

Company Registration Number 05494985

XMOS LIMITED

**Annual report and consolidated financial statements
for the year ended 31 December 2022**

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XMOS LIMITED

2022 ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

	Page
DIRECTORS AND PROFESSIONAL ADVISERS	1
2022 HEADLINES	2
CEO'S REPORT	3
STRATEGIC REPORT	5
DIRECTORS' REPORT	8
DIRECTORS' RESPONSIBILITIES STATEMENT	10
INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF XMOS LIMITED	11
CONSOLIDATED INCOME STATEMENT	14
CONSOLIDATED BALANCE SHEET	15
COMPANY BALANCE SHEET	17
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	19
COMPANY STATEMENT OF CHANGES IN EQUITY	20
CONSOLIDATED STATEMENT OF CASH FLOWS	21
NOTES TO THE FINANCIAL STATEMENTS	22

XMOS LIMITED

DIRECTORS AND PROFESSIONAL ADVISERS

DIRECTORS

C W A Cotton
A G Duncan
W B Elmore
G Angel (resigned 4 November 2022)
Dr H M Hauser
Dr H Jiang
M D Lippett
H K Mehta
J D Meissner
A Urschitz (resigned 22 September 2022)
Dr JH Sewing (appointed 22 September 2022)

SECRETARY

OHS Secretaries Limited (resigned 5 December 2022)

REGISTERED OFFICE

5th Floor, Programme
1 All Saints Street
Bristol
BS1 2LZ

AUDITOR

BDO LLP
Bridgewater House
Finzels Reach
Counterslip
Bristol
BS1 6BX

SOLICITORS

Osborne Clarke LLP
One London Wall
London
EC24 5EB



2022 HEADLINES

GROUP REVENUE

\$24.0M

(+16% YoY)

ADJUSTED EBITDA

\$2.8M

(+40% YoY)

GROSS MARGIN

65%

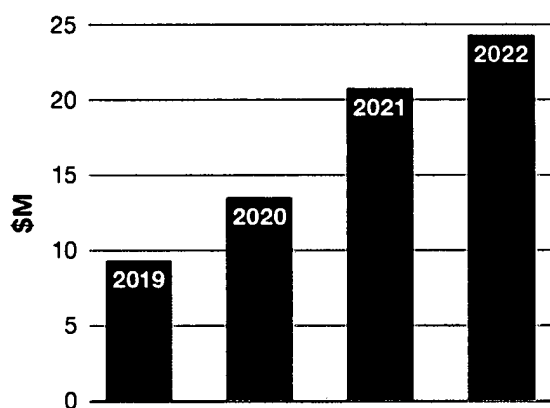
(+1% YoY)

NUMBER OF EMPLOYEES

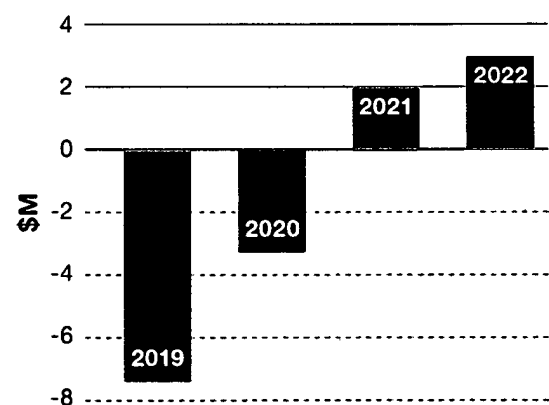
85

(+14 YoY)

REVENUE PROGRESSION



EBITDA PROGRESSION



XMOS LIMITED

CEO's REPORT

Introduction: *'Bringing Technology to Life'*

XMOS Limited is a deep tech company at the leading edge of the intelligent internet of things (IoT) market. The company's uniquely flexible xcore® processors put intelligence, connectivity, and enhanced computation at the core of smart products. Our processors allow customers to build entire solutions purely in software, disrupting the economics and timescales of system development, enabling our customers to bring differentiated solutions to market in a fraction of the time and at a fraction of the cost.

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

Financial Highlights: *'Three Years' of Continued Growth'*

We are extremely pleased with both the operational and financial progress that the Company has made during FY2022. This is the third consecutive year that we have delivered against our main KPIs and bears testament to the quality of our product and the dedication and skill of our team.

Revenues grew by 16% to \$24.0 Million (FY21: \$20.8 Million), an increase driven by existing and new customer design wins progressing to volume production. Gross margin remained steady at 65%, a slight increase from 64% in the previous year, with a resulting adjusted EBITDA of \$2.8 Million (FY21: \$2.0 Million) - a 40% increase. This has been achieved against a backdrop of volatile, unpredictable and uncertain global economic markets; a substantial increase in the inflationary environment; and higher energy and raw material costs more generally; as well as the down phase of the three to four year semiconductor cycle.

Operational Progress: *'Investing for the Future'*

We have continued to invest in operations and headcount across all business areas. This is important as we scale our operations and to support future growth. R&D activity remains the engine room of our success and we are extremely proud that now nearly two thirds of our employees are engaged directly in the creation of great new products and solutions for our customers.

Operationally, our Silicon team have made significant progress in the development of our next generation xcore® device, xcore-400, designed for the first time with a RISC-V instruction set. This design work is expected to be completed in the second half of 2023. Xcore-400 brings xcore®'s dynamic and flexible combination of AI, I/O, DSP, and standard compute to the RISC-V ecosystem – enabling a significantly larger community of embedded software engineers to quickly and easily create optimised systems in software that would previously have required an expensive and time-consuming chip design.

Product Development: *'No Faster Way to Get to Market'*

XMOS devices are now used in a broad range of applications and user cases across Smart Home, with a growing presence in Industrial and Automotive sectors. This has been made possible by the development of new Audio, Voice and Imaging products which customers can either take "off the shelf" or deploy as a platform offering on which they can integrate their own intellectual property. Our xcore® platform enables product designers to architect highly differentiated and integrated system-on-chip solutions for the intelligent IoT, purely in software.

Our third generation xcore®.ai represents a breakthrough - opening up new opportunities for intelligence in IoT applications - realising the full potential of smart homes, smart healthcare, smart cities, industry 4.0, autonomous vehicles and other major technology markets.

Supply Chain: *'Inform, Educate, Engage'*

The pandemic was a major factor in disrupting semiconductor supply lines in 2022 and caused parts shortages which led to huge investments by the major players in the US, China and Europe in pursuit of chip independence. For example, Europe is looking to bolster its manufacturing capacity for semiconductors, with the European Chips Act committing €43bn to the cause.

XMOS LIMITED

CEO's REPORT (continued)

Supply Chain: *'Inform, Educate, Engage'* (continued)

Whilst supply chains have returned to relative normality in the second half of 2022 when compared to 2021, it is vital to remember the economic importance of semiconductor chips and how essential they are to almost every product we use – either directly in a new car, a musical device or an e-bike, or indirectly as critical elements of modern manufacturing, operations and logistics.

XMOS: *'a Great Place to Work'*

I am delighted to report that in July 2022 we were officially Certified™ by Great Place to Work® in the UK and US. This is an important accolade for the Company and its employee culture, as Great Place to Work® is widely recognised as the global authority on workplace culture. Through employee surveys they recognise what organisations are doing right and help them to continually improve. They also apply data and insights from millions of employees working in around 10,000 organisations across the world every year to benchmark individual performance.

We look forward to now building even further on our fantastic response and participation, to make XMOS an even better Great Place to Work®.

Strengthening our Advisory and Leadership Teams: *'Equip Ourselves with the Best Brains in the Business'*

Our mission is to develop and monetize technology that can enable the mass-deployment of the intelligent IoT across so many industries. Paramount to achieving this is surrounding ourselves with the very best in the industry. In this regard we made two significant announcements during the year with the appointment of Paul Goodridge and Dr Jalal Bagherli as special advisors to our corporate board.

With 15 years' experience as a CFO in both public and private companies, and over 25 years in international finance management, Paul has spent his career leading, growing and guiding to exit a range of global software companies in both executive and consulting roles.

Similarly, with over 35 years of experience in both public and private semiconductor businesses – most recently as CEO of Dialog Semiconductor, a specialist chip company for mobile and IoT devices – Jalal is well-versed in the nuances of a complex and multifaceted industry that is one of the strongest value-generators world-wide.

They are both exceptional leadership talents with outstanding track-records in the semiconductor industry and they will add great value to our proposition in the years to come.

Outlook

As I referenced in last year's Report, we are currently experiencing the down phase of the semiconductor cycle, which historically lasts for twelve months. Alongside this we continue to manage inflationary pressures on our business driven by well documented macro-economic factors.

Despite this, we anticipate that a return to even stronger revenue growth will be achieved in the second half of 2023 as global recognition of the performance, cost and design benefits that our solutions provide is driving a strong sales pipeline of new business with new and existing companies alike. Our exciting product portfolio and roadmap coupled with an improving environment in the supply chain, gives us increased confidence that XMOS is extremely well positioned to exit the downturn cycle in a stronger position than most.

These achievements are only possible because of the hard work and excellence of our worldwide staff team which brings a daily focus to finding innovative solutions to solve difficult problems and building strong and flexible products for our customers. I am grateful to them all, as I am to all our stakeholders.



Mark Lippett
CEO

XMOS LIMITED

STRATEGIC REPORT

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

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

Review of the business

The results for the year are set out on page 15.

The Group's principal activities during the year continued to be the design, sale and marketing of semiconductor and related products. Its products make it easier, faster and more cost effective to design and build complex embedded systems, through the use of its xcore® technology. The Group sees continued revenue growth opportunities across multiple sectors including, but not limited to, the consumer and professional electronics markets, industrial and automotive.

During 2022, the Group has continued to enhance its voice interface and audio conferencing product offerings for commercial and consumer applications. It also continues to build out the xcore® platform offering which enables customers to utilise the software defined System on Chip (SOC) capability to create bespoke solutions across multiple sectors, using the same semiconductor chip, at an accelerated time to market and with market leading economics.

Significant investment has continued to be made in the development of the fourth generation of the xcore® product family, xcore-400. This device builds on the unique xcore® flexibility with the development of a low power generation and the inclusion of a RISC-V instruction set. The Group intends to continue this research and development focus.

Total turnover increased by 16% from the previous year to \$24.0 Million (2021: \$20.8 Million). This strong growth, achieved despite the challenging economic environment, was driven by existing and new customer design wins progressing to volume production. At the same time, our gross profit margin strengthened to 65% (2021: 64%).

The Company has achieved an Operating profit of \$0.1 Million (2021: Operating loss of \$3.3 Million), which represents a significant year on year improvement. When we consider an Adjusted EBITDA result (operating profit/ (loss) add back depreciation, amortisation and share based payments charge) the Group achieved a \$2.8 Million profit (2021: Profit of \$2.0 Million).

XMOS LIMITED

STRATEGIC REPORT (continued)

Key performance indicators

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

	2022	2021	2020
\$Million unless otherwise stated			
Revenue	24.0	20.8	13.4
Gross margin percentage (%)	64.6%	63.8%	59.1%
Operating profit/ (loss)	0.1	(3.3)	(5.2)
Add back:			
Depreciation	0.6	0.4	0.2
Amortisation	1.3	0.6	0.3
Share based payments charge	0.8	4.3	0.1
Adjusted EBITDA	2.8	2.0	(4.6)
Cash balance as at 31 December	11.3	12.6	12.1
Average number of employees (No.)	85	71	63

Principal risks and uncertainties

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

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

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

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

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

Dependence on distributors to complete order fulfilment

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

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

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

XMOS LIMITED

STRATEGIC REPORT (continued)

Principal risks and uncertainties (continued)

Product success depends on both own and third-party IP

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

Competition for product design wins, manufacturing capacity and key personnel

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

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

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

Brexit

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

However, Brexit does distance the Group from the EU's European Chips Act and the related investments. The Group is committed to engage, educate and inform the UK Government as it seeks to develop a nationwide strategy which develops the U.K.'s capacity to nurture an effective and robust UK semiconductor industry.

Covid-19

Covid-19 has impacted all employees in all geographical locations. Employees have adopted a hybrid working arrangement splitting time between home and a company office. This is expected to continue.

Approved by the Board and signed on its behalf by:



M Lippett
Director
2 May 2023

XMOS LIMITED

DIRECTORS' REPORT

The directors present their annual report on the affairs of the Company and the Group, together with the audited financial statements and auditor's report, for the year ended 31 December 2022.

Future developments

Details of future developments can be found in the CEO's Report on page 5 and form part of this report.

Research and development

The description of research and development activities required by the Companies Act 2006 section 416(4) to be disclosed in the Directors' report has been included in the review of business section of the Strategic report, as the directors consider this to be of strategic importance to the Company. During the year, the Group spent \$11.6M (2021: \$8.8M) on research and development costs.

Branches outside the UK

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

Financial risk management objectives and policies

The Group's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. The Group's principal financial assets are cash and bank balances, trade and other receivables.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of expected credit losses. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties.

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Interest-bearing assets and liabilities are held primarily at fixed rates to ensure better certainty of cash flows. Foreign exchange risks are mitigated as the Group predominantly buys and sells in US dollars.

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations, the Group primarily uses equity finance supplemented by borrowings as appropriate.

Going concern

These financial statements have been prepared on a going concern basis. The Group had a year-end cash balance of \$11,309,333. In addition, the Group has access to additional funds of up to \$4,000,000 in addition to the drawn amount as at 31 December 2022.

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

Results and dividends

The directors do not propose the payment of a final dividend (2021: \$nil). Details of the results for the year can be found in the Strategic report.

Directors

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

Directors' indemnities

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

XMOS LIMITED

DIRECTORS' REPORT (continued)


Auditor

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

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006. BDO LLP have indicated their willingness to continue in office.

Approved by the Board and signed on its behalf by:



M Lippett
Director
2 May 2023

XMOS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK adopted International Accounting Standards. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK adopted International Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

XMOS LIMITED

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF XMOS LIMITED

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2022 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted International Accounting Standards;
- the Company financial statements have been properly prepared in accordance with UK adopted International Accounting Standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of XMOS Limited ("the Company") and its subsidiaries ("the Group") for the year ended 31 December 2022 which comprise the Consolidated income statement, the Consolidated balance sheet, the Company balance sheet, the Consolidated statement of changes in equity, the Company statement of changes in equity, the Consolidated statement of cash flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted International Accounting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual report and consolidated financial statements, other than the financial statements and our Auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to

XMOS LIMITED

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

Other information (continued)

be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

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

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

In the light of the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

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

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

XMOS LIMITED

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

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

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

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

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

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

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

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

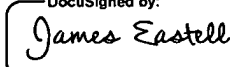
Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by,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

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

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our Auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

ACDBBDEF1FD247D...

James Eastell (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Bristol
United Kingdom
04 May 2023

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

XMOS LIMITED**CONSOLIDATED INCOME STATEMENT**
For the year ended 31 December 2022

	Note	2022 \$	2021 \$
Revenue	4	24,037,287	20,804,110
Cost of sales		(8,507,011)	(7,535,931)
Gross profit		<u>15,530,276</u>	<u>13,268,179</u>
Other income	6	-	239,432
Administrative expenses		<u>(14,644,645)</u>	<u>(12,538,562)</u>
Operating profit before share based payments charge		885,631	969,049
Share based payments charge	11	<u>(759,806)</u>	<u>(4,256,777)</u>
Operating profit/ (loss)		125,825	(3,287,728)
Net finance costs	5	(1,718,205)	(197,739)
Loss before taxation	6	<u>(1,592,380)</u>	<u>(3,485,467)</u>
Tax on loss	9	372,150	605,096
Loss for the financial year and total comprehensive loss attributable to the equity shareholders of the Company		<u>(1,220,230)</u>	<u>(2,880,371)</u>

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

XMOS LIMITED**CONSOLIDATED BALANCE SHEET
As at 31 December 2022**

	Note	2022 \$	2021 \$
Non-current assets			
Property, plant and equipment	12	262,872	167,998
Intangible assets	13	7,393,379	5,719,053
Right-of-use assets	12	796,075	253,113
		<hr/>	<hr/>
		8,452,326	6,140,164
Current assets			
Inventories	15	5,280,647	4,577,276
Trade and other receivables	16	1,408,504	4,727,542
Current tax receivable		472,247	500,777
Cash and cash equivalents		11,309,333	12,614,404
		<hr/>	<hr/>
Total current assets		18,470,731	22,419,999
		<hr/>	<hr/>
Total assets		26,923,057	28,560,163
Non-current liabilities			
Lease liabilities	21	(777,794)	(72,239)
Other non-current liabilities	18	(13,602,264)	(13,602,588)
		<hr/>	<hr/>
Total non-current liabilities		(14,380,058)	(13,674,827)
Current liabilities			
Trade and other payables	17	(3,020,470)	(4,867,299)
Lease liabilities	21	(236,180)	(142,463)
		<hr/>	<hr/>
Total current liabilities		(3,256,650)	(5,009,762)
		<hr/>	<hr/>
Total liabilities		(17,636,708)	(18,684,589)
		<hr/>	<hr/>
Net assets		9,286,349	9,875,574
		<hr/> <hr/>	<hr/> <hr/>

XMOS LIMITED

CONSOLIDATED BALANCE SHEET (continued)
As at 31 December 2022

	Note	2022	2021
		\$	\$
Capital and reserves			
Share capital	22	74,538	72,396
Share premium account	22	23,935,716	23,935,716
Merger reserve	22	3,477,191	3,477,191
Equity reserve	22	1,357,818	1,488,761
Profit and loss account		(19,558,914)	(19,098,490)
Shareholders' funds		9,286,349	9,875,574

The financial statements of XMOS Limited, registered number 05494985, were approved by the Board of Directors and authorised for issue on 2 May 2023. They were signed on its behalf by:



M Lippett
Director

XMOS LIMITED

COMPANY BALANCE SHEET
As at 31 December 2022

	Note	2022 \$	2021 \$
Non-current assets			
Property, plant and equipment	12	251,444	120,557
Intangible assets	13	6,556,205	4,881,879
Investments	14	2,806,717	2,659,103
Right-of-use assets	12	718,170	125,320
		<u>10,332,536</u>	<u>7,786,859</u>
Current assets			
Inventories	15	5,280,647	4,577,276
Trade and other receivables	16	1,373,917	4,684,121
Current tax receivable		484,344	501,931
Cash and cash equivalents		11,271,124	12,526,837
Total current assets		<u>18,410,032</u>	<u>22,290,165</u>
Total assets		<u>28,742,568</u>	<u>30,077,024</u>
Non-current liabilities			
Lease liabilities	21	(752,298)	-
Other non-current liabilities	18	(13,602,264)	(13,602,588)
Total non-current liabilities		<u>(14,354,562)</u>	<u>(13,602,588)</u>
Current liabilities			
Trade and other payables	17	(4,337,017)	(5,886,421)
Lease liabilities	21	(189,438)	(85,419)
Total current liabilities		<u>(4,526,455)</u>	<u>(5,971,840)</u>
Total liabilities		<u>(18,881,017)</u>	<u>(19,574,428)</u>
Net assets		<u>9,861,551</u>	<u>10,502,596</u>

XMOS LIMITED

COMPANY BALANCE SHEET (continued)
As at 31 December 2022

	Note	2022	2021
		\$	\$
Capital and reserves			
Share capital	22	74,538	72,396
Share premium account	22	23,935,716	23,935,716
Merger reserve	22	3,477,191	3,477,191
Equity reserve	22	1,357,818	1,488,761
Profit and loss account		(18,983,712)	(18,471,468)
Shareholders' funds		<u>9,861,551</u>	<u>10,502,596</u>

The loss for the financial year dealt with in the financial statements of the Company was \$1,272,050 (2021: \$2,105,191).

The financial statements of XMOS Limited, registered number 05494985, were approved by the Board of Directors and authorised for issue on 2 May 2023. They were signed on its behalf by:



M Lippett
Director

XMOS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2022

	Called up share capital	Share premium account	Merger reserve	Equity reserve	Profit and loss account	Total
	\$	\$	\$	\$	\$	\$
At 1 January 2021	71,335	23,562,967	3,477,191	1,132,316	(20,108,786)	8,135,023
Loss for the financial year being total comprehensive expense	-	-	-	-	(2,880,371)	(2,880,371)
Reserve transfer	-	366,110	-	-	(366,110)	-
Recognition of compound financial instrument & warrants	-	-	-	356,445	-	356,445
Issue of share capital	1,061	6,639	-	-	-	7,700
Share based payments	-	-	-	-	4,256,777	4,256,777
At 31 December 2021	72,396	23,935,716	3,477,191	1,488,761	(19,098,490)	9,875,574
Loss for the financial year being total comprehensive expense	-	-	-	-	(1,220,230)	(1,220,230)
Issue of share capital	2,142	-	-	-	-	2,142
Equity adjustment	-	-	-	(130,943)	-	(130,943)
Share based payments	-	-	-	-	759,806	759,806
At 31 December 2022	74,538	23,935,716	3,477,191	1,357,818	(19,558,914)	9,286,349

XMOS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2022

	Called up share capital	Share premium account	Merger reserve	Equity reserve	Profit and loss account	Total
	\$	\$	\$	\$	\$	\$
At 1 January 2021	71,335	23,562,967	3,477,191	1,132,316	(20,256,944)	7,986,865
Loss for the financial year being total comprehensive expense	-	-	-	-	(2,105,191)	(2,105,191)
Reserve transfer	-	366,110	-	-	(366,110)	-
Recognition of compound financial instrument & warrants	-	-	-	356,445	-	356,445
Issue of share capital	1,061	6,639	-	-	-	7,700
Share based payments	-	-	-	-	4,256,777	4,256,777
At 31 December 2021	72,396	23,935,716	3,477,191	1,488,761	(18,471,468)	10,502,596
Loss for the financial year being total comprehensive expense	-	-	-	-	(1,272,050)	(1,272,050)
Issue of share capital	2,142	-	-	-	-	2,142
Equity adjustment	-	-	-	(130,943)	-	(130,943)
Share based payments	-	-	-	-	759,806	759,806
At 31 December 2022	74,538	23,935,716	3,477,191	1,357,818	(18,983,712)	9,861,551

XMOS LIMITED**CONSOLIDATED STATEMENT OF CASH FLOWS**
For the year ended 31 December 2022

	2022	2021
	\$	\$
Loss after tax	(1,220,230)	(2,880,371)
Adjustment for:		
Net finance costs	1,718,205	197,739
Tax credit	(372,150)	(605,096)
Share based payments charge	759,806	4,256,777
Amortisation of intangible assets	1,256,615	602,783
Depreciation of tangible fixed assets	559,532	380,641
Unwind in provisions	-	(750,000)
Unrealised foreign exchange gains	(1,435,248)	(226,420)
R&D expenditure credit	-	(12,986)
	<hr/>	<hr/>
Operating cash flow before movement in working capital	1,266,530	963,067
Increase in inventories	(703,371)	(2,733,848)
Decrease/ (increase) in receivables	3,319,038	(2,521,826)
(Decrease)/ increase in payables	(1,846,829)	1,650,484
	<hr/>	<hr/>
Cash inflow/ (outflow) from operations	2,035,368	(2,642,123)
R&D tax credit received	400,678	1,719,637
	<hr/>	<hr/>
Net cash inflow/ (outflow) from operating activities	2,436,046	(922,486)
Cash flows from investing activities		
Purchase of equipment	(317,976)	(63,924)
Intangible fixed asset development costs	(2,930,941)	(1,315,110)
	<hr/>	<hr/>
Net cash outflow from investing activities	(3,248,917)	(1,379,034)
Cash flows from financing activities		
Proceeds on issue of shares	2,142	7,700
Proceeds on issue of venture debt loan	-	4,045,718
Repayment of venture debt loan	-	(607,860)
Payment of lease liabilities	(222,351)	(235,448)
Venture debt interest paid	(633,118)	(357,668)
	<hr/>	<hr/>
Net cash (outflow)/ inflows from financing activities	(853,327)	2,852,442
Net (decrease)/ increase in cash and cash equivalents	(1,666,198)	550,922
Cash and cash equivalents at beginning of year	12,614,404	12,140,428
Effect of foreign exchange rate changes	361,127	(76,946)
	<hr/>	<hr/>
Cash and cash equivalents at end of year	11,309,333	12,614,404
	<hr/>	<hr/>

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. General information and basis of accounting

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

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

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

2. Accounting policies

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

a) Basis of consolidation

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

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

b) Going concern

These financial statements have been prepared on a going concern basis. The Group had a year-end cash balance of \$11,309,333. In addition as at 31 December 2022, it has access to additional undrawn funds of up to \$4,000,000.

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

c) Business combinations and Intangible assets

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

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

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) **For the year ended 31 December 2022**

2. Accounting policies (continued)

c) Business combinations and Intangible assets (continued)

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

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

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

d) Research and development

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

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

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete, and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in administration expenses. During the period of development, the asset is tested for impairment annually. Capitalised chip development costs are amortised on a straight-line basis over 36 to 48 months.

e) Current versus non-current classification

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

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

Or

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

All other assets are classified as non-current.

A liability is current when:

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

Or

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

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

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

2. Accounting policies (continued)

f) Property, plant and equipment

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

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

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

g) Financial instruments – initial recognition and measurement

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

(i) Financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

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

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) **For the year ended 31 December 2022**

2. Accounting policies (continued)

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

(i) Financial assets (continued)

Derecognition

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

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

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

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

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

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

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

2. Accounting policies (continued)

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

(ii) Financial liabilities

Initial recognition and measurement

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

Subsequent measurement

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

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition

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

h) Inventories

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

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

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

i) Impairment of assets

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

Non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use.

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) **For the year ended 31 December 2022**

2. Accounting policies (continued)

i) Impairment of assets (continued)

Non-financial assets (continued)

The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

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

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

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

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

Financial assets

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

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

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

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2022

2. Accounting policies (continued)

j) Taxation

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

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

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

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

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

k) Government grants

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

l) Revenue

Revenue recognition and timing

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

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) **For the year ended 31 December 2022**

2. Accounting policies (continued)

l) Revenue (continued)

Costs to obtain a contract

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

Contractual liability

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

Transaction price

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

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

m) Provisions

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

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

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

n) Interest receivable

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

o) Borrowing costs

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

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) **For the year ended 31 December 2022**

2. Accounting policies (continued)

p) Foreign currency

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

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

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

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

q) Leases

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

Right-of-use assets

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

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

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

Lease liabilities

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

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) **For the year ended 31 December 2022**

2. Accounting policies (continued)

q) Leases (continued)

Lease liabilities (continued)

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

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. The Group's lease liabilities are included in Interest-bearing loans and borrowings (see Note 18).

r) Share-based payments

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

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

s) New standards, interpretations and amendments from 1 January 2022

New standards in relation to Onerous Contracts – cost of fulfilling a contract (Amendment to IAS 37), Property, Plant and Equipment: Proceeds before Intended Use (Amendment to IAS 16), Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41) and References to Conceptual Framework Amendment to IFRS 3) are not relevant to the Group at this time.

t) New standards, interpretations and amendments not yet effective

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

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

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

The following amendments are effective for the period beginning 1 January 2024:

- IFRS 16 Leases (Amendment – Liability in a Sale and Leaseback);
- IAS1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-current); and
- IAS1 Presentation of Financial Statements (Amendment – Non-current Liabilities with Covenants).

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) **For the year ended 31 December 2022**

2. Accounting policies (continued)

t) New standards, interpretations and amendments not yet effective (continued)

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The Group does not believe that the amendments to IAS 1, in their present form, will have a significant impact on the classification of its liabilities, as the conversion feature in its convertible debt instruments is classified as an equity instrument and therefore, does not affect the classification of its convertible debt as a non-current liability.

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgement in applying the Group's accounting policies

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

Share-based payments

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

The cost of employee services received in exchange for awards of equity instruments is recognised based upon the grant date fair value of the instruments. The total gross amount of recognised expenses associated with share-based payments is set out in note 11.

Financial instruments

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

Convertible loan note and venture debt facility

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

It is uncertain how the convertible loan note will be redeemed, either via repayment of the loan amount or conversion into equity. Accordingly, an assessment of these different events has been undertaken and probabilities assigned to each event. Details of these facilities are provided in note 18.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

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

Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating). Further details are provided in note 21.

Development costs

The Group capitalises costs for product development projects. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. At 31 December 2022, the carrying amount of capitalised development costs as set out in note 13 was \$6,556,205 (2021: \$4,881,879).

Key sources of estimation uncertainty

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

Impairment of Goodwill, other Intangible Assets and Investments

Determining whether the carrying values of goodwill, other intangible assets and investments in subsidiary undertakings requires estimation of the value in use of the relevant cash-generating units as well as consideration of the cashflows generated on an asset or partial asset disposal. The value in use calculation requires an estimation of the future cash flows expected to arise from the cash-generating units and suitable discount rates in order to calculate present values. The asset disposal calculation requires an assessment of future cashflows that may arise if an asset is disposed of and suitable discount rates in order to calculate a present value of the disposal value. Details of the carrying values of goodwill, other intangible assets and investments in subsidiary undertakings are shown in notes 13 and 14 respectively.

Provisions

The estimation of the amount to be recognised as a provision is highly subjective. This involves taking account of the current circumstances of a relevant situation and obtaining appropriate expert advice to determine the possible outcomes that may occur and their relative likelihoods. Then an estimation of the liability that should be recognised in the balance sheet is made, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). See note 20 for further details.

Useful economic life of Capitalised development costs

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

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

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2022

4. Revenue

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

Revenue under distribution contracts totaled \$23,908,036 (2021: \$20,760,263) which represents 99.5% (2021: 99.8%) of total revenue.

Revenue of \$6,089,978 (2021: \$4,363,023) arose from sales to the Group's largest distributor customer, Electronic Product Services Ltd, revenue of \$4,118,888 (2021: \$5,370,211) arose from sales to Serial Microelectronics (HK) Ltd, revenue of \$3,824,621 (2021: \$2,828,840) arose from sales to the Future Electronics group, revenue of \$3,692,790 (2021: \$3,413,899) arose from sales to the Weikeng Industrial Co Ltd group. In all cases these distributors then sold on XMOS chips to many end customers.

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

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

	2022 \$	2021 \$
Europe	8,000,081	6,218,562
Americas	3,530,680	2,804,241
Asia	12,506,526	11,781,307
	<u>24,037,287</u>	<u>20,804,110</u>

5. Finance (costs)/income

	2022 \$	2021 \$
Venture debt interest payable	(633,119)	(348,880)
Finance costs on convertible loan and venture debt loan	(942,854)	(1,054,424)
Adjustments to carrying value of financial instruments	-	1,246,882
Lease liability interest	(142,232)	(41,317)
	<u>(1,718,205)</u>	<u>(197,739)</u>

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

6. Loss before taxation

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

	2022	2021
	\$	\$
Depreciation of tangible fixed assets (note 12)	223,102	233,449
Depreciation of right-of-use assets (note 12)	336,430	147,192
Amortisation of intangible fixed assets (note 13)	1,256,615	602,783
Research and development costs	8,668,795	7,476,797
Cost of stock recognised as expense	8,507,011	7,576,401
Government grants in respect of research and development projects included as Other income	-	(239,432)
Profit on foreign currency transactions	<u>(747,266)</u>	<u>(380,137)</u>

Amortisation and depreciation charges are included within Administrative expenses. Included within Cost of sales is a stock impairment charge of \$1,531,727 (2021: \$419,326).

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

	2022	2021
	\$	\$
Fees payable for the audit of the Group and Company financial statements	<u>120,341</u>	<u>117,227</u>
	2022	2021
	\$	\$
Reporting advisory services	36,183	-
Taxation compliance services	5,138	5,249
Other taxation advisory services	<u>8,463</u>	<u>8,657</u>

7. Staff numbers and costs

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

	Group		Company	
	2022	2021	2022	2021
	Number	Number	Number	Number
Research and development	49	45	36	31
Sales and marketing	28	17	10	11
General and administration	8	9	7	6
	<u>85</u>	<u>71</u>	<u>53</u>	<u>48</u>

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

7. Staff numbers and costs (continued)

Their aggregate remuneration comprised:

	Group		Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Wages and salaries	8,318,909	7,787,750	5,407,438	5,032,638
Social security costs	1,010,380	757,851	834,275	579,412
Other pension costs	312,859	204,089	312,859	204,089
Remuneration before share based payments	<u>9,642,148</u>	<u>8,749,690</u>	<u>6,554,572</u>	<u>5,816,139</u>
Share-based payments (note 11)	<u>759,806</u>	<u>4,256,777</u>	<u>612,192</u>	<u>3,333,906</u>
	<u>10,401,954</u>	<u>13,006,467</u>	<u>7,166,764</u>	<u>9,150,045</u>

The Group operates a defined contribution retirement scheme for all qualifying employees. The total expense charged to the Income statement in the year ended 31 December 2022 was \$312,859 (2021: \$204,089).

8. Directors' remuneration

	2022	2021
	\$	\$
Emoluments	689,571	599,622
Company contribution to money purchase pension schemes	<u>21,544</u>	<u>43,607</u>
	<u>711,115</u>	<u>643,229</u>
	\$	\$
Remuneration of highest paid director		
Emoluments	383,943	367,687
Company contribution to money purchase pension schemes	<u>21,544</u>	<u>43,607</u>
	<u>405,487</u>	<u>411,294</u>

The highest paid director exercised 2,724,570 share options in the year (2021: nil).

	2022	2021
	Number	Number
The number of directors who:		
Are members of a money purchase pension scheme	1	1
Had awards receivable in the form of shares under a long-term incentive scheme	<u>-</u>	<u>5</u>

9. Tax

The tax credit comprises:

	2022	2021
	\$	\$
Current tax on loss		
UK corporation tax	(447,385)	(473,190)
Foreign tax	<u>5,998</u>	<u>-</u>
	<u>(441,387)</u>	<u>(473,190)</u>
Adjustments in respect of prior years	69,237	(131,906)
Total tax on loss	<u>(372,150)</u>	<u>(605,096)</u>

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2022

9. Tax (continued)

The standard rate of tax applied to the reported loss is 19% (2021: 19%). A deferred tax asset has not been recognised in respect of timing differences relating to tax losses carried forward as there is insufficient evidence that the asset will be recovered. Tax losses carried forward at the year-end are \$53,974,467 (2021: \$53,974,467).

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

	2022 \$	2021 \$
Loss on ordinary activities before tax	<u>(1,592,380)</u>	<u>(3,485,467)</u>
		\$
Tax on Group loss on ordinary activities at standard UK corporation tax rate of 19% (2021: 19%)	(302,552)	(662,239)
Effects of:		
Expenses not deductible for tax purposes	574,622	850,614
Research and development tax claim credit	(555,698)	(669,644)
Other effects of R&D relief	138,843	148,511
Losses carried forward	(55,656)	(58,916)
Income not taxable	(240,946)	(81,516)
Adjustments in respect of prior years	<u>69,237</u>	<u>(131,906)</u>
Total tax on loss	<u>(372,150)</u>	<u>(605,096)</u>

10. Loss attributable to the Company

The loss for the financial year dealt with in the financial statements of the Company was \$1,272,050 (2021: \$2,105,191). As permitted by Section 408 of the Companies Act 2006, no separate income statement is presented in respect of the Company.

11. Share-based payments

Equity-settled share option schemes

The Company has a share option scheme for all employees of the Group. The scheme awards options over Ordinary shares as well as parallel Z preferred shares. Options over Ordinary shares are exercisable at a price of between \$0.00012 and \$0.02. The company offers two types of option over ordinary shares. The first has a vesting period of four years and options are forfeited if the employee leaves the Group before the options have vested. The second are options which vest in full on grant, but which lapse in full if the employee leaves employment with the company before the occurrence of an exit event for the company. The maximum term of all options is ten years and the options are all equity-settled.

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

During the year, 16,355,895 Ordinary share options were issued to employees (2021: 38,063,050), nil Ordinary share options were issued to executive directors (2021: 9,586,516), 1,000,000 Ordinary share options were issued to non-executive directors and advisors (2021: 3,250,000) and 12,521,796 options (2021: 7,717,275) were exercised to buy Ordinary shares.

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

11. Share-based payments (continued)

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

	2022		2021	
	Number of Ordinary share options	Weighted average exercise price (\$)	Number of Ordinary share options	Weighted average exercise price (\$)
Outstanding at the beginning of the year	172,722,868	0.0003	140,884,186	0.0003
Granted during the year	17,355,895	0.0003	50,899,566	0.0006
Exercised during the year	(12,521,796)	0.0010	(7,712,275)	0.0001
Lapsed during the year	(3,737,988)	0.0001	(11,348,609)	0.0003
Outstanding at the end of the year	173,818,979		172,722,868	

During the year, 163,144 Z share options were issued to employees (2021: 316,142), nil Z share options were issued to executive directors (2021: 48,044), 10,000 Z share options were issued to non-executive directors and advisors (2021: 27,500) and nil options (2021: nil) were exercised.

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

	2022		2021	
	Number of Z share options	Weighted average exercise price (\$)	Number of Z share options	Weighted average exercise price (\$)
Outstanding at the beginning of the year	1,580,552	0.7091	1,386,847	0.7091
Granted during the year	173,144	0.9358	391,686	0.5943
Exercised during the year	-	n/a	-	n/a
Lapsed during the year	(130,827)	0.7091	(197,981)	0.7091
Outstanding at the end of the year	1,622,869		1,580,552	

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

In the year, the Group has recognised a total expense of \$759,806 (2021: \$4,256,777) related to equity-settled share-based payment transactions.

XMOS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)**
For the year ended 31 December 2022**12. Property, Plant and Equipment**

	Right of use asset	Leasehold improvements	Computer equipment	Total
	\$	\$	\$	\$
Group				
Cost				
At 1 January 2022	827,912	473,885	704,310	2,006,107
Additions	879,392	186,609	131,367	1,197,368
Disposals	-	-	-	-
At 31 December 2022	<u>1,707,304</u>	<u>660,494</u>	<u>835,677</u>	<u>3,203,475</u>
Depreciation				
At 1 January 2022	574,799	384,796	625,401	1,584,996
Charge for the year	336,430	78,671	144,431	559,532
Disposals	-	-	-	-
At 31 December 2022	<u>911,229</u>	<u>463,467</u>	<u>769,832</u>	<u>2,144,528</u>
Net book value				
At 31 December 2022	<u>796,075</u>	<u>197,027</u>	<u>65,845</u>	<u>1,058,947</u>
At 31 December 2021	<u>253,113</u>	<u>89,089</u>	<u>78,909</u>	<u>421,111</u>

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

12. Property, Plant and Equipment (continued)

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

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

12. Property, Plant and Equipment (continued)

	Right of use asset	Leasehold improvements	Computer equipment	Total
	\$	\$	\$	\$
Company				
Cost				
At 1 January 2022	626,599	355,372	635,979	1,617,950
Additions	879,392	186,608	129,770	1,195,770
Disposals	-	-	-	-
At 31 December 2022	<u>1,505,991</u>	<u>541,980</u>	<u>765,749</u>	<u>2,813,720</u>
Depreciation				
At 1 January 2022	501,279	318,708	552,086	1,372,073
Charge for the year	286,542	35,433	150,058	472,033
Disposals	-	-	-	-
At 31 December 2022	<u>787,821</u>	<u>354,141</u>	<u>702,144</u>	<u>1,844,106</u>
Net book value				
At 31 December 2022	<u>718,170</u>	<u>187,839</u>	<u>63,605</u>	<u>969,614</u>
At 31 December 2021	<u>125,320</u>	<u>36,664</u>	<u>83,893</u>	<u>245,877</u>

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

13. Intangible assets

	Development costs	Intellectual property	Goodwill	Total
Group	\$	\$	\$	\$
Cost				
At 1 January 2022	5,484,662	1,800,000	837,174	8,121,836
Additions	2,930,941	-	-	2,930,941
At 31 December 2022	<u>8,415,603</u>	<u>1,800,000</u>	<u>837,174</u>	<u>11,052,777</u>
Amortisation				
At 1 January 2022	602,783	1,800,000	-	2,402,783
Charge for the year	1,256,615	-	-	1,256,615
At 31 December 2022	<u>1,859,398</u>	<u>1,800,000</u>	<u>-</u>	<u>3,659,398</u>
Net book value				
At 31 December 2022	<u>6,556,205</u>	<u>-</u>	<u>837,174</u>	<u>7,393,379</u>
At 31 December 2021	<u>4,881,879</u>	<u>-</u>	<u>837,174</u>	<u>5,719,053</u>
	Development costs	Intellectual property	Goodwill	Total
Group	\$	\$	\$	\$
Cost				
At 1 January 2021	4,169,552	1,800,000	837,174	6,806,726
Additions	1,315,110	-	-	1,315,110
At 31 December 2021	<u>5,484,662</u>	<u>1,800,000</u>	<u>837,174</u>	<u>8,121,836</u>
Amortisation				
At 1 January 2021	-	1,800,000	-	1,800,000
Charge for the year	602,783	-	-	602,783
At 31 December 2021	<u>602,783</u>	<u>1,800,000</u>	<u>-</u>	<u>2,402,783</u>
Net book value				
At 31 December 2021	<u>4,881,879</u>	<u>-</u>	<u>837,174</u>	<u>5,719,053</u>
At 31 December 2020	<u>4,169,552</u>	<u>-</u>	<u>837,174</u>	<u>5,006,726</u>

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

13. Intangible assets (continued)

Company	Development costs	Intellectual property	Total
	\$	\$	\$
Cost			
At 1 January 2022	5,484,662	1,800,000	7,284,662
Additions	2,930,941	-	2,930,941
At 31 December 2022	<u>8,415,603</u>	<u>1,800,000</u>	<u>10,215,603</u>
Amortisation			
At 1 January 2022	602,783	1,800,000	2,402,783
Charge for the year	1,256,615	-	1,256,615
At 31 December 2022	<u>1,859,398</u>	<u>1,800,000</u>	<u>3,659,398</u>
Net book value			
At 31 December 2022	<u>6,556,205</u>	<u>-</u>	<u>6,556,205</u>
At 31 December 2021	<u>4,881,879</u>	<u>-</u>	<u>4,881,879</u>

Development costs comprise internal staff costs and costs for external consultancy, IP and tape out charges incurred in the development of the xcore.ai chip and the 4th generation device, xcore-400. These assets will be amortised on a straight-line basis over a four year period from the point at which the chip is ready for volume production. The xcore.ai chip achieved this goal during 2021 and accordingly amortisation has been charged from that point onwards. xcore-400 is scheduled to complete the design process in the second half of 2023 and will then be ready for tape out. Given the significant period of time from tape out to reaching volume production, revenue at volume is not expected from this device until 2026.

In addition, internal staff costs and costs for external consultancy have been capitalized in relation to a specific collaboration software product, XVF3800. This asset will be amortised on a straight line basis over a three year period.

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

The goodwill also arose from the Setem Technologies Inc acquisition. The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on a value in use calculation in line with IAS 36. This is achieved by considering the performance of the overall business, which is treated by management as one CGU.

The use of this method requires the estimation of future cash flows over four years. Management used a discount rate based on an estimation of weighted average cost of capital (WACC) of 24% (2021: 30%) in order to calculate the present value of the cash flows and used a nominal growth rate of 2% in the period beyond the projection period.

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

13. Intangible assets (continued)

The most subjective input in this calculation is forecast revenues which have been calculated based on management's most recent assessment for the period up to and including 2026. This assessment is considered to be a prudent judged view of revenue and is below the Budget/ Operating forecast view of the business. The compound revenue growth rate included in the impairment model over the forecast period is 21.4%.

For this business, the directors performed a sensitivity analysis on the total carrying value of goodwill of the CGU. For the recoverable amount to be lower than the carrying value the discount rate would need to increase by 65% to 89% or the sensitized revenue forecast be equal to 76% of revenue per the company's Budget/ Operating forecast or 98% of management's most recent assessment of forecast revenues.

14. Fixed asset investments

	2022	2021
	\$	\$
Subsidiary undertakings		
Company		
Cost	4,943,685	4,030,814
Additions	147,614	912,871
Provision for impairment	(2,284,582)	(2,284,582)
	<u>2,806,717</u>	<u>2,659,103</u>
Carrying value	<u>2,806,717</u>	<u>2,659,103</u>

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

Investments

The Company has investments in the following subsidiary undertakings:

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

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

XMOS Inc made a profit during the year of \$151,663 (2021: \$161,414) and as at 31 December 2022 net assets were \$1,220,888 (2021: \$1,069,244).

XMOS Semiconductor India PVT Ltd made a loss during the year of \$22,942 (2021: profit of \$nil) and as at 31 December 2022 net liabilities were \$4,178 (2021: net assets of \$18,764).

XMOS Asia Ltd made a profit during the year of \$22,509 (2021: profit of \$17,646) and as at 31 December 2022 net assets were \$120,012 (2021: \$97,503).

XMOS GK made a loss during the year of \$4,629 (2021: \$nil) and as at 31 December 2022 net assets were \$51,953 (2021: \$56,583).

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2022

14. Fixed asset investments (continued)

Registered addresses:

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

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

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

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

	2022 \$	2021 \$
<i>Investments in subsidiary companies</i>		
XMOS Inc	2,803,511	2,655,897
XMOS Asia Ltd	1,287	1,287
XMOS GK	98	98
XMOS Semiconductor India PVT Ltd	1,821	1,821
	<u>2,806,717</u>	<u>2,659,103</u>

15. Inventories

	Group and Company	
	2022 \$	2021 \$
Work in progress	4,116,873	2,640,579
Finished goods and goods for resale	1,163,774	1,936,697
	<u>5,280,647</u>	<u>4,577,276</u>

16. Trade and other receivables

	Group		Company	
	2022 \$	2021 \$	2022 \$	2021 \$
Trade receivables	566,745	4,221,944	566,745	4,221,944
VAT	101,889	16,782	100,714	15,607
Other receivables	216,421	181,712	208,766	174,057
Prepayments	523,449	307,104	497,692	272,513
	<u>1,408,504</u>	<u>4,727,542</u>	<u>1,373,917</u>	<u>4,684,121</u>

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

17. Trade and other payables

	Group		Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Trade payables	1,106,640	2,020,864	1,129,328	2,020,396
Amounts owed to Group undertakings	-	-	1,423,815	1,168,266
Other taxation and social security	124,731	147,662	124,445	147,376
Other payables	101,834	56,416	73,183	12,372
Accruals	1,370,783	2,040,681	1,269,764	1,936,335
Contract liabilities	316,482	601,676	316,482	601,676
	<u>3,020,470</u>	<u>4,867,299</u>	<u>4,337,017</u>	<u>5,886,421</u>

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

18. Other non-current liabilities

	Group		Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Convertible loan note	7,517,760	7,210,745	7,517,760	7,210,745
Venture debt loan	6,084,504	6,391,843	6,084,504	6,391,843
	<u>13,602,264</u>	<u>13,602,588</u>	<u>13,602,264</u>	<u>13,602,588</u>

Venture debt loan

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

This instrument is deemed to be a compound financial instrument and accordingly the instrument has been split between a loan liability and equity with a relevant entry recorded as an equity reserve (note 22).

In November 2019, the first tranche of \$4m was drawn down and is subject to a fixed coupon rate of 10%. The second tranche of \$4,000,000 was drawn down in December 2021 and is subject to a fixed coupon rate of 9%. As at the year end there remains an undrawn down amount of \$4,000,000.

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2022

18. Other non-current liabilities (continued)

Convertible loan note

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

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

The repayment profile of borrowings is as follows:

	Group and Company	
	2022	2021
	\$	\$
Within one year	729,867	-
Between one and two years	2,987,704	1,335,331
Between two and five years	9,884,693	12,267,257
	<u>13,602,264</u>	<u>13,602,588</u>

19. Financial Instruments

	Group	Group	Company	Company
	2022	2021	2022	2021
Financial assets	\$	\$	\$	\$
Measured at amortised cost	783,166	4,403,656	775,511	4,396,001
Cash and cash equivalents	11,309,333	12,614,404	11,271,124	12,526,837
	<u>12,092,499</u>	<u>17,018,060</u>	<u>12,046,635</u>	<u>16,922,838</u>
Financial liabilities				
Measured at amortised cost	14,810,738	15,679,868	14,804,775	15,635,648

The breakdown of Group and Company lease liabilities is shown in note 21.

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2022

19. Financial Instruments (continued)

Financial instruments risk management objectives and policies

Capital management

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

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

The Group's cash balances are held with institutions which have a credit rating of A+ (2021: A+).

Market risk

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

Foreign currency risk

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

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

	Group		Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Sterling (£)	914,998	832,428	914,998	832,428
Euros (€)	2,568,481	4,235,206	2,568,481	4,235,206
Indian Rupees (INR)	11,617	25,275	-	-
Japanese Yen (JPY)	2,592	7,221	-	-

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

	Group and Company	
	2022	2021
	\$	\$
Sterling (£)	7,517,760	7,210,745
Euros (€)	6,084,504	6,391,843

A ten percent weakening of USD (\$) against the following currencies at 31 December 2022 would have decreased reported equity and other comprehensive income by the following amounts:

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2022

19. Financial Instruments (continued)

Group and Company	2022		2021	
	Other comprehensive income	Equity	Other comprehensive income	Equity
	\$	\$	\$	\$
Sterling (£)	(675,675)	(675,675)	(627,424)	(627,424)
Euros (€)	(355,564)	(355,564)	(231,142)	(231,142)

Interest rate risk

The Group's policy is to minimise the interest rate risk exposure on long term financing. For bank borrowings, the interest rate is fixed at the date the loan tranche is drawn down.

Credit rate risk

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

Liquidity risk

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

Expected credit losses

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

20. Provision for other liabilities

Group and Company	2022	2021
	\$	\$
At 1 January	-	750,000
Charged to profit and loss	-	-
Utilised	-	(750,000)
At 31 December	-	-

In 2020, the Group and Company recognised a provision in relation to a product warranty issue.

The settlement of the product warranty issue included the receipt of financial compensation from a third party in the form of a trade discount to be crystallised by future purchases made by XMOS from this third party. This amount crystallised during the prior year.

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2022

21. Lease liabilities

The repayment profile of leases is as follows:

	Group		Company	
	2022	2021	2022	2021
	\$	\$	\$	\$
Within one year	236,180	142,463	189,438	85,419
Between one and two years	239,562	72,239	752,298	-
Between two and five years	538,232	-	-	-
	<u>1,013,974</u>	<u>214,702</u>	<u>941,736</u>	<u>85,419</u>

The Group and Company entered into a new lease on 7 February 2022.

22. Called-up share capital and reserves

	2022 Number	2022 \$	2021 Number	2021 \$
Allotted, called-up and fully-paid				
Ordinary shares of £0.0001 each	85,979,299	10,673	68,977,826	8,531
Series 'S' shares of £0.0001 each	2,097,370	325	2,097,370	325
'A' ordinary shares of £0.0001 each	252,695	39	252,695	39
Series 'A' shares of £0.0001 each	5,745,339	892	5,745,339	892
Series 'B' shares of £0.0001 each	39,606,155	6,126	39,606,155	6,126
Series 'C' shares of £0.0001 each	37,470,652	5,849	37,470,652	5,849
Series 'D' shares of £0.0001 each	190,326,390	31,563	190,326,390	31,563
Series 'E1' shares of £0.0001 each	97,097,011	13,013	97,097,011	13,013
Series 'E2' shares of £0.0001 each	47,008,975	6,058	47,008,975	6,058
	<u>505,583,886</u>	<u>74,538</u>	<u>488,582,413</u>	<u>72,396</u>

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

During the year, 12,521,796 (2021: 7,712,275) Ordinary shares were issued from exercised Ordinary share options.

At 31 December 2022, there were 173,818,979 (2021: 172,722,868) Ordinary share options in issue. Share options are conditional on the continued employment of staff members and are exercisable at between \$0.00012, \$0.0005 or \$0.0008 as per individual option agreements.

The option scheme provides for options over Z preferred shares to be issued. These options vest immediately on grant and only become exercisable upon an exit event and in such circumstances replace any outstanding ordinary share options. At 31 December 2022 a total of 1,622,869 (2021: 1,580,552) Z preferred options were outstanding.

The Group has issued warrants over Ordinary shares with an exercise price of £0.0001 per warrant. During the year, 4,479,677 (2021: nil) Ordinary shares were issued from exercised Ordinary share warrants. At 31 December 2022 there were 11,430,867 (2021: 15,910,644) Ordinary share warrants and 29,973,518 (2021: 29,973,518) 'E2' share warrants in issue.

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

XMOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2022

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

Other reserves

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

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

The equity reserve reflects the fair value of equity instruments to be issued under warrants.

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

23. Net debt reconciliation (excluding lease liabilities)

	1 January 2022	Cash flows	Other non-cash changes	31 December 2022
	\$	\$	\$	\$
Cash at bank and in hand	12,614,404	(1,666,198)	361,127	11,309,333
Venture debt loan	(6,391,843)	-	307,339	(6,084,504)
Convertible loan note	(7,210,745)	-	(307,015)	(7,517,760)
Net debt	<u>(988,184)</u>	<u>(1,666,198)</u>	<u>361,451</u>	<u>(2,292,931)</u>

24. Related party transactions

The remuneration for key management personnel for the period totalled \$2,502,416 (2021: \$4,359,158), being remuneration included in note 7 of \$2,502,416 (2021: \$2,498,439) and share-based payment expenses of \$nil (2021: \$1,860,719). Key management are defined as the executive directors of the Company plus 7 (2021: 8) members of the senior management team of the Company.

25. Financial commitments

The Company and Group had no capital commitments at the end of 2022 (2021: \$nil).

26. Controlling party

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