 2021.

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

16. Financial risk management objectives and policies

The principal financial liabilities of the Company consist of trade payables.

In 2021 and 2020, the Company neither held nor traded with derivative financial instruments.

The major risks arising from the Company's financial instruments are interest rate risk, liquidity risk, currency risk, and credit risk. The risk management policy of the Company is summarised below.

Interest rate risk

The Company is exposed to changes in market interest rates mainly with respect to its short-term and long-term financial liabilities bearing variable (floating) interest rates. It is a policy of the Company to manage its interest expenses through the use of financial instruments with fixed and floating interest rates. The Company did not hold variable-rate interest-bearing liabilities as of 31 December 2021 and 31 December 2020.

Liquidity risk

The effective management of the Company's liquidity presumes that sufficient working capital will be ensured mainly through contributions to the capital by the parent company.

At 31 December the maturity structure of the Company's financial liabilities, based on the agreed undiscounted payments, is presented below:

As of 31 December 2021

	On demand	< 3 months	3-12 months	1-5 year	> 5 years	Total
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Trade and other payables	-	117	-	-	-	117
	<u>-</u>	<u>117</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>117</u>

As of 31 December 2020

	On demand	< 3 months	3-12 months	1-5 year	> 5 years	Total
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Trade and other payables	-	15	-	-	-	15
	<u>-</u>	<u>15</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15</u>

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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16. Financial risk management objectives and policies (continued)

Currency risk

The Company executes purchases and sales and receives financing in foreign currency – EUR. As a result, the Company is exposed to a significant currency risk in relation to the changes in foreign exchange rates. As of 31 December 2021, the closing rate is 0.8927 GBP/EUR.

The following table demonstrates the sensitivity to a reasonably possible change in EUR exchange rate with the impact on the Company's profit before tax (due to changes in the net book value of the monetary assets and liabilities), with all other variables held constant.

	Change in EUR rate	Effect on profit before tax
		<u>£000</u>
2021	+ 5%	3,422
	- 5%	(3,422)
2020	+ 8%	48
	-8%	(48)

Credit risk

The Company trades only with recognised, creditworthy contractors. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Moreover, the trade receivable balances are monitored currently, and as a result of that the Company's exposure to bad and doubtful debts is insignificant. With respect to credit risk arising from the other financial assets of the Company, such as cash, the Company's exposure arises from default of the counterparty.

The maximum exposure of the Company to credit risk in relation to the recognised financial assets equals their respective carrying amount as per the balance sheet as of 31 December 2021.

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a stable credit rating and capital ratios to support its business and maximise sole equity owner value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes for managing capital during the years 2021 and 2020.

There are no external capital requirements imposed on the Company.

PAYHAWK LIMITED
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17. Financial instruments

Fair value of financial instruments

The table below compares the book value of the financial instruments of the Company with their fair value:

	<i>Book value</i>		<i>Fair value</i>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
<i>Financial assets</i>				
Trade and other receivables	121	7	121	7
Cash and cash equivalents	77,148	604	77,148	604
<i>Financial liabilities</i>				
Trade and other payables	117	15	117	15
Related party payables	172	3	172	3

The fair value of the financial instruments of the Company is determined as the price at which a financial asset could be sold or a financial liability settled in an arm's length transaction between market participants at the date of the assessment. The following methods and assumptions were used to estimate the fair values of financial assets and liabilities:

- Cash, trade receivables, trade receivables, and trade payables – their fair values approximate their book values due to the short-term maturities of these instruments.

18. Events after the reporting date

On 3 February 2022, the Board took a decision to increase the registered capital of Payhawk EOOD by EUR 15 million and 29,337,450 shares of BGN 1 was issued with the aim to finance the operating activities.

On 24 February 2022, the Company entered into a subscription and shareholders' agreement relating to the allotment and issue an aggregate of 1,380,979 series B-1 preferred shares of £0.01 each in the capital of the Company.

The Company treats the above events as non-adjusting events that have occurred after the end of the reporting period.

Besides the above, no other events have occurred between 31 December 2021 and the date of authorisation for issue of the financial statements, which may require additional adjustments and/or disclosures in the financial statements of the Company for the year ended 31 December 2021.

19. First-time adoption of UK International Accounting Standards

There are no adjustments made by the Company in connection with the first-time adoption of UK International Accounting Standards, concerning the restatement of comparative information as of 1 January 2020 (the date of the transition to UK IAS) and the year ended at 31 December 2020, as previously reported in accordance with UK GAAP.

The statement of financial position as of 1 January 2020 is nil both in accordance with UK GAAP and with UK IAS.

PAYHAWK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2021

20. Correction of errors

In 2020 the Company granted share options to employees and consultants of Payhawk EOOD (a fully owned subsidiary of PAYHAWK LIMITED) which are not reflected in the audited 2020 financial statements under UK GAAP. The fair value of the share options of £1,016 thousand should have been recognized as an increase in the Company's investment in subsidiaries with a corresponding increase in the Company's other reserves. There is no impact on profit or loss and retained earnings as the options are not granted to employees/consultants of PAYHAWK LIMITED.

Below is the impact of correcting the error:

	Notes	31.12.2020 (restated) £000	Correction of error £000	31.12.2020 (audited) £000
ASSETS				
Non-current assets				
Investment in subsidiaries	8, 19	3,556	1,016	2,540
		<u>3,556</u>	<u>1,016</u>	<u>2,540</u>
Current assets				
Trade and other receivables, and other assets	9	9	-	9
Cash and cash equivalents	10	604	-	604
		<u>613</u>	<u>-</u>	<u>613</u>
TOTAL ASSETS		<u><u>4,169</u></u>	<u><u>1,016</u></u>	<u><u>3,153</u></u>
EQUITY AND LIABILITIES				
Equity				
Share capital	11.1	66	-	66
Share premium	11.2	3,177	-	3,177
Other reserves	11.3, 20	1,016	1,016	-
Accumulated loss		(108)	-	(108)
Total equity		<u>4,151</u>	<u>1,016</u>	<u>3,135</u>
Short-term liabilities				
Trade and other payables	13	15	-	15
Related party payables	14	3	-	3
		<u>18</u>	<u>-</u>	<u>18</u>
Total liabilities		<u>18</u>	<u>-</u>	<u>18</u>
TOTAL EQUITY AND LIABILITIES		<u><u>4,169</u></u>	<u><u>1,016</u></u>	<u><u>3,153</u></u>