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Canonical Group Limited

Annual Report and Financial Statements

Year Ended

31 December 2021

Company Number 06870835

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Canonical Group Limited

Annual report and financial statements
for the year ended 31 December 2021

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Directors

Neil French

Registered office

5 New Street Square, London EC4A 3TW

Company number

06870835

Auditors

BDO LLP, 55 Baker Street, London, W1U 7EU

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Canonical Group Limited

Strategic report
for the year ended 31 December 2021

The director presents the strategic report together with the audited financial statements for the year ended 31 December 2021.

Principal activities

Canonical Group Limited is part of the Canonical group of companies, headed by Canonical Holdings Limited ("CHL"). The Canonical group is the leading provider of services for Ubuntu deployments in the market. Ubuntu is a free, open-source platform for client, server and cloud computing. Since its launch in 2004, Ubuntu has become a natural choice for users of all kinds, from Fortune 500 companies to hardware makers, content providers, software developers, public cloud providers and individual technologists. The Canonical group is uniquely positioned to help customers make the most of Ubuntu.

Review of development, performance and position of the business

Ubuntu is the platform of choice for multi and hybrid cloud. Most cloud deployments, across most machines, containers and Kubernetes, and spanning both public and private clouds, run Ubuntu at their core. Most large-scale private clouds built with OpenStack are on Ubuntu, using both Kernel-based Virtual Machines ("KVM") and the pure-container Linux hypervisor for the world's fastest private clouds. The majority of new smart gateways, self-driving cars and advanced humanoid robots are running Ubuntu as well. Canonical Group Limited provides enterprise support and services for commercial users of Ubuntu.

In addition to producing Ubuntu, Canonical leads the development of key differentiating technologies which allow customers to operate efficiently at scale. Canonical leads the development of Juju, a multi-cloud orchestration system with powerful software modelling abstractions, and MAAS (Metal-as-a-Service), which provides unified tooling for building and managing data centres from the ground up. Further, Canonical leads the development of the snap universal Linux packaging system for secure, transactional device updates and app stores. Ubuntu Core is an all-snap, lightweight instantiation of Ubuntu, perfect for devices and appliances.

Building on these technologies, Canonical offers Canonical OpenStack and Canonical Kubernetes which harness the power of Juju for their deployment and operation. Both offer enterprise, telecom providers and Original Equipment Manufacturer's (OEMs) mechanisms to run multi and hybrid cloud infrastructure that's cost efficient to build and operate. Canonical consulting, training and managed services offerings mean companies can get started with their multi and hybrid cloud infrastructure in weeks.

To support its technology and go-to-market strategies, Canonical Group Limited continues to build world class global engineering, support and managed service operational teams. The combination of these highly skilled individuals and Canonical Group Limited's class leading management tools, positions the group to be a leading player in the markets where it competes.

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Review of development, performance and position of the business *(continued)*

Key performance indicators

As Canonical Group Limited carries out services on behalf of the Canonical group, this commentary reflects that of the combined group headed by Canonical Holdings Limited (the 'CHL Group').

In the year to 31 December 2021, revenue increased by $39.8m to $177.9m. The CHL Group continued to invest in human resources with average headcount moving from 654 to 705 compared to the previous fiscal year. Growth in revenue and improvements in expense efficiency led to operating profit improving from $18m to $43m.

The CHL Group measures its performance through the use of key performance indicators ('KPIs'). These KPIs are focused on revenue, various operating expense families, operating cash flow and average headcount. Given the nature of operations, the Board considers these most relevant and these KPIs form the basis of operational reports provided to the Board and management.

KPI – Canonical Holdings Limited	**2021**	2020
Revenue	$178m	$138m
Gross margin	83%	79%
Sales & Marketing expense (% of revenue)	18%	18%
Research & Development expense (% of revenue)	22%	25%
General & Administrative expense (% of revenue)	16%	20%
Cash flows from operating activities	$53m	$40.5m
Average headcount	705	654

The Board is satisfied with the overall performance as indicated by these metrics. The increase in revenue year on year reflects the increased investment in sales and marketing, and staffing levels in the CHL Group were thus increased to adequately support the additional performance obligations arising from the additional revenue. However, this growth ultimately allowed the CHL Group to realise various economies of scale, and operating margins have increased year on year.

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Financial risk management objectives and policies

The group only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loan from related parties and accrued expenses. The main purpose of these financial instruments is to support the cross-border financing needs of the group's operations.

The existence of these financial instruments exposes the group to a number of financial risks which are described in more detail below. The primary risks arising from the group's financial instruments are currency risk and credit risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

Principal risks and uncertainties

Currency risk - The group has regular exposure to currency translation risk. The majority of the group is denominated in USD, which is in line with the majority of sales which are also denominated in USD. However, expenses arise in a variety of currencies, with the highest volumes being in USD, GBP and EUR. This leads to a persistent trade of USD into GBP, EUR and other currencies to satisfy outstanding payables. This risk is reviewed regularly in conjunction with native currency working capital projections in order to maintain adequate currency reserves to meet operating requirements, which enables the group to take advantage of favourable spot rates when they arise.

Credit risk - The group's principal credit risk relates to recovery of amounts owed by trade debtors. This risk is managed by determining payment terms and a credit limit for customers based on third party credit references, payment history and other factors. This risk is reviewed regularly in conjunction with debtor ageing and bad debt expense.

Liquidity risk – Current and projected working capital demand is assessed on a monthly basis. The Group retains sufficient liquidity to support operations and make capital payments when they become due. Parent company loans are also available as required.

Global risk - The war between Ukraine and Russia has not significantly impacted the Group during 2021 as Group has very limited exposure to contracts in Ukraine and Russia. Management have taken steps to ensure compliance with payment restrictions and regulations affecting these regions. Management will monitor the impact of the increased cost of living and inflation on service delivery and pricing.

Future developments

The group's principal strategic initiatives during the year included ongoing improvement of the product offerings via the group's software roadmap, and continued development of the various global channel-led sales routes. In addition, the capital funding structure of the group is continuously monitored via a set of detailed financial forecasts. External funding has not been necessary given the group's rapid success in most markets. Going forward, both software and market initiatives will continue, and management will also continue to assess whether the group would benefit from financial partnering to boost growth, whilst ensuring that increased costs are limited to increased revenue under contract and prudent investments in additional growth.

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Section 172 Statement

Section 172 of the Companies Act 2006 requires Directors to take into consideration the interests of stakeholders and other matters in their decision making. The Directors continue to have regard to the interests of the Company's employees and other stakeholders, the impact of its activities on the community, the environment and the Company's reputation for good business conduct, when making decisions.

In this context, acting in good faith and fairly, the Directors consider what is most likely to promote the success of the Company for its members in the long term. We explain here how the Board engages with stakeholders. The Directors are fully aware of their responsibilities to promote the success of the Company in accordance with section 172 of the Companies Act 2006.

To ensure the Company was operating in line with good corporate practice, all Directors reflect on how the Company engages with its stakeholders and opportunities for enhancement. As required, the Director of Legal and Company Secretary will provide support to the Board to help ensure that sufficient consideration is given to issues relating to the matters set out in s172(1)(a)-(f). The Board regularly reviews the Company's principal stakeholders and how it engages with them.

In addition to the above, during 2021 the Board initiated the following specific activities, limited here to matters of strategic importance only:

Canonical invested in broadening the Extended Security Maintenance ('ESM') product in an effort to expand benefits for customers. Historically, ESM revenue has been lumpy, exhibiting a sawtooth pattern over a two-year cycle. In directing this investment, the Board asked for a stickier product that would affect a smoother stream of recurring subscription revenue with less extreme alternating churn and expansion characteristics. This initiative resulted in an all-time record year for ESM revenue in 2021, so more investments are planned given the strong early results.

The Board also directed Canonical management to make a material investment in attaching subscription and services up-sales to revenue coming through the public cloud channel, via joint go-to-market initiatives with Canonical's channel partners. This is a multiyear strategic initiative, but 2021 was already a record year for both channel revenue and cloud revenue, which both had revenue growth rates in excess of the company-wide average. Significant product launches are scheduled for 2022 which are expected to continue to drive these business lines.

Approval

This strategic report was approved on behalf of the Board on 30 January 2023.

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Director

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Canonical Group Limited

Directors' report
for the year ended 31 December 2021

The directors present their report together with the audited financial statements of the Group for the year ended 31 December 2021.

Results and dividends

The consolidated income statement is set out on page 7 and shows the profit for the year.

During the period, no dividends were paid (2020 – $Nil).

The directors do not recommend the payment of a final dividend.

Political Contributions

The Group made no political contributions during the financial year (2021 - $Nil).

Going concern

The Directors are confident of building on the successes of 2021 and expect to further improve financial performance in 2022. However, despite a successful 2021, with high levels of recurring revenue and cash in the business as of December 2021, the Directors have considered their response to the likely effects of the continued Covid-19 pandemic conditions and other systemic risks.

Canonical, as a remote-based software development and services provider, was, and remains, naturally well placed to deal with the challenges that Covid-19 have caused many other businesses. The vast majority of staff were already home based, and with the exception of some customer-centric physical delivery requirements, most customer service operations are remotely delivered. Thus, the impact of global lockdown on our operations has been minimal and is predicted to continue as such.

The ongoing conflict in Eastern Europe has had a negligible impact on operations. Canonical has terminated relationships with several customers, representing approximately one quarter of one percent of total revenue. Additionally, approximately 15 members of staff are based in and around the conflict zone, and their physical and financial security has become a priority for Canonical. While responding to this conflict, and especially the needs of team members, has consumed some time, the Directors have not noted a measurable impact on other operations.

The nature of Canonical's business and operational strategy have allowed the business to absorb rising input costs associated with the current inflationary environment globally. Canonical's most significant expense, by a large margin, is payroll related costs, and the company's strategy to hire globally diversifies the risk of rising local salaries even when there is widespread inflation. Coupled with strong revenue growth and economies of scale, Canonical has been able to remain highly competitive in the labour markets while increasing margins.

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Going concern *(continued)*

Rising interest rates have a limited direct impact on Canonical given the lack of debt on the balance sheet generally, and the Directors do not expect material headwinds on future revenue growth due to Canonical's product and pricing strategies. Additionally, given Canonical's general policy to bill in advance, the Directors are not expecting large increases in bad debts. The biggest risk the current macroeconomic environment poses to Canonical is reduced future renewal bookings caused by customer bankruptcies or consolidation, as the business currently enjoys both high recurring revenue relative to total revenue, and very high net retention rates.

The base case budget for the year ended 2022 involves a plan for the group to reach an underlying (i.e., after temporary travel cost savings) positive cash flow position (before financing activities), despite increasing annualised costs by almost 50%. The CHL Group has not received any cash funding since mid-2018, owing to the ability of the Directors to limit cost growth to less than sales growth.

Given the high level of planned, but unexecuted investment in people in the 2022 plan and 2023 long-range plan, there is a high level of immediate control available to the Directors in order to respond to the current uncertain economic environment and any additional crises that emerge. Furthermore, the level of committed, non-cancellable costs in the business is very low, being primarily comprised of relatively small rents and annual software licenses.

In assessing the risks posed to the going concern assumptions, a set of forecasts have been prepared that show the effects of various scenarios on the group in an effort to approximate a 95% confidence interval in the worst-case potential outcome. In particular, the Directors have considered the potential impacts that the various risks outlined above may have on the ability to achieve adequate levels of cash inflows, impacts to both committed and non-committed cost bases, and the various levers available to management to respond to such scenarios.

The forecasts prepared by the Directors include scenarios where the group's sales and renewal performance is significantly impacted, by an approximate 50% reduction in sales beyond the bounds of existing contractual obligations which can be comfortably sustained before enacting cost-cutting measures, as well as account for potential increases in default rates across our customer base. This level of reduction is not expected by management due to the nature of the services provided and due to the fact that a large portion of income throughout the going concern period has already been contracted with large customers that are expected to succeed in these economic conditions (e.g., public cloud operators with market capitalizations in excess of a trillion USD).

Based on the forecasts noted above, the various scenarios considered and the sensitivities applied thereto, including the CHL Group's inherent remote operating capabilities, and the high level of management's ability to reduce future costs rapidly, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future and is able to meet its liabilities as they fall due. Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

Directors

The directors of the company during the year and after the year-end were:

Neil French

Employee policies

Applications for employment by disabled persons are given full and fair consideration for all vacancies, having regard to their particular aptitudes and abilities. Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever appropriate.

Employee involvement

The company maintains an HR intranet site that provides employees with information on matters of concern to them as employees, including the financial and economic factors affecting the performance of the company. The intranet site includes functionality that enables employees to express views on matters that affect them anonymously and the company also undertakes staff surveys to canvas views on significant matters.

High engagement and employee well-being are key priorities for Canonical Group Limited.

Our human capital is the most valuable asset we have. The collective sum of the individual differences, life experiences, knowledge, inventiveness, innovation, self-expression, unique capabilities and talent that our team members invest in their work represents a significant part of not only our culture but our reputation and organisation's achievement as well.

We embrace and encourage our team members' differences in age, colour, disability, ethnicity, family or marital status, gender identity or expression, language, national origin, physical and mental ability, political affiliation, race, religion, sexual orientation, socio-economic status, veteran status, and other characteristics that make our team members unique.

Measuring engagement and satisfaction is something we take very seriously at Canonical as an engaged workforce is paramount to the success in delivering our organisational goals. Disengaged employees can have a detrimental impact to everything from customer service to sales, quality, productivity, retention and other critical business areas.

Engaged employees are more motivated, committed and focused on their work, their team and the future of the organisation they work for. We invest a lot of time and money in ensuring we are hiring the top people in the industry and we work hard to ensure we provide an environment to foster a culture of engaged employees.

Understanding what motivates and keeps people engaged is key to supporting retention and productivity. For this reason we collate feedback via the Canonical People Survey each year, providing team members with an opportunity to share candid, confidential feedback to the business on motivating factors and areas we could improve.

What motivates a person is individual, differing from financial rewards to social connections and involvement. There is no 'one size fits all' but the people survey provides us with an opportunity to understand the temperature of the company and to support a culture of transparency and open communication.

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Employee involvement *(continued)*

We partner with Best Companies, an industry leader in employee engagement practices. They are an independent research organisation that compiles the "Best Companies to Work For" lists which are published in The Sunday Times (UK only). The Best Companies Index (BCI) Measure, is widely recognised as the most academically rigorous measure of workplace engagement, providing a strong basis for industry benchmarking.

Part of the feedback within our latest engagement survey was an ask that we communicated HR updates more widely. To answer this, we decided to create the HR Newsletter to distribute and highlight pertinent information regarding the business.

Auditors

The current director has taken all the steps that he ought to have taken to make himself aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The director is not aware of any relevant audit information of which the auditors are unaware.

BDO LLP have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the annual general meeting.

Energy and carbon reporting

The 2018 Regulations require large unquoted companies that have consumed (in the UK), more than 40,000 kilowatt-hours (kWh) of energy in the reporting period to include energy and carbon information within their directors' (trustees') report, for any period beginning on or after 1 April 2019. Where a large company does not consume more than 40,000 kWh of energy in a reporting period, it qualifies as a low energy user and is exempt from reporting under these regulations. At the time these accounts were prepared, the information in order to assess this requirement was not available due to the way the company operates as well as the energy spent being included in a one off fee from the suppliers instead of being on a usage basis.

On behalf of the Board

DocuSigned by:
Neil French
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Director

30 January 2023

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Canonical Group Limited

Directors' responsibilities statement
for the year ended 31 December 2021

The Directors are responsible for preparing the annual report and consolidated financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and company 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 group and company and of the profit or loss of the group and company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK adopted international accounting standards, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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.

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

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 the Parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Canonical Group Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2021 which comprise Consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statements of changes in equity, consolidated statement of cash flows statement of financial position, company statement of financial position, company statement of changes in equity and notes forming part of the financial statements. and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK 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 are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least 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 Directors report and 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.

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Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of 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 the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

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

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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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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 Company and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those relating to the reporting framework, Companies Act 2006, data privacy and the relevant tax regulations including but not limited to, Corporate and VAT legislation, and Employment Taxes.

- We assessed how the Group and Company is complying with legal and regulatory frameworks by making enquiries of management and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes. We also reviewed the tax computations and returns and financial statements disclosures against the requirements of the relevant tax legislation and applicable accounting frameworks respectively.

- We communicated relevant legal and regulatory frameworks 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.

- We assessed the susceptibility of the Group and Company's financial statements to material misstatement, including how fraud might occur, by meeting with management to understand where they considered there was a susceptibility to fraud.

- Our audit planning identified fraud risks in relation to management override and risk of fraud in revenue recognition. We considered the processes that the Group and Company has established to address risks identified, or that otherwise prevent, deter and detect fraud, and how management monitors such processes.

- In response to the risk of management override of control, our procedures included journal entry testing, with a focus on unusual transactions based on our knowledge of the business which were agreed to supporting documentation where applicable; and enquiries with Management and those charged with governance regarding any instances of known or suspected fraud during the year. We challenged management's assessments, assumptions and evaluated data used as the basis for making estimates to assess whether judgements made in making accounting estimates are indicative of potential bias by management.

- With regards to the risk of fraud in revenue recognition, our procedures included assessing whether the revenue recognition policies adopted by the Group and Company comply with accounting standards. We sample tested sales transactions in year to supporting evidence such as contracts, evidence of delivery of the performance obligation and cash receipt from the customer. We checked a sample of revenue transaction amounts recognised around year end against the date the performance obligation was satisfied to check that revenue was recorded in the correct period and deferred revenue was appropriately calculated.

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.

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

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Use of our report

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

DocuSigned by:
BDO LLP
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Leighton Thomas (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London , UK

30 January 2023
BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Canonical Group Limited

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021

	Note	2021 US$'000	2020 US$'000 Restated
Revenue	5	**177 674**	137 228
Costs of sales		**(3 534)**	(1 798)
Gross profit		**174 140**	135 430
Other operating income		**5 082**	3 767
Administrative expenses		**(158 784)**	(134 257)
Other expenses		**-**	-
Operating profit	6	**20 438**	4 940
Finance income		**2**	1
Finance costs	8	**(240)**	(166)
Profit before tax		**20 200**	4 775
Income tax	9	**6 553**	(869)
Profit for the year		**26 753**	3 906
Other Comprehensive Income		**-**	-
Total Comprehensive Income for the Year		**26 753**	3 906

All amounts relate to continuing activities.
There was no other comprehensive income in the current or prior year.
The accompanying notes form an integral part of these financial statements.
The details of restatements are provided in note 5 to the Appendix (page 79)

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Canonical Group Limited

Consolidated statement of financial position at 31 December 2021

	Note	2021	2020 Restated	1-Jan- Restated
		US$'000	US$'000	US$'000
Non-current assets				
Property, plant and equipment	10	**4 414**	3 647	3 066
Intangible assets	11	**1 987**	2 178	2 020
Right of use assets	15	**3 128**	3 790	5 958
Lease Receivable	15	**-**	362	715
Deferred tax asset	17	**8 091**	-	-
Total non-current assets		**17 620**	9 977	11 759
Current assets				
Inventories		**-**	-	88
Contract asset	13	**8 410**	5 192	5 390
Contract costs	14	**479**	314	292
Trade and other receivables	16	**28 595**	20 442	373 146
Cash and cash equivalents		**62 785**	45 076	10 419
Total current assets		**100 269**	71 024	389 335
Total assets		**117 889**	81 001	401 094
Non-current liabilities				
Deferred tax liabilities	17	**-**	-	-
Contract Liabilities	23	**3 841**	2 195	-
Lease liabilities	18	**2 199**	1 727	4 059
Total non-current liabilities		**6 040**	3 922	4 059
Current liabilities				
Trade and other payables	19	**94 435**	98 148	25 062
Contract liabilities	23	**39 955**	27 794	21 595
Current tax liability		**-**	-	-
Lease liabilities	18	**1 270**	2 340	2 223
Short Term Loans Payable		**-**	-	404 434
Total current liabilities		**135 660**	128 282	453 314
Total liabilities		**141 700**	132 204	457 373
Net assets/(liabilities)		**(23 811)**	(51 203)	(56 279)
Equity				
Share capital	20	**-**	-	-
Share premium account		**-**	-	-
Capital Contribution		**3 455**	2 816	1 647
Retained earnings		**(27 266)**	(54 019)	(57 926)
Total equity		**(23 811)**	(51 203)	(56 279)

The accompanying notes form an integral part of these financial statements.
The financial statements of Canonical Group Limited, registered number 06870835 were approved by the Board of Directors and authorised for issue on 30 January 2023
The details of restatements are provided in note 5 to the Appendix (page 79).

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Canonical Group Limited

Consolidated statement of changes in equity
For the year ended 31 December 2021

	Share capital US$'000	Share premium US$'000	Capital Contribution US$'000	Retained earnings* US$'000	Total equity US$'000
Balance at 1 January 2020	-	-	**1 647**	**(57 926)**	**(56 279)**
Profit for the year	-	-	-	3 907	**3 907**
Total comprehensive income	-	-	-	3 907	**3 907**
Transactions with owners:					
Share based payments	-	-	1 169	-	**1 169**
Total transactions with owners	-	-	1 169	-	**1 169**
Balance at 31 December 2020	-	-	**2 816**	**(54 019)**	**(51 203)**
Balance at 1 January 2021	-	-	**2 816**	**(54 019)**	**(51 203)**
Profit for the year	-	-	-	26 753	26 753
Total comprehensive income	-	-	-	26 753	**26 753**
Transactions with owners:					
Share based payments	-	-	639	-	639
Deferred tax on share based payments recognised within equity	-	-	-	-	-
Total transactions with owners	-	-	639	-	**639**
Balance at 31 December 2021	-	-	**3 455**	**(27 266)**	**(23 811)**

The accompanying notes form an integral part of these financial statements.
The details of restatements are provided in note 5 to the Appendix (page 79).

Canonical Group Limited

Consolidated statement of cash flows for the year ended 31 December 2021

	Note	2021	2020 Restated
		US$'000	US$'000
Operating activities:			
Profit for the year		**26 753**	3 907
Adjustments for:			
Finance income		**(2)**	(2)
Finance costs		**240**	167
Share based payment expenses	22	**639**	1 169
Tax charge		**(6 553)**	869
Depreciation and amortisation		**5 871**	4 503
Operating cash flow before movement in working capital			
Decrease in inventories		**-**	88
(Increase)/decrease in trade and other receivables		**(13 620)**	352 465
Increase/(decrease) in trade and other payables		**10 094**	(322 951)
Cash generated by operations		**23 422**	40 215
Income taxes received / (paid)		**322**	(455)
Interest paid		**-**	-
Net cash flow from operating activities		**23 744**	39 760
Investing activities:			
Purchase of property, plant and equipment		**(3 080)**	(2 191)
Capitalisation of development costs		**(555)**	(883)
Lease Income received		**362**	353
Net cash used in investing activities		**(3 273)**	(2 721)
Financing activities:			
Payment of Lease Liabilities (Principal)		**(2 524)**	(2 216)
Payment of Lease Liabilities (Interest)		**(238)**	(166)
Net cash used in financing activities		**(2 762)**	(2 382)
Net increase in cash and cash equivalents		**17 709**	34 657
Cash and cash equivalents at 1 January	21	**45 076**	10 419
Cash and cash equivalents at 31 December		**62 785**	45 076

The accompanying notes form an integral part of these financial statements.
The details of restatements are provided in note 5 to the Appendix (page 79).

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Canonical Group Limited

Company statement of profit or loss and other comprehensive income for the year ended 31 December 2021

	Note	2021	2020
			Restated
		US$'000	US$'000
Revenue	5	**177 562**	136 967
Costs of sales		**(3 499)**	(1 789)
Gross profit		**174 063**	135 178
Other operating income		**1 497**	1 266
Administrative (expenses)/income		**(166 102)**	(136 770)
Other operating expenses		**-**	-
Operating profit	6	**9 458**	(326)
Finance income		**2**	-
Finance costs	8	**(161)**	(96)
Profit before tax		**9 299**	(422)
Income tax expense	9	**6 647**	(191)
Profit for the year		**15 946**	(613)

All amounts relate to continuing activities.
There was no other comprehensive income in the current or prior year.
The accompanying notes form an integral part of these financial statements.
The details of restatements are provided in note 5 to the Appendix (page 79).

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Canonical Group Limited

Company statement of financial position at 31 December 2021

	Note	2021	2020 Restated	1-Jan-2020 Restated
		US$'000	US$'000	US$'000
Non-current assets				
Plant, Property and Equipment	10	**3 364**	2 319	1 003
Intangible assets	11	**-**	-	-
Right of use assets	15	**2 382**	2 683	4 582
Lease Receivable	15	**-**	362	715
Long Term Loans Receivable		**-**	-	-
Investments in Subsidiaries	12	**710**	710	864
Deferred tax		**7 026**	-	-
Total non-current assets		**13 482**	6 074	7 164
Current assets				
Inventories		**-**	-	88
Contract asset	13	**8 401**	5 180	5 405
Contract costs	14	**-**	-	-
Trade and other receivables	16	**27 203**	20 252	350 276
Short Term Loans Receivable		**455**	-	-
Cash and cash equivalents		**54 174**	43 580	9 620
Total current assets		**90 233**	69 012	365 389
Total assets		**103 715**	75 086	372 553
Non-current liabilities				
Deferred tax liabilities	12	**-**	-	-
Contract Liabilities	23	**3 841**	2 195	-
Lease liabilities	18	**1 813**	948	2 917
Total non-current liabilities		**5 654**	3 143	2 917
Current liabilities				
Trade and other payables	19	**119 642**	120 629	19 985
Contract liabilities	23	**39 880**	27 794	21 447
Current tax liability		**-**	-	-
Lease liabilities	18	**850**	1 976	1 991
Short Term Loans Payable		**-**	-	404 434
Total current liabilities		**160 372**	150 399	447 857
Total liabilities		**166 026**	153 542	450 774
Net assets / (liabilities)		**(62 311)**	(78 456)	(78 221)
Equity				
Share capital	20	**-**	-	-
Share premium		**-**	-	-
Capital Contribution		**1 069**	870	492
Retained earnings		**(63 380)**	(79 326)	(78 713)
Total equity		**(62 311)**	(78 456)	(78 221)

The accompanying notes form an integral part of these financial statements.
The financial statements of Canonical Group Limited, registered number 06870835 were approved by the Board of Directors and authorised for issue on 30 January 2023.
The details of restatements are provided in note 5 to the Appendix (page 79).

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Director Mil French

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Canonical Group Limited

Company statement of changes in equity
for the year ended 31 December 2021

	Share capital US$'000	Share premium US$'000	Capital Contribution* US$'000	Retained earnings* US$'000	Total equity US$'000
Balance at 1 January 2020	**-**	**-**	**492**	**(78 713)**	**(78 221)**
Loss for the year	-	-	-	(613)	(613)
Total comprehensive loss	**-**	**-**	**-**	(613)	(613)
Transactions with owners:					
Share based payments	-	-	378	-	**378**
Total transactions with owners	**-**	**-**	**378**	**-**	**378**
Balance at 31 December 2020	**-**	**-**	**870**	**(79 326)**	**(78 456)**
Balance at 1 January 2021	**-**	**-**	**870**	**(79 326)**	**(78 456)**
Profit for the year	-	-	-	15 946	15 946
Total comprehensive income	**-**	**-**	**-**	**15 946**	**15 946**
Transactions with owners:					
Share based payments	-	-	199	-	199
Deferred tax on share based payments recognised within equity	-	-	-	-	-
Total transactions with owners	**-**	**-**	**199**	**-**	**199**
Balance at 31 December 2021	**-**	**-**	**1 069**	**(63 380)**	**(62 311)**

The accompanying notes form an integral part of these financial statements.
*The details of restatements are provided in note 5 to the Appendix (page 79).

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Canonical Group Limited

Company statement of cash flows
for the year ended 31 December 2021

	Note	2021	2020 Restated
		US$'000	US$'000
Operating activities:			
Profit for the year		**15 946**	(613)
Adjustments for:			
Finance income		(2)	-
Finance costs		161	96
Share based payment expenses	22	199	378
Tax charge		(6 647)	191
Depreciation and amortisation		3 755	2 874
Operating cash flow before movement in working capital			
Decrease in inventories		-	88
(Increase)/decrease in trade and other receivables		(11 629)	330 249
(Decrease)/increase in trade and other payables		12 748	(295 440)
Cash generated by operations		**14 531**	37 823
Income taxes received		623	-
Interest paid		-	
Net cash flow from operating activities		**15 154**	37 823
Investing activities:			
Purchase of property, plant and equipment		(2 614)	(2 291)
Acquisition of intangible assets		-	-
Decrease in investments in subsidiaries		-	154
Lease Income		362	353
Net cash used in investing activities		**(2 252)**	(1 784)
Financing activities:			
Payment of Lease Liabilities – Principal		(2 147)	(1 983)
Payment of Lease Liabilities – Interest		(161)	(96)
Net cash used in financing activities		**(2 308)**	(2 079)
Net increase in cash and cash equivalents		10 594	33 960
Cash and cash equivalents at 1 January	21	43 580	9 620
Cash and cash equivalents at 31 December		**54 174**	43 580

The accompanying notes form an integral part of these financial statements.
The details of restatements are provided in note 5 to the Appendix (page 79).

1. General Information

Canonical Group Limited is a private company, limited by shares, incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on the contents page and the nature of the group's operations, and its principal activities are set out in the directors' report. The 2021 consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

Canonical Group adopted IFRS on 1 January 2020. In this context, the accounting policies applied in these financial statements are consistent with those adopted in preparing the IFRS opening consolidated balance sheet at 1 January 2020, as well the consolidated financial statements at 31 December 2020, as stated in accordance with IFRS and presented in the Appendix attached to these notes to which reference should be made. Reconciliations between profit or loss and equity under previous GAAP (FRS 102) to profit or loss and equity under IFRS for the periods shown as comparatives, as required by IFRS 1 'First-time Adoption of IFRS' together with related explanatory notes, are included in this Appendix.

2. Adoption of new and revised Standards

a. New and amended IFRS Standards that are effective for the current year

There were no new standards or amendments or interpretations to existing standards that became effective during the year that were material to the Group.

No new standards, amendments or interpretations to existing standards having an impact on the financial statements that have been published and that are mandatory for the Group's accounting periods beginning on or before 1 January 2021, or later periods, have been adopted early.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

• A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
• Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
• Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

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

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

2. Adoption of new and revised Standards *(continued)*

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

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 1 April 2021.

However, the Group has not received Covid-19-related rent concessions but plans to apply the practical expedient if it becomes applicable within allowed period of application

New standards and interpretations not applied

The following new standards, amendments and interpretations have not been adopted in the current year.

International Financial Reporting Standard (IFRS/IAS)	Effective date	To be adopted by the Group
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022	1 January 2022
Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022	1 January 2022
Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022	1 January 2022
Annual Improvements to IFRS Standards 2018–2020	1 January 2022	1 January 2022
Accounting Estimates - Amendments to IAS 8	1 January 2023	1 January 2023
Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2	1 January 2023	1 January 2023
Amendments to IAS 1: Classification of Liabilities as Current or Non-current	1 January 2023	1 January 2023

The Group has reviewed the impact of these new accounting standards and amendments and believes the impact is not material to the Group's financial statements.

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3. Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with IFRS and on the historical cost basis, at the end of each reporting period, as explained in the accounting policies below. The financial statements have been prepared using the US Dollar as the presentation currency, due to the fact that the US Dollar is the functional currency of the company. The year-end exchange rate between US Dollar and Sterling was 1.3514. (2021 - 1.3652). Amounts are rounded to the nearest thousand, unless otherwise stated.

The financial statements are presented in accordance with IAS 1 "Presentation of Financial Statements."

The principal accounting policies adopted in preparation of the financial statements are set out below. These policies have been applied consistently across all the years presented, unless otherwise stated.

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgment in applying the Group's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 4.

Basis of consolidation

The group financial statements consolidate the financial statements of Canonical Group Limited and all its subsidiary undertakings as at 31 December 2021. The group uses the acquisition method of accounting to consolidate the results of the subsidiary undertakings unless otherwise stated.

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affects its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company. Total comprehensive income of the subsidiaries is attributed to the owners of the Company.

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3. Significant accounting policies *(continued)*

Going concern

The Directors are confident of building on the successes of 2021 and expect to further improve financial performance in 2022. However, despite a successful 2021, with high levels of recurring revenue and cash in the business as of December 2021, the Directors have considered their response to the likely effects of the continued Covid-19 pandemic conditions and other systemic risks.

Canonical, as a remote-based software development and services provider, was, and remains, naturally well placed to deal with the challenges that Covid-19 have caused many other businesses. The vast majority of staff were already home based, and with the exception of some customer-centric physical delivery requirements, most customer service operations are remotely delivered. Thus, the impact of global lockdown on our operations has been minimal and is predicted to continue as such.

The ongoing conflict in Eastern Europe has had a negligible impact on operations. Canonical has terminated relationships with several customers, representing approximately one quarter of one percent of total revenue. Additionally, approximately 15 members of staff are based in and around the conflict zone, and their physical and financial security has become a priority for Canonical. While responding to this conflict, and especially the needs of team members, has consumed some time, the Directors have not noted a measurable impact on other operations.

The nature of Canonical's business and operational strategy have allowed the business to absorb rising input costs associated with the current inflationary environment globally. Canonical's most significant expense, by a large margin, is payroll related costs, and the company's strategy to hire globally diversifies the risk of rising local salaries even when there is widespread inflation. Coupled with strong revenue growth and economies of scale, Canonical has been able to remain highly competitive in the labour markets while increasing margins.

Rising interest rates have a limited direct impact on Canonical given the lack of debt on the balance sheet generally, and the Directors do not expect material headwinds on future revenue growth due to Canonical's product and pricing strategies. Additionally, given Canonical's general policy to bill in advance, the Directors are not expecting large increases in bad debts. The biggest risk the current macroeconomic environment poses to Canonical is reduced future renewal bookings caused by customer bankruptcies or consolidation, as the business currently enjoys both high recurring revenue relative to total revenue, and very high net retention rates.

The base case budget for the year ended 2022 involves a plan for the group to reach an underlying (i.e., after temporary travel cost savings) positive cash flow position (before financing activities), despite increasing annualised costs by almost 50%. The CHL Group has not received any cash funding since mid-2018, owing to the ability of the Directors to limit cost growth to less than sales growth.

Given the high level of planned, but unexecuted investment in people in the 2022 plan and 2023 long-range plan, there is a high level of immediate control available to the Directors in order to respond to the current uncertain economic environment and any additional crises that emerge. Furthermore, the level of committed, non-cancellable costs in the business is very low, being primarily comprised of relatively small rents and annual software licenses.

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3. Significant accounting policies *(continued)*

Going concern

In assessing the risks posed to the going concern assumptions, a set of forecasts have been prepared that show the effects of various scenarios on the group in an effort to approximate a 95% confidence interval in the worst-case potential outcome. In particular, the Directors have considered the potential impacts that the various risks outlined above may have on the ability to achieve adequate levels of cash inflows, impacts to both committed and non-committed cost bases, and the various levers available to management to respond to such scenarios.

The forecasts prepared by the Directors include scenarios where the group's sales and renewal performance is significantly impacted, by an approximate 50% reduction in sales beyond the bounds of existing contractual obligations which can be comfortably sustained before enacting cost-cutting measures, as well as account for potential increases in default rates across our customer base. This level of reduction is not expected by management due to the nature of the services provided and due to the fact that a large portion of income throughout the going concern period has already been contracted with large customers that are expected to succeed in these economic conditions (e.g., public cloud operators with market capitalizations in excess of a trillion USD).

Based on the forecasts noted above, the various scenarios considered and the sensitivities applied thereto, including the CHL Group's inherent remote operating capabilities, and the high level of management's ability to reduce future costs rapidly, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future and is able to meet its liabilities as they fall due. Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

Revenue recognition

The Group recognises revenue from the following services which it offers to its customers:

- Subscriptions
- Professional Services

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when benefits arising from contractual performance obligations are transferred to a customer.

The Group has elected to use the transition exemptions in IFRS 1:D34 to:

- Not restate contracts that were completed before 1 January 2020 (the Date of Transition); and
- Not restate contracts that start and end within the same annual reporting period.
- The effect of using this expedient is 2020: $223 000 and transition date: $179 000.

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3. Significant accounting policies *(continued)*

Revenue recognition *(continued)*

The Group applies the IFRS 15 using a five-step model as described below:

1. Identify the contract(s) with a customer:

The Group accounts for a contract with a customer when the parties to the contract have approved the contract, the company can identify each party's rights regarding the services to be transferred and the related payment terms, the contract has commercial substance and the customer's ability to pay has been determined as probable.

2. Identify the performance obligations in the contract:

The Group assesses all the services that have been promised to the customer, identifying as a performance obligation those that are distinct. As an exception, the Group recognises as a single performance obligation a series of distinct services that are substantially the same and that have the same pattern of transfer to the customer. The description of performance obligations includes:

- Subscriptions – extended security maintenance and support subscription services to a customer throughout the period of the contract or as defined in the contract. Each subscription service is recognised as a separate performance obligation.
- Professional services – delivery of consulting services to the customer where each consulting service is recognised as a separate performance obligation.

Additionally, the Group determines whether it is a principal or an agent for each specified good or service promised to the customer. The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer. The Group does not have any transactions in which it has been identified as the agent.

3. Determine the transaction price:

The Group determines the transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised services to a customer. This excludes reseller discounts which are paid to resellers as part of a contracted program with them. Reseller Discounts are measured in accordance with the contractual terms of each individual reseller contract. Under IFRS 15, it has been determined that Canonical is acting as a principal under the reseller contracts. As such, revenue should be recognised on a gross basis (i.e., the price charged to the End User as set out in the usage statements provided by the reseller) evenly over the service period. The reseller's commission will be accounted for as an S&M expense.

The Group does not enter any contracts in which it needs to consider the effects of variable consideration, such as volume rebates.

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3. Significant accounting policies *(continued)*

3. Determine the transaction price (step 3). *(continued)*

Consideration payable to a customer is recognised as a reduction of the transaction price, unless the payment to the customer is in exchange for a distinct good or service.

Significant financing component in the contract may exist when the payment date does not coincide with the moment the services are transferred to the customer. The Group receives most consideration in advance and therefore, for contracts which are expected to exceed one year the Group has considered whether there has been a significant financing component. As the advance consideration received does not impact the pricing of the transaction, the group has concluded there exists no element of significant financing component.

The Group does typically not extend customer payment terms beyond 30 days.

4. Allocate the transaction price to the performance obligations:

At contract inception, the group allocates the transaction price to the performance obligations in the contract in an amount that depicts the amount of consideration to which it expects to be entitled in exchange for transferring the promised services to the customer. For contracts with more than one performance obligations, the Group allocates the transaction price on a relative stand-alone selling price basis.

5. Recognise revenue:

The Group recognises revenue when (or as) it satisfies each performance obligation by transferring a promised good or service to a customer. For each performance obligation, the Group determines if control has been transferred at a point in time or over time.

For each performance obligation satisfied over time, the company recognises revenue over time by measuring the progress towards complete satisfaction of that performance obligation. Subscriptions and professional services are transferred over time and revenue is recognised using their appropriate measure of progress, either on a straight-line basis or using a percentage completion. There is a small portion of revenue recognised at a point in time due to the nature of the delivery of the service.

Reseller Discounts: The Group uses third party resellers for a portion of its revenue contracts, for which a reseller commission is given to the reseller to assist in selling the contract. These costs are associated with the costs of the contract, and the discount is included in gross revenue recognition, with the associated cost being recognised in cost of sales.

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3. Significant accounting policies *(continued)*

Contract assets and Contract liabilities

The Group presents accrued and deferred revenue as contract assets and liabilities respectively. Contract assets and liabilities arise due to a timing delay between the revenue recognised on a performance obligation and the income received from the customer at a point in time. Contract assets are only presented as rights to consideration before that right becomes unconditional and occur due to a small portion of customers not being billed in advance. Contract assets are the result of revenue recognised exceeding the payments received while a contract liability is the result of payments received exceeding the revenue recognised. The company derecognises the contract assets/liabilities and recognises revenue when it satisfies its performance obligation.

Contract costs

Sales Commissions: The Group capitalizes sales commission costs when they are incremental and, if expected to be recovered, they are amortized over the customer life or pattern of revenue for the related contract. The Group applies a practical expedient to expense sales commissions costs as incurred where the related benefit is one year or less. The effect of using this expedient is $179 000. (2021 - $223 000)

Foreign currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in US dollars (USD), which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the Group entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period.

3. Significant accounting policies *(continued)*

Investments in subsidiaries

Subsidiaries are all those companies over which Canonical Holdings has control. The company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Power is defined as the existing rights that give the current ability to direct these entities' activities that most significantly affect these returns.

Investments in subsidiaries are initially measured at cost, which is subsequently adjusted for impairment. The impairment losses are reversed to the extent of the original cost if the underlying reasons no longer exist in future years. For additional information about the impairment test, reference should be made to the relevant note.

Property, plant, and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation is calculated to write down the cost, with nil residual value, of all tangible fixed assets over their expected useful lives. The rates applicable are:

Computer equipment	- over 30 months straight line
Fixtures and fittings	- over 30 months straight line
Leasehold improvements	- over the term of the lease

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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3. Significant accounting policies *(continued)*

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above until the first version (1.0) of the product is being released. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Amortisation policy

Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets. Intangibles assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Capitalised development costs - straight line over 2 years from the moment the version 1.0 of the product is being released.

The basis for choosing these useful lives is with reference to the years over which they can continue to generate value for Canonical.

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3. Significant accounting policies *(continued)*

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

Defined contribution schemes

Contributions to defined contribution pension schemes are charged to the consolidated statement of comprehensive income in the year to which they relate.

Taxation

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

Current tax

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

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.

Companies within the group may be entitled to claim special tax allowances in relation to qualifying research and development expenditure, e.g. R&D tax credits. The Group accounts for such allowances as tax credits which means they are recognised when it is probable that the benefit will flow to the group and that the benefit can be reliably measured.R&D tax credits are recognised within the administrative expenses reducing the expenditure incurred on the R&D project to which the credit relates. To the extent the amounts due in respect of them are not settled by the balance sheet date, they reduce current tax payable or are held as a receivable.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, a deferred tax liability is not recognised if the temporary difference arises from the initial recognition of goodwill.

3. Significant accounting policies *(continued)*

Deferred tax *(continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax.

Financial Instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables that do not have a significant financing component which are measured at transaction price. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. Significant accounting policies *(continued)*

Financial Instruments *(continued)*

A. Financial assets

Purchases or sales of financial assets are recognised and derecognised on a trade date basis. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at amortised cost, depending on the classification of the financial assets.

(i) Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

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

All financial assets are measured at amortised cost. Financial assets primarily include trade receivables, and cash and cash equivalents.

(ii) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

(iii) Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

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3. Significant accounting policies *(continued)*

Financial Instruments *(continued)*
The Group always recognises lifetime expected credit losses (ECL) for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

All Intercompany Short Term Loans within the Group are repayable on demand, and therefore, IFRS 9 Section B applies when considering the recoverability and impairment of these loans. In line with Paragraph B5.5.38 of IFRS 9 Canonical applies the assumption that the loan is demanded at the reporting date (31 December 2021) and thus will reflect any impairment losses that may be incurred at this date.

- The following aspects are taken into account by the Group when performing these assessments:
- The probability of default – the likelihood that the borrower would not be able to repay in the payment period,
- The loss given default – the loss that occurs if the borrower is unable to repay in that payment period
- The exposure at default – the outstanding balance at the reporting date.

For each Intercompany Short Term Loan, the Group will assess the borrowers ability to repay the loan today if demanded at the reporting date looking at liquid assets on hand at this date. Should it be determined that the borrower does not have enough liquid assets on hand to repay the loan today, the probability and loss given of default will increase, the Group will allow the borrower a "time to pay" strategy and determine the recovery period in which the borrower has to repay the outstanding balance. The effects of discounting in a "time to pay" strategy would be nil due to the loans being interest free.

(iv) Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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3. Significant accounting policies *(continued)*

B. Financial liabilities and equity

(i) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

(ii) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

(iii) Share capital

Financial instruments issued by the group are classified as equity only to the extent that they not meet the definition of a financial liability or financial asset. The group's ordinary shares are classified as equity instruments.

(iv) Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method. Financial liabilities primarily consist of trade payables and other liabilities.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

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3. Significant accounting policies *(continued)*

Financial Instruments *(continued)*

(v) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification is recognised in profit or loss as the modification gain or loss within other gains and losses.

Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) by applying the practical expedient and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise.

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable.
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.
- The amount expected to be payable by the lessee under residual value guarantees.
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

3. Significant accounting policies *(continued)*

Leases *(continued)*

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

- The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:
- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used.
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the lease term. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has applied this practical expedient. For a contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

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3. Significant accounting policies *(continued)*

Share-based payments

The immediate parent ie Canonical Holdings Limited (CHL) operates two equity-settled share based remuneration schemes for staff of its subsidiaries.

The first scheme is open to all global staff members who are eligible to participate in the scheme, the only vesting condition being that the individual remains contracted with the group over the vesting period. The options vest 25% immediately upon grant, and subsequently in equal tranches over the three year remaining vesting period. The exercise price of all options outstanding at the end of the period was $670.

The second scheme ie Restricted Share Units (RSU's) is limited to senior management and differs in that the vesting period is 4 years from grant and the exercise price is nil. The fair value of each RSU is the market price of one common share of CHL on the date of grant. The RSUs granted to date have graded vesting schedules of four years.

In these financial statements, the awards, in proportion to the recipients who are employees in said subsidiary, are treated as an equity-settled share-based payment, as the subsidiaries do not have an obligation to settle the award. An expense for the grant date fair value of the award is recognised over the vesting period, with a credit recognised in equity. The credit is treated as a capital contribution, as the parent is compensating the subsidiaries' employees with no cost to the subsidiaries as there is no expectation to recharge the cost.

For option awards, grant date fair value is determined under the option-pricing model (Black-Scholes-Merton) and for awards other than option awards, grant date fair value is determined on the basis of fair market value of a Company's share on the date of grant of such awards.

Each employee share option converts into one ordinary share of CHL on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from both the date of vesting and an exit event, to the date of their expiry.

Options are exercisable at a price greater than the fair market value of CHL's shares on the date of grant. The vesting period is three years with 25% vesting immediately upon grant. If the options remain unexercised after a period of ten years from the date of grant, the options expire. If the employee cease to be in continuous service it shall be entitled to retain the vested proportion of the options, which shall be exercised on any later exit event, subject to the Rules. Any unvested proportion of the option shall lapse. However, if the employee cease to be in continuous service as a bad leaver the option (whether or not Vested) shall lapse.

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value are presented in note 22.

At each reporting date, CHL revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to capital contribution.

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4. Critical accounting judgements and key sources of estimation uncertainty

In applying the Group's accounting policies, which are described in note 3, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are presented separately below), 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 financial statements

Revenue Stage of Completion

Determine the stage of completion in respect of revenue recognised for professional services. Factors considered include milestone achievements and level of staff time incurred per project as a proportion of the total expected time. Stage of completion is determined on a monthly basis by the project managers of their relevant contracts, looking at the stage of completion of each project in the contract and the required tasks which are performed in completion of each project. These include tasks such as creation of the project, testing phases, training and certification.

Capitalised Development Costs

The Group has exercised judgement in determining whether development expenditure can be capitalised as intangible assets. Canonical recognizes intangible assets if, and only if, it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and the cost of the asset can be measured reliably. The Group carries out an internal review of products at various stages of research, development and maintenance, selected products to be capitalised and the timing of the development phase.

Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

Being an open source software developer, the Group's development efforts are generally available to the community as soon as the first version of the product is being released in the market (v1.0) and before official release, and the availability of source code results in immediate benefit to the community and enhances the value of the Company's entire suite of products.

- The Group's life cycle of development is outlined below:
- Evaluating alternative means of achieving specified requirements
- Selecting and documenting an initial conceptual design and its purpose
- Developing structure of the design and the necessary steps and processes
- Developing, coding and testing in accordance with the product design
- Documenting and describing each portion of the product and the process
- Altering the conceptual design & identifying incompatible design elements
- Analysing and incorporating test results into the final product
- Releasing version 1.0 of the product

4. Critical accounting judgements and key sources of estimation uncertainty

Deferred Tax Asset Recognition

At the reporting date, the Group has unused tax losses of US$55.5 million (2020: US$63.1 million) available for offset against future profits. The group is profitable in 2021 and the return to profit resulted in the use of £5.6m (US$7.6m) of the brought forward losses. The use of losses is restricted to 50% of taxable profits over £5m (US$6.8m) resulting in a spreading of losses across periods where brought forward losses are over £5m (US$6.8m). A deferred tax asset has been recognised in respect of US$31million (2020: US$0million) of the remaining losses. The $6.4m deferred tax asset on losses has been recognised on the basis that the Group will continue to make profits in the near future against which the losses can be used. In order to support the recognition of the $6.4m deferred tax asset on losses, modelling was undertaken to review the recovery period of the deferred tax asset. The modelling was based on management forecasts for the following 4 years and showed that the deferred tax asset on losses is expected to be recovered by 2025. A plausible downside case was also modelled which included reduced sales volumes and margins; this downside case modelling showed that the deferred tax asset on losses would be recovered by 2025 also. No deferred tax asset has been recognised in respect of the remaining US$24.5 million (2020: US$63.1 million) as it is not considered probable that there will be future taxable profits available. Other losses may be carried forward indefinitely.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may 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

Determination of the incremental borrowing rate used to measure lease liabilities:

The Group determines the incremental borrowing rate on a per a lease basis. If the incremental borrowing rate is implicit in the lease and readily available, this will be used. Otherwise, the incremental borrowing rate (IBR) is used based on the prime lending rate of the country the lease property is placed in, the term of the lease as well as other factors. The assessment of this is done at inception of a new lease for the lease period (see Note 14). The Group has performed a sensitivity test over the incremental borrowing rates used which show that a 1% change in the IBR result in a $74 000 movement in the Group's total lease liability and right of use asset.

Share Based Payments

Share based payments are equity-settled plans, for which the fair value of the equity instruments granted are used to measure the value of the payments. This fair value is estimated on measurement date of the grants, by taking into account various valuation techniques. This includes enterprise value and revenue multiples, which have been determined to be the most accurate method at each date using the market approach for company valuation.

Canonical Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2021 *(continued)*

5. Revenue

The Group derives its revenue from contracts with customers for the transfer of services over time and at a point in time in the following major product lines.

Detailed below, revenue from services is analysed by geographical segment.

	Group 2021 US$'000	Group 2020 US$'000	**Company 2021 US$'000**	Company 2020 US$'000
United States of America	**137 884**	108 720	**137 878**	108 550
Europe	**18 928**	13 172	**18 928**	13 172
Rest of the world	**20 862**	15 336	**20 756**	15 245
Total	**177 674**	137 228	**177 562**	136 967

Disaggregation of revenue

	Group 2021 US$'000	Group 2020 US$'000	**Company 2021 US$'000**	Company 2020 US$'000
Subscription revenue	**132 179**	102 077	**132 143**	101 902
Professional services	**45 495**	35 151	**45 419**	35 065
Total	**177 674**	137 228	**177 562**	136 967

	Group 2021 US$'000	Group 2020 US$'000	**Company 2021 US$'000**	Company 2020 US$'000
External revenue by timing of revenue				
Services transferred at a point in time	**6 333**	4 953	**6 333**	4 953
Services transferred over time	**171 341**	132 275	**171 229**	132 014
Total	**177 674**	137 228	**177 562**	136 967

Canonical Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2021 *(continued)*

6. Operating Profit/(Loss)

Profit for the year has been arrived at after charging/(crediting):

	Group 2021 US$'000	Group 2020 US$'000	**Company 2021 US$'000**	Company 2020 US$'000
Net foreign exchange losses	822	451	908	1 407
Depreciation of property, plant and equipment	2 312	1,610	1 569	871
Depreciation of right-of-use assets	2 588	2 168	2 186	1 899
Amortisation of capitalised development costs	747	725	-	-
Employee benefit expense (note 7)	70 785	66 678	10 611	8 101
Loss allowance on trade receivables (note 16)	188	(66)	188	(66)
Fees payable to the Group's auditor for:				
- the audit of the Group and its subsidiaries	305	128	271	126
Fees payable to the Group's auditor for tax services	2	2	2	2

Canonical Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2021 *(continued)*

7. Staff costs

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

	Group 2021 Number	Group 2020 Number	**Company 2021 Number**	Company 2020 Number
Software development	**152**	141	**16**	8
Technical and sales support	**212**	224	**50**	43
Operations	**44**	45	**24**	23
Other	**36**	31	**6**	4
	444	441	**96**	78

Their aggregate remuneration comprised:

	Group 2021 US$'000	Group 2020 US$'000	**Company 2021 US$'000**	Company 2020 US$'000
Wages and salaries	**60 653**	56 534	**9 093**	6 780
Social security costs	**5 000**	4 578	**580**	384
Other pension costs	**4 493**	4 397	**739**	560
Share Based Payments	**639**	1 169	**199**	377
	70 785	66 678	**10 611**	8 101

'Other pension costs' include only the defined contribution plan charge.

Aggregate directors' remuneration

The total amounts for directors' remuneration:

	Group 2021 US$'000	Group 2020 US$'000	**Company 2021 US$'000**	Company 2020 US$'000
Salaries, fees, bonuses and benefits in kind	**462**	570	**322**	281
	462	570	**322**	281

The Group's highest paid director received a total of $322 000 in 2021 ($281 000 in 2020). The Company only has one director and therefore, the highest paid director is the same as the above.

The highest paid director did not exercise any share options in the year and had no shares granted under long-term incentive schemes.

Directors' transactions

There have been no transactions with Directors or other key personnel in the current financial year or the previous financial year.

Canonical Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2021 *(continued)*

8. Finance Costs

	Group 2021 US$'000	Group 2020 US$'000
IFRS 16 Lease Liabilities Finance Cost	**238**	166
Other Interest Charges	**2**	-
	240	166

	Company 2021 US$'000	Company 2020 US$'000
IFRS 16 Lease Liabilities Finance Cost	**161**	96
Other Interest Charges	**-**	-
	161	96

9. Income tax

	Group 2021 US$'000	Group 2020 US$'000
Corporation income tax:		
Current year	**284**	700
Adjustments in respect of prior years	**331**	169
Foreign tax suffered	**923**	-
	1 538	869
Deferred tax (see note 17)		
Current year	**(6 475)**	-
Effect of changes in tax rates	**(1 616)**	-
	(8 091)	-
Tax per income statement	**(6 553)**	869

The standard rate of corporation tax applied to reported profit is 19 per cent (2021 - 19 per cent).

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The Company is subject to UK Corporate Income Tax at 19%.

9. Income tax *(continued)*

The charge for the year can be reconciled to the profit before tax as follows:

	Group 2021 US$'000	Group 2020 US$'000
Profit before tax	**20 200**	4 775
Tax at the UK corporation tax rate of 19% (2020 – 19%)	**3 838**	907
Tax effect of expenses that are not deductible in determining taxable profit	**22**	62
Adjustment to tax charge in respect of previous periods	331	169
Effect of changes in tax rates	(1 616)	-
Tax losses not previously recognised	(7 675)	(346)
Share based payments	86	-
Income not taxable	(1 280)	-
RDEC temporary differences	(40)	(177)
Effect of different tax rates of subsidiaries operating in other jurisdictions	533	254
Tax expense for the year	**(6 553)**	869

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10. Property, plant and equipment

Group	**Leasehold improvements US$'000**	**Computer equipment US$'000**	**Fixtures and fittings US$'000**	**Total US$'000**
Cost				
At 1 January 2020	2 113	9 236	1 526	12 875
Additions	88	2 092	11	2 191
Disposals	(290)	(1 529)	-	(1 819)
At 31 December 2020	1,911	9 799	1 537	13 247
Additions	-	877	2 203	3 080
Disposals	-	(3 698)	(372)	(4 070)
At 31 December 2021	**1,911**	**6,978**	**3,368**	**12,257**
Accumulated depreciation				
At 1 January 2020	742	8 266	801	9,809
Charge for the year	466	763	381	1,610
Disposals	(290)	(1 529)	-	(1,819)
At 31 December 2020	918	7 500	1,182	9,600
Charge for the year	417	1 327	569	2,313
Disposals	-	(3 698)	(372)	(4070)
At 31 December 2021	**1 335**	**5 129**	**1 379**	**7 843**
Carrying amount				
At 31 December 2021	**576**	**1,849**	**1 989**	**4 414**
At 31 December 2020	993	2,299	355	3 647
At 1 January 2020	1,371	970	725	3 066

Canonical Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2021 ***(continued)***

10. Property, plant and equipment *(continued)*

Company	Leasehold improvements US$'000	Computer equipment US$'000	Fixtures and fittings US$'000	Total US$'000
Cost				
At 1 January 2020	946	4 867	58	5 871
Additions	84	2 013	194	2 291
Disposals	-	-	-	-
At 31 December 2020	1 030	6 880	252	8 162
Additions		443	2 172	2 614
Disposals		(3 677)	(198)	(3 874)
At 31 December 2021	**1 030**	**3 646**	**2 226**	**6 901**
Accumulated depreciation i				
At 1 January 2020	659	4 189	20	4 868
Charge for the year	198	611	166	975
At 31 December 2020	857	4 800	186	5 843
Charge for the year	149	1 094	326	1 569
Disposals	-	(3 677)	(198)	(3 874)
At 31 December 2021	**1 006**	**2 217**	**314**	**3 538**
Carrying amount				
At 31 December 2021	**24**	**1 429**	**1 912**	**3 364**
At 31 December 2020	173	2 080	66	2 319
At 1 January 2020	287	678	38	1,003

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11. Intangible assets

Group	**Capitalised developments costs US$'000**
Cost	
At 1 January 2020	2020
Additions from internal development	883
At 31 December 2020	2 903
Additions from internal development	555
At 31 December 2021	**3 458**
Accumulated depreciation and impairment	
At 1 January 2020	-
Charge for the year	725
At 31 December 2020	725
Charge for the year	746
At 31 December 2021	**1 471**
Carrying amount	
At 31 December 2021	**1 987**
At 31 December 2020	2 178
At 1 January 2020	2 020

There are no intangible assets recognised by the Canonical Group Ltd Company.

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12. Subsidiaries

The Group consists of a parent company, Canonical Group Limited, incorporated in the United Kingdom and a number of subsidiaries held directly and indirectly by Canonical Group Limited, which operate and are incorporated around the world.

Name of subsidiary	Country of incorporation	Voting rights held (%)
Canonical China Ltd	China	100%
Canonical Canada Limited	Canada	100%
Canonical USA Inc	USA	100%
Canonical UK Limited	UK	100%
Canonical Taiwan Limited	Taiwan	100%
Canonical Japan KK	Japan	100%
Canonical Brasil Servicos de Software Ltda	Brazil	100%

The nature of business of all subsidiaries is software development.

Registered offices:

Canonical UK Limited.
5 New Street Square, London EC4A 3TW

Canonical USA Inc.
C32 W.Loockerman Street, Suite 201, Dover, Delaware 19904 USA

Canonical China Ltd.
Room 1246, 12F, No. 331 North Caoxi Road, Shanghai, China, 200040

Canonical Canada Limited.
1000 De la Gauchetiere Street West, Suite 2500, Montreal, Quebec H3B 0A2

Canonical Taiwan Limited.
Room D, 46F, No.7, Xin Yi Rd., Sec. 5. Taipei City

Canonical Japan K.K.
ATT New Tower 11F, 2-11-7 Akasaka, Minatu-ku, Tokyo 107-0052, Japan

Canonical Brasil Servicos de Software Ltda
230 AV MARQ DE SAO VICENTE, VARZEA DA BARRA FUNDA, SAO PAULO, 01139-000

The directors have carried the assessment of the recoverable value of the investments and believe that there are no indications to indicate triggers of impairment.

13. Contract assets

	2021	2020	1-Jan-2020
Group	**US$'000**	US$'000	US$'000
Current	**8 410**	5 192	5 390
Non-Current	**-**	-	-
	8 410	5 192	5 390

	2021	2020	1-Jan-2020
Company	**US$'000**	US$'000	US$'000
Current	**8 401**	5 180	5 405
Non-Current	**-**	-	-
	8 401	5 180	5 405

Before an invoice is raised to a customer, a contract asset is recognised over the period in which the services are performed to represent the entity's right to consideration for the services transferred to date.

In undertaking an impairment assessment on the contract assets, the Group applies much of the same considerations as applied with determining the Trade Receivables expected credit loss (ECL) allowance due to the population being based on the same customer base. The Group has always had an immaterial level of bad debts due to the efficient and effective nature of the cash collection processes used and the customer base, and this same principle applies when considering the impairment indicators to contract assets.

14. Contract costs

	Group 2021 US$'000	Group 2020 US$'000	Group 1 Jan 2021 US$'000
Costs to obtain contracts	**479**	314	292
Current	**479**	314	292
Non-Current	**-**	-	-
	479	314	292

Company does not hold any contract costs during or at the end of either of the reported financial years.

Costs to obtain contracts relate to incremental commission fees paid to intermediaries as a result of obtaining new or renewal sales contracts. The commission fees are the only cost that the Group would not have incurred if the contract had not been obtained. Whilst the Group incurs other costs that are necessary to facilitate a sale, those costs would have been incurred even if the customer decided not to execute the contract and therefore have not been capitalised.

The capitalized sales commission costs are amortized over the customer life or pattern of revenue for the related contract. The Group applies a practical expedient to expense sales commissions costs as incurred where the related benefit is one year or less. In 2021, amortisation amounting to US$223,888 (2021 - US$138,683) was recognised as part of cost of sales in the consolidated statement of profit or loss. There was no impairment loss in 2021 and 2020.

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15. Leases (Group as a lessee)

Right-of-use assets

	Group Buildings US$'000	Group Data centres US$'000	Group Total US$'000	Company Buildings US$'000	Company Data centres US$'000	Company Total US$'000
Cost						
At 1 January 2020	4 796	1 162	5 958	3 846	736	4 582
Additions	-	-	-	-	-	-
At 31 December 2020	4 796	1 162	5 958	3 846	736	4 582
Additions	1 926	-	1 926	1 885	-	1 885
Disposals	(774)	-	(774)	(774)	-	(774)
At 31 December 2021	**5 948**	**1 162**	**7 110**	**4 957**	**736**	**5 693**
Accumulated depreciation						
At 1 January 2020	-	-	-	-	-	-
Charge for the year	2 098	70	2 168	1 853	46	1 899
At 31 December 2020	2 098	70	2 168	1853	46	1 899
Charge for the year	2 262	326	2 588	2 002	184	2 186
Disposals	(774)	-	(774)	(774)	-	(774)
At 31 December 2021	**3 586**	**396**	**3 982**	**3 081**	**230**	**3 311**
Carrying amount						
At 31 December 2021	**2 362**	**766**	**3 128**	**1 876**	**506**	**2 382**
At 31 December 2020	2 698	1 092	3 790	1 991	690	2 683
At 1 January 2020	4 796	1 162	5 958	3 846	736	4 582

The maturity analysis of lease liabilities is presented in note 17.

Amounts recognised in profit and loss	**Group 2021 US$'000**	Group 2020 US$'000	**Company 2021 US$'000**	Company 2020 US$'000
Depreciation expense on right-of-use assets	**2 588**	2 168	**2 186**	1 899
Interest expense on lease liabilities	**238**	166	**161**	97
Expense relating to short-term leases	**1 729**	1 400	**359**	267
Expense relating to leases of low value assets	**14**	1	**-**	-

The total cash outflow for leases amount to US$ 2.8 million (2021 - US$ 2.4 million). Company was US$ 1.99 *million* (2021 - US$ 2.03 *million*)

There are no extension or termination options on the lease.

At 31 December 2021, the Group is committed to US$485 thousand (2021 - US$ 845 thousand) for short-term and low value leases. (Company: US$181 thousand, (2021 - US$178 thousand)).

15. Leases *(continued)*

The Group has one Lease Receivable which is due to a portion of the Blue Fin Building Lease being subleased as the Group has no direct use for that portion of the building. This lease receivable has been recognised against the right of use assets of the Group, to a value of $368 060 per year for 2021 and 2020.

Lease Receivable

	Group & Company Total
	US$'000
Cost	
At 1 January 2020	715
Rent Received	(353)
At 31 December 2020	362
Rent Received	(362)
At 31 December 2021	**-**

16. Trade and other receivables

	Group 2021 US$'000	Group 2020 US$'000	Group 1 Jan 2020 US$'000
Trade receivables	**19 759**	11 508	19 315
Loss allowance	**(234)**	(46)	(254)
Trade Receivables Net	**19 525**	11 462	19 061
Other receivables	**3 434**	3 292	3 607
Prepayments	**3 391**	2 862	3 271
Amounts due from group undertakings	**18**	1 749	346 525
Taxation and social security	**2 227**	1 077	682
	28 595	20 442	373 146

	Company 2021 US$'000	Company 2020 US$'000	Company 1 Jan 2020 US$'000
Trade receivables	**19 759**	11 507	19 285
Loss allowance	**(234)**	(46)	(254)
Trade Receivables Net	**19 525**	11 461	19 031
Other receivables	**3 097**	2 831	3 147
Prepayments	**3 179**	2 481	2 939
Amounts due from group undertakings	**18**	2 599	324 894
Taxation and social security	**1 384**	880	265
	27 203	20 252	350 276

The average credit period on sales of services is 30 days. No interest is charged on outstanding trade receivables.

The carrying value of trade and other receivables classified at amortised cost approximates fair value.

The group does not hold any collateral as security.

The Group applies IFRS 9 simplified approach and measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Group has recognised a loss allowance of 35 per cent against all receivables over 90 days past due because historical experience has indicated that these receivables are generally recoverable. Additionally, the group has also taken into account specific trade receivables for which they are aware payment will not be received and included these in the ECL provision at 100% of the outstanding balance.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

The following table details the risk profile of trade receivables based on the Group's provision matrix. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer segments.

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16. Trade and other receivables *(continued)*

Historically, the Group has always had an immaterial level of bad debts due to the efficient and effective nature of the cash collection processes used. Therefore, in applying the ECL Provision Matrix, the Group has applied a flow rate to determine the loss rate of each aging bucket as below.

Group and Company 31/12/2021	**Trade receivables – days past due**					
	Not past due	**<30**	**31-60**	**61-90**	**>90**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Expected credit loss rate	**0.08%**	**1.40%**	**5.26%**	**10%**	**35%**	
Estimated total gross carrying amount at default	**13 869**	**2 392**	**3 350**	**148**	**-**	**19 759**
Lifetime ECL	**11**	**33**	**176**	**14**	**-**	**234**
	11	**33**	**176**	**14**	**-**	**234**

31/12/2020	Trade receivables – days past due					
	Not past due	<30	31-60	61-90	>90	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Expected credit loss rate	0.08%	1.40%	5.26%	10%	35%	
Estimated total gross carrying amount at default	10 528	790	132	-	58	11 508
Lifetime ECL	8	11	7	-	20	46
	8	11	7	-	20	46

The following table shows the movement in lifetime ECL that has been recognised for trade receivables in accordance with the simplified approach set out in IFRS 9.

Group and Company	**Total**
	US$'000
Balance as at 1 January 2020	254
Amounts written off	(142)
Change in loss allowance due to new trade and other receivables originated net of those derecognised due to settlement	(66)
Balance as at 31 December 2020	46
Change in loss allowance due to new trade and other receivables originated net of those derecognised due to settlement	188
Balance as at 31 December 2021	**234**

17. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and company and movements thereon during the current and prior reporting period.

Group	**Fixed asset US$'000**	**Temporary differences trading US$'000**	**RDEC Step 2 US$'000**	**Tax losses US$'000**	**Total US$'000**
At 1 January 2021	-	-	-	-	-
Charge/(credit) to profit or loss	(173)	(950)	(562)	(6 406)	(8 091)
Charge to other comprehensive income	x	x	x	x	x
Charge direct to equity	x	x	x	x	x
Exchange differences	x	x	x	x	x
Effect of change in tax rate:					
– profit or loss	x	x	x	x	x
– other comprehensive income	x	x	x	x	x
– direct to equity	x	x	x	x	x
At 31 December 2021	(173)	(950)	(562)	(6 406)	(8 091)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

17. Deferred tax *(continued)*

The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Group 2021 US$'000	Group 2020 US$'000
Deferred tax assets	**8 091**	-
	8 091	-

At the reporting date, the Group has unused tax losses of US$55.5 million (2021 - US$63.1 million) available for offset against future profits. A deferred tax asset has been recognised in respect of US$31million (2021 - US$0million) of such losses. No deferred tax asset has been recognised in respect of the remaining US$24.5 million (2021 - US$63.1 million) as it is not considered probable that there will be future taxable profits available. Other losses may be carried forward indefinitely.

No deferred tax liability is recognised on temporary differences of US$7.7 million relating to the unremitted earnings of overseas subsidiaries as the Group is able to control the timings of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future. Temporary differences arising in connection with interests in associates are insignificant.

18. Lease liabilities

Lease Liabilities	**Group Buildings** US$'000	**Group Data centres** US$'000	**Group Total** US$'000
At 1 January 2020	5 120	1 162	6 282
Repayment of Lease Liabilities	(2 199)	(16)	(2 215)
Addition of New Lease Liabilities	-	-	-
At 31 December 2020	2 921	1 146	4 067
Repayment of Lease Liabilities	(2 305)	(219)	(2 524)
Addition of New Lease Liabilities	1 926	-	1 926
At 31 December 2021	**2 542**	**927**	**3 469**

Lease Liabilities	**Company Buildings** US$'000	**Company Data centres** US$'000	**Company Total** US$'000
At 1 January 2020	4 171	737	4 908
Repayment of Lease Liabilities	(1 990)	7	(1 983)
Addition of New Lease Liabilities	-	-	-
At 31 December 2020	2 181	744	2 925
Repayment of Lease Liabilities	(2 062)	(85)	(2 147)
Addition of New Lease Liabilities	1 885	-	1 885
At 31 December 2021	**2 004**	**659**	**2 663**

Canonical Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2021 *(continued)*

18. Lease liabilities *(continued)*

Total Interest Expense on Lease Liabilities for the year at the Group level was $238 000 (2021 -$166 000) and for the Company it was $161 000 (2021 -$96 000).

The following shows the repayment profile for the lease liabilities as per the Statement of Financial Position. These are the undiscounted amounts, and exclude the interest paid on interest liabilities.

	Group 2021 US$'000	Group 2020 US$'000	Group 1 Jan 2021 US$'000
Maturity analysis:			
Year 1	**1 445**	2 490	2 397
Years 2-5	**2 384**	1 859	4 349
	3 829	4 349	6 746
Analysed as:			
Non-current	**1 445**	2 490	2 397
Current	**2 384**	1 859	4 349
	3 829	4 349	6 746

	Company 2021 US$'000	Company 2020 US$'000	Company 1 Jan 2020 US$'000
Maturity analysis:			
Year 1	**978**	2 053	2 096
Years 2-5	**1 984**	1 019	3 072
	2 962	3072	5 168
Analysed as:			
Non-current	**978**	2 053	2 096
Current	**1 984**	1 019	3 072
	2 962	3072	5 168

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

19. Trade and other payables

	Group 2021 US$'000	Group 2020 US$'000	Group 1 Jan 2021 US$'000
Trade payables	**855**	574	1 496
Other payables	**722**	916	1 151
Accruals	**8 035**	5 882	5 646
Amounts owing to fellow subsidiaries	**84 822**	90 776	16 769
	94 435	98 148	25 062

	Company 2021 US$'000	Company 2020 US$'000	Company 1 Jan 2021 US$'000
Trade payables	**632**	434	1 019
Other payables	**564**	1 006	1 151
Accruals	**2 235**	1 648	1 709
Amounts owing to fellow subsidiaries	**116 211**	117 541	16 106
	119 642	120 629	19 985

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. For most suppliers no interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Deferred Income has been disclosed in the Contract Liabilities note further below.

20. Share capital

	Company 2021 US$	Company 2020 US$	Company 1 Jan 2020 US$
Allotted, called up and fully paid:			
Ordinary shares of £1 each	1	1	1

There were no changes to share capital in the current year.

The Company has one class of ordinary shares which carry no right to fixed income.

Share capital represents the nominal amount subscribed for shares.

Share premium constitutes the amount subscribed for share capital in excess of the nominal value of the shares.

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21. Notes to the cash flow statement

Cash and cash equivalents

	Group	Group	Group
	2021	2020	1 Jan 2021
	US$'000	US$'000	US$'000
Cash and bank balances	**62 875**	45 076	10 419
	62 875	45076	10 419

	Company	Company	Company
	2021	2020	1 Jan 2021
	US$'000	US$'000	US$'000
Cash and bank balances	**54 174**	43 580	9 665
	54 174	43 580	9 665

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated reporting position as shown above.

Non-cash transactions

There were three new additions to buildings during the year that were financed by new leases, with a total value of $1 926mil. (2021 - nil) Two of these buildings were acquired in the Canonical Company to a value of $1.885 mil.

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21. Notes to the cash flow statement *(continued)*

Changes in liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

Group

Group	1 January 2020	New Leases Acquired	Repayments	31 December 2020	Interest Expenses	Total Cashflows
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Lease liabilities (note 17)	6 282	-	(2 215)	4 067	(166)	(2 381)
Total liabilities from financing activities	6 282	-	(2 215)	4 067	(166)	(2 381)

	1 January 2021	New Leases Acquired	Repayments	31 December 2021	Interest Expenses	Total Cashflows
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Lease liabilities (note 17)	4 067	1 926	(2 524)	3 469	(238)	(2 762)
Total liabilities from financing activities	4 067	1 926	(2 524)	3 469	(238)	(2 762)

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21. Notes to the cash flow statement *(continued)*

Company	1 January 2020	New Leases Acquired	Repayments	31 December 2020	Interest Expenses	Total Cashflows
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Lease liabilities (note 17)	4 908	-	(1 983)	2 925	(96)	(2 079)
Total liabilities from financing activities	4 908	-	(1 983)	2 925	(96)	(2 070)

	1 January 2021	New Leases Acquired	Repayments	31 December 2021	Interest Expenses	Total Cashflows
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Lease liabilities (note 17)	2 925	1 885	(2 147)	2 663	(161)	(2 308)
Total liabilities from financing activities	2 925	1 885	(2 147)	2 663	(161)	(2 308)

22. Share-based payments

During the year the Group operated two equity-settled share based remuneration schemes for staff.

The first scheme is open to all global staff members who are eligible to participate in the scheme, the only vesting condition being that the individual remains contracted with the group over the vesting period. The options vest 25% immediately upon grant, and subsequently in equal tranches over the three year remaining vesting period. The exercise price of all options outstanding at the end of the period was $670.

The second scheme, Restricted Share Units (RSU's) is limited to senior management and differs in that the vesting period is 4 years from grant and the exercise price is nil. The fair value of each RSU is the market price of one common share of the parent Company on the date of grant. The RSUs granted to date have graded vesting schedules of four years. The compensation expense is recognized on a straight-line basis over the vesting term.

Canonical has considered EV/Revenue multiples to be the most accurate method to derive the EV as at each date using the market approach.

Calculation of IFRS 2 expense

Using the Equity Value we derive the share price, this is then used as an input to calculate the grant date fair values of the awards. Option valuation methodology: The options have a exercise price of $670 and are not subject to any further performance conditions except the requirement for continued employment. Under IFRS 2 a Black Scholes model is an appropriate model to calculate the fair value per share of the options as at each valuation date.

Restricted Stock Units ("RSUs"): In order to receive the RSUs participants do not need to pay an exercise price therefore the fair value of the RSUs is equivalent to the share price at the valuation date less dividends. The expense was calculated based on the number of options / RSUs granted at each of the respective grant dates.

Fair value

The equity value at each date and the capital structure were used to derive the fair value per share for the options and RSUs.

IFRS 2 charge
These fair values have then been used to calculate the IFRS 2 expense which Canonical will suffer in respect of each granting of shares.

Vesting conditions of the options and RSU awards

25% of the options granted vest on the grant date and the remaining 75% vest evenly over a 3 year period. The RSU awards vest evenly over a 4 year period with the final vesting taking place 4 years after grant date. The expense has been spread over the different vesting periods i.e. from the grant date to the vesting date. So as an example, in relation to the RSU awards 25% of the expense is spread over the 12 months from grant date, then 25% is spread over the 24 months from grant date. This results in the expense associated with the awards being higher in the earlier years and tapering down for the remainder of the period.

Canonical Group Limited

Notes forming part of the financial statements for the year ended 31 December 2021 *(continued)*

22. Share-based payments *(continued)*

Details of the share options outstanding during the year are as follows.

Group – share options	**31/12/2021**	**31/12/2020**	**01/12/2020**	
	Number of share options	**Number of share options**	**Number of share options**	**Weighted average exercise price (in US$'000)**
Outstanding at beginning of year	21 997	23 307	24 815	670
Granted during the year	-	-	-	-
Forfeited during the year	(608)	(1 310)	(1 508)	670
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	**21 389**	**21 997**	**23 307**	**670**
Exercisable at the end of the year	-	-	-	-

Company– share options	**31/12/2021**	**31/12/2020**	**01/01/2020**	
	Number of share options	**Number of share options**	**Number of share options**	**Weighted average exercise price (in US$'000)**
Outstanding at beginning of year	3 645	3 748	4 094	670
Granted during the year	-	-	-	-
Forfeited during the year	(109)	(103)	(346)	670
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	3 536	3 645	3 748	670
Exercisable at the end of the year	-	-	-	-

Canonical Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2021 ***(continued)***

22. Share-based payments *(continued)*

Group - RSUs	**31/12/2021**	**31/12/2020**	**01/01/2020**	
	Number of share options	**Number of share options**	**Number of share options**	**Weighted average exercise price (in US$'000)**
Outstanding at beginning of year	3 808	560	560	-
Granted during the year	-	3 899	-	-
Forfeited during the year	(904)	(651)	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	2 904	3 808	560	-
Exercisable at the end of the year	-	-	-	-

Company - RSUs	**31/12/2021**	**31/12/2020**	**01/12/2020**	
	Number of share options	**Number of share options**	**Number of share options**	**Weighted average exercise price (in US$'000)**
Outstanding at beginning of year	2 052	560	560	-
Granted during the year	-	1 492	-	-
Forfeited during the year	(491)	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	1 561	2 052	560	-
Exercisable at the end of the year	-	-	-	-

The second scheme is limited to senior management, and differs in that the vesting period is 4 years from grant and the exercise price is $nil.

Under both schemes, shares become exercisable once fully vested, upon certain realization events.

Both schemes have an ultimate termination date of 10 years from grant.

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22. Share-based payments *(continued)*

Under IFRS 2 a Black Scholes model is an appropriate model to calculate the fair value per share of the options as at each valuation date. The inputs into the Black Scholes model are as follows:

	Options Granted		Restricted Stock Units		
	2019	**2020**	**2020**	**2019**	**2018**
Share price at grant	$123	$70	$620	$530	$424
Exercise price	$670	$670	-	-	-
Expected life	5 years	5 years	-	-	-
Risk free rate	2.2%	2.5%	-	-	-
Dividend yield	0%	0%	0%	0%	0%
Volatility	31%	32%	-	-	-

Volatility assumptions were based on the 5 year historical trend of comparable companies as at each date. 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 behavioral considerations.

The Group recognised total expenses related to equity-settled share-based payment transactions as per the schedule below:

	Group US$'000	Company US$'000
Share based payments expensed before 1 January 2020	1 647	492
Share based payments expensed during 2020	1 169	378
Total at 31 December 2020	2 816	870
Share based payments expensed during 2021	639	199
Total at 31 December 2021	**3 455**	**1 069**

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23. Contract liabilities

	Group 31/12/2021 US$'000	Group 31/12/2020 US$'000	Group 1 Jan 2020 US$'000
Current	**39 955**	27 794	21 595
Non-current (see note below)	**3 841**	2 195	-
	43 796	29 989	21 595

	Company 31/12/2021 US$'000	Company 31/12/2020 US$'000	Company 1 Jan 2020 US$'000
Current	**39 880**	27 794	21 447
Non-current (see note below)	**3 841**	2 195	-
	43 721	29 989	21 447

Refer note 5 in the below appendix on the prior period reclassification.

	Group 2021 US$'000	**Group 2020 US$'000**
Opening	**29 989**	21 595
Deferred during the year	**38 374**	27 399
Recognised as revenue during the year	**(24 567)**	(19 005)
Closing	**43 796**	29 989

	Company 2021 US$'000	**Company 2020 US$'000**
Opening	**29 989**	21 447
Deferred during the year	**38 299**	27 547
Recognised as revenue during the year	**(24 567)**	(19 005)
Closing	**43 721**	29 989

A contract liability arises in respect of the Group's contracts with customers from operating activities

Revenue relating to other services is recognised over time although the customer pays up-front in full for these services. A contract liability is recognised for revenue relating to the services at the time of the initial sales transaction and is released over the service period.

There were no significant changes in the contract liability balances during the reporting period.

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24. Financial instruments

(a) Financial risk management objectives

The Group's Corporate Finance function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyses exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Group does not have derivative financial instruments.

(b) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see below). The Group enters into a variety of receivables and payables denominated in foreign currencies. There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

(c) Foreign currency risk management

The group has regular exposure to currency translation risk. The majority of the group is denominated in USD, which is in line with the majority of sales which are also denominated in USD. However, expenses arise in a variety of currencies, with the highest volumes being in USD, GBP and EUR. This leads to a persistent trade of USD into GBP, EUR and other currencies to satisfy outstanding payables. This risk is reviewed regularly in conjunction with native currency working capital projections in order to maintain adequate currency reserves to meet operating requirements, which enables the group to take advantage of favourable spot rates when they arise.

The carrying amounts of the Group's foreign currency denominated monetary assets at the reporting date are as follows:

Cash Balances as per Currency	**2021 (US$'000)**	2020 (US$'000)
BRL	**134**	0
CAD	**984**	1 917
CNY	**551**	557
EUR	**440**	397
GBP	**4 983**	1 328
JPY	**130**	55
TWD	**62**	155
Total	**7 284**	**4 410**

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24. Financial instruments *(continued)*

Foreign Currency Trade Receivables	2021 (US$'000)	2020 (US$'000)
CAD	50	11
CNY	-	1
EUR	2 053	2 488
GBP	213	2 095
Total	2 316	4 595

Foreign Currency Trade Payables	2021 (US$'000)	2020 (US$'000)
BRL	44	-
CAD	2	3
CNY	34	13
EUR	45	38
GBP	155	285
HKD	-	92
INR	-	-
JPY	34	105
SEK	-	-
SGD	-	10
TWD	5	-
Total	318	546

There were no foreign currency denominated monetary liabilities at the reporting date.

24. Financial instruments *(continued)*

Foreign currency sensitivity analysis

The Group is mainly exposed to the currency of GBP. All other currencies are immaterial. The following table details the Group's sensitivity to a 5% increase and decrease in currency units against the GBP. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where currency units strengthens. For a weakening of currency units against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be negative..

	Group & Company	
	GBP impact	
	2021	2020
	US$'000	US$'000
Profit or loss	**257**	82

This is mainly attributable to the exposure outstanding on GBP Cash held in the Group at the reporting date.

The Group's sensitivity to foreign currency has increased during the current year mainly due to the addition of GBP denominated cash held. In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(d) Credit risk management

The group's principal credit risk relates to recovery of amounts owed by trade debtors. This risk is managed by determining payment terms and a credit limit for customers based on third party credit references, payment history and other factors. Invoicing of customers is done in advance in order to manage outstanding amounts and minimise work performed without an equivalent payment received. This risk is reviewed regularly in conjunction with debtor ageing and bad debt expense.

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24. Financial instruments *(continued)*

(d) Credit risk management *(continued)*

Credit approvals and other monitoring procedures are also in place to ensure that follow-up action is taken to recover overdue debts. Furthermore, the Group reviews the recoverable amount of each trade debt and debt investment on an individual basis at the end of the reporting period to ensure that adequate loss allowance is made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

Of the trade receivables balance at the end of the year, US$ 4million (2021 - US$ 3million) is due from the Group's largest customer. Apart from this, the Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk related to the Group's largest customer did not exceed 20 per cent of gross monetary assets at any time during the year. Concentration of credit risk to any other counterparty did not exceed 5 per cent of gross monetary assets at any time during the year. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

(e) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. Details of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk are set out below.

(e)(i) Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest cash flows are floating rate, the undiscounted amount is derived from interest rate curves at the reporting date.

The contractual maturity is based on the earliest date on which the Group may be required to pay.

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24. Financial instruments (*continued*)

	Group			Company		
	Less than 1 Year	**More than 1 Year**	**Total**	**Less than 1 Year**	**More than 1 Year**	**Total**
	US$'000	**US$'00)**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
31 December 2021						
Trade payables	**856**	-	**856**	**632**	-	**632**
Other Payables	**722**		**722**	**564**		**564**
Accruals	**8 035**	-	**8 035**	**2 235**	-	**2 235**
31 December 2020						
Trade payables	574	-	574	434	-	434
Other Payables	916		916	1 006		1 006
Accruals	5 882	-	5 882	1 648	-	1 648
1 January 2020						
Trade payables	1 496	-	1 496	1 019	-	1 019
Other Payables	1 151		1 151	1 151		1 151
Accruals	5 646	-	5 646	1 709	-	1 809

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24. Financial instruments *(continued)*

(f) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2020.

The capital structure of the Group consists of net debt (payables and lease liabilities as disclosed in notes 18 and 19 after deducting cash and bank balances) and equity of the Group (comprising issued capital, reserves, retained earnings and non-controlling interests as disclosed in note 20.

The Group is not subject to any externally imposed capital requirements.

The Group's risk management committee reviews the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital.

Equity includes all capital and reserves of the Group that are managed as capital.

25. Events after the reporting period

There have been no events after the reporting period.

Canonical Group Limited

Notes forming part of the financial statements for the year ended 31 December 2021 *(continued)*

26. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. The following amounts were outstanding at the reporting date:

Group	**Amounts owed by related parties**		**Amounts owed to related parties**	
	2021 US$'000	2020 US$'000	**2021 US$'000**	2020 US$'000
Canonical Ltd	**-**	1 749	**(82 394)**	(90 766)
Canonical Services Ltd	**-**	-	**(2 428)**	(7)
Canonical Holdings Ltd	**18**	-	**-**	(3)

Company	**Amounts owed by related parties**		**Amounts owed to related parties**	
	2021 US$'000	2020 US$'000	**2021 US$'000**	2020 US$'000
Canonical Canada	**-**	-	**(75)**	(126)
Canonical China	**-**	-	**(243)**	(78)
Canonical UK	**-**	-	**(15 242)**	(17 032)
Canonical USA	**-**	-	**(14 891)**	(8 494)
Canonical Japan	**-**	-	**(133)**	(157)
Canonical Ltd	**-**	2 599	**(83 171)**	(91 616)
Canonical Services Ltd	**-**	-	**(2 457)**	(35)
Canonical Holdings Ltd	**18**	-	**-**	(3)

Canonical Ltd, Canonical Services Ltd and Canonical Holdings Ltd are related parties of the Group because the entities are all part of the Canonical Holdings Ltd Group.

All transactions with related parties are conducted on an arm's-length basis and in accordance with normal business terms. Transactions between related parties that are Group subsidiaries are eliminated on consolidation.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

26. Related party transactions *(continued)*

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS.

	Group	Group	**Company**	Company
	2021	2020	**2021**	2020
	US$'000	US$'000	**US$'000**	US$'000
Short-term employee benefits	**446**	559	**306**	267
Post-employment benefits	**16**	11	**12**	11
Share Based Payments Expense	**181**	326	**158**	197
	643	896	**476**	475

Loans to related parties

	Group	Group	**Company**	Company
	2021	2020	**2021**	2020
	US$'000	US$'000	**US$'000**	US$'000
Loans to related parties:	-	-	-	-

The Group did not hold any intercompany loans to or from related parties at year end.

27. Ultimate controlling party

The Company's immediate parent company is Futuristic Holdings Limited, a company incorporated in Jersey. The ultimate controlling party is Mark Shuttleworth, being the sole beneficiary of Futuristic Holdings Limited.

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Appendix 1 – transition to International Financial Reporting Standards (IFRS)

a. Background

These financial statements, for the year ended 31 December 2021, are the first the Group has prepared in accordance with IFRS. For periods up to and including the year ended 31 December 2020, the Group prepared its financial statements in accordance with the provisions of FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102").

Accordingly, the Group has prepared financial statements that comply with IFRS applicable as at 31 December 2021, together with the comparative period data for the year ended 31 December 2020, as described in the summary of significant accounting policies. In preparing the financial statements, the Group's opening statement of financial position was prepared as at 1 January 2020, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its Local GAAP financial statements, including the statement of financial position as at 1 January 2020 and the financial statements as of, and for, the year ended 31 December 2020.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. The Group has applied the following exemptions:

- Cumulative currency translation differences for all foreign operations are deemed to be zero as at 1 January 2020.
- The Group assessed all contracts existing at 1 January 2020 to determine whether a contract contains a lease based upon the conditions in place as at 1 January 2020.
- Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2020. Right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before 1 January 2020. The lease payments associated with leases for which the lease term ends within 12 months of the date of transition to IFRS and leases for which the underlying asset is of low value have been recognised as an expense on either a straight-line basis over the lease term or another systematic basis.

Estimates

The estimates at 1 January 2020 and at 31 December 2020 are consistent with those made for the same dates in accordance with FRS 102 (after adjustments to reflect any differences in accounting policies).

The estimates used by the Group to present these amounts in accordance with IFRS reflect conditions at 1 January 2020, the date of transition to IFRS and as at 31 December 2020.

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b. Group reconciliation of Equity as at 1 January 2020

	Note	FRS 102 US$'000's	Correction of Error US$'000's	Reclassifications and remeasurements US$'000's	IFRS at 1 January 2020 US$'000's
Non-current assets					
Property, plant and equipment	10	3 066	-	-	3 066
Intangible assets	11	-	-	2 020	2 020
Right of use assets	15	-	-	5 958	5 958
Lease Receivable	15			715	715
Total non-current assets		**3 066**	-	**8 693**	**11 759**
Current assets					
Inventory		88	-	-	88
Contract asset	13	5 390	-	-	5 390
Contract costs	14	-	-	292	292
Trade and other receivables	16	381 954	-	(8 808)	373 146
Cash and cash equivalents		10 419	-	-	10 419
Total current assets		**397 851**	-	**(8 516)**	**389 335**
Total assets		**400 917**	-	**177**	**401 094**
Non-current liabilities					
Deferred tax liabilities	17	-	-	-	-
Contract liabilities	23	-	-	-	-
Lease liabilities	18	-	-	4 059	4 059
Total non-current liabilities		-	-	**4 059**	**4 059**

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Notes forming part of the financial statements for the year ended 31 December 2021 *(continued)*

b. Group reconciliation of Equity as at 1 January 2020 *(continued)*

	Note	FRS 102	Correction of Error	Reclassifications and remeasurements	IFRS at 1 January 2020
		US$'000's	US$'000's	US$'000's	US$'000's
Current liabilities					
Trade and other payables	19	25 157	-	(94)	25 064
Contract liabilities	23	28 937	-	(7 342)	21 595
Current tax liability		-	-	-	-
Lease liabilities	18	-	-	2 223	2 223
Short Term Loans Payable		404 434	-	-	404 434
Total current liabilities		**458 528**	**-**	**(5 213)**	**453 315**
Total liabilities		**458 528**	**-**	**(1 154)**	**457 374**
Net assets/(liabilities)		**(57 610)**	**-**	**1 331**	**(56 279)**
Equity					
Share capital	20	-	-	-	-
Share premium		-	-	-	-
Foreign currency translation reserve		-	-	-	-
Capital Contribution	22	-	1 647	-	1 647
Retained earnings		(57 610)	(1 647)	1 331	(57 926)
Total equity		**(57 610)**	**-**	**1 331**	**(56 279)**

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c. Group reconciliation of Equity as at 31 December 2020

	Note	FRS 102	Correction of Error	Reclassifications and remeasurements	IFRS at 31 December 2020
		US$'000's	US$'000's	US$'000's	US$'000's
Non-current assets					
Property, plant and equipment	10	3 647	-	-	3 647
Intangible assets	11	-	-	2 178	2 178
Right of use assets	15	-	-	3 790	3 790
Lease Receivable	15	-	-	362	362
Total non-current assets		**3 647**	-	**6 330**	**9 977**
Current assets					
Inventory		-	-	-	-
Contract asset	13	5 192	-	-	5 192
Contract costs	14	-	-	314	314
Trade and other receivables	16	32 026	-	(11 584)	20 442
Cash and cash equivalents		45 076	-	-	45 076
Total current assets		**82 294**	-	**(11 270)**	**71 024**
Total assets		**85 941**	-	**(4 940)**	**81 001**
Non-current liabilities					
Deferred tax liabilities	17	-	-	-	-
Contract liabilities	23	-	2 195	-	2 195
Lease liabilities	17	-	-	1 727	1 727
Total non-current liabilities		-	**2 195**	**1 727**	**3 922**
Current liabilities					
Trade and other payables	19	98 785	-	(637)	98 148
Contract liabilities	23	40 317	(2 195)	(10 328)	27 794
Current tax liability		-	-	-	-
Lease liabilities	18	-	-	2 340	2 340
Short Term Loans Payable		-	-	-	-
Total current liabilities		**139 102**	**2 195**	**(8 625)**	**128 282**
Total liabilities		**139 102**	-	**(6 898)**	**132 204**
Net assets/(liabilities)		**(53 161)**	-	**1 958**	**(51 203)**

Canonical Group Limited

Notes forming part of the financial statements for the year ended 31 December 2021 *(continued)*

c. Group reconciliation of Equity as at 31 December 2020 *(continued)*

	Note	FRS 102 US$'000's	Correction of Error US$'000's	Reclassifications and remeasurements US$'000's	IFRS at 31 December 2020 US$'000's
Equity					
Share capital	20	-	-	-	-
Share premium		-	-	-	-
Foreign currency translation reserve		-	-	-	-
Capital Contribution	22	-	2 816	-	2 816
Retained earnings	5	(53 161)	(2 816)	1 958	(54 019)
Total equity		**53 161**	**2 816**	**1 958**	**(51 203)**

Canonical Group Limited

Notes forming part of the financial statements for the year ended 31 December 2021 *(continued)*

d. Group reconciliation of Comprehensive Income for the year ended 31 December 2020

	Note	FRS 102	Correction of Error	Restatements & Remeasurements	IFRS at 31 December 2020
Revenue	5	137 228	-		137 228
Costs of sales		(1 798)	-	-	(1 798)
Gross Profit		**135 430**	-	-	**135 430**
Other operating income		3 896	-	(129)	3 767
Administrative expenses		(134 010)	(1 169)	922	(134 257)
Other operating expenses		-	-	-	-
Operating profit	6	5 316	(1 169)	793	4 940
Finance income		1	-	-	1
Finance costs	8	-	-	(166)	(166)
Profit/(Loss) before tax		**5 317**	**(1 169)**	**627**	**4 775**
Income tax expense	9	(869)	-	-	(869)
Profit/(Loss) from for the year		**4 448**	**(1 169)**	**627**	**3 906**

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e. Group reconciliation of Cashflow Statement for the year ended 31 December 2020

	Note	FRS 2020	Correction of Error	Reclassifications and Remeasurements	IFRS 2020
		US$'000			US$'000
Operating activities:					
Profit for the year		4 449	-	(542)	3 907
Adjustments for:					
Finance income		(2)	-		(2)
Finance costs		1	-	166	167
Share based payment expenses	22	-	1 169	-	1 169
Tax charge		869	-	-	869
Depreciation and amortisation		1 610	-	2 893	4 503
Decrease/(increase) in inventories		88	-	-	88
Decrease/(increase) in trade and other receivables		349 711	-	2 754	352 465
(Decrease)/increase in trade and other payables		(319 198)	-	(3 753)	(322 951)
(Decrease)/increase in provisions		(225)	-	225	-
Cash generated by operations		37 303	1 169	1 743	40 215
Income taxes paid		(455)	-	-	(455)
Net cash flow from operating activities		36 848	1 169	1 743	39 760
Investing activities:					
Purchase of property, plant and equipment		(2 191)	-		(2 191)
Capitalisation of development costs		-	-	(883)	(883)
Lease Income Received		-	-	353	353
Net cash used in investing activities		(2 191)	-	(530)	(2 721)
Financing activities:					
Payment of lease liabilities - capital		-	-	(2 216)	(2 216)
Payment of lease liabilities – interest		-	-	(166)	(166)
Net cash used in financing activities		-	-	(2 382)	(2 382)
Net increase in cash and cash equivalents		34 657	1 169	(1 169)	34 657
Cash and cash equivalents at 1 January	21	10 419	-	-	10 419
Foreign exchange on cash and cash equivalents		-	-	-	-
Cash and cash equivalents at 31 December		45 076	-	-	45 076

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f. Company reconciliation of Equity as at 1 January 2020

	Note	FRS 102 US$'000's	Correction of Error US$'000's	Reclassifications and remeasurements US$'000's	IFRS at 1 January 2020 US$'000's
Non-current assets					
Property, plant and equipment	10	1 003	-	-	1 003
Intangible assets	11	-	-	-	-
Right of use assets	14	-	-	4 582	4 582
Lease Receivable	14	-	-	715	715
Investments in Subsidiaries		864	-	-	864
Total non-current assets		**1 867**	**-**	**5 297**	**7 164**
Current assets					
Inventories		88	-	-	88
Contract asset	13	5 405	-	-	5 405
Contract costs	14	-	-	-	-
Trade and other receivables	16	358 007	-	(7 731)	350 276
Cash and cash equivalents		9 620	-	-	9 620
Total current assets		**373 120**	**-**	**(7 731)**	**365 389**
Total assets		**374 987**	**-**	**(2 434)**	**372 553**
Non-current liabilities					
Deferred tax liabilities	17	-	-	-	-
Lease liabilities	18	-	-	2 917	2 917
Total non-current liabilities		**-**	**-**	**2 917**	**2 917**

Canonical Group Limited

Notes forming part of the financial statements for the year ended 31 December 2021 *(continued)*

f. Company reconciliation of Equity as at 1 January 2020 *(continued)*

	Note	FRS 102	Correction of Error	Reclassifications and remeasurements	IFRS at 1 January 2020
		US$'000's	US$'000's	US$'000's	US$'000's
Current liabilities					
Trade and other payables	19	20 079	-	(94)	19 985
Contract liabilities	23	28 789	-	(7 342)	21 447
Current tax liability		-	-	-	-
Lease liabilities	18	-	-	1 991	1 991
Short Term Loans Payable		404 434	-	-	404 434
Total current liabilities		**453 302**	**-**	**(5 445)**	**447 857**
Total liabilities		**453 302**	**-**	**(2 528)**	**450 774**
Net assets/(liabilities)		**(78 315)**	**-**	**94**	**(78 221)**
Equity					
Share capital	20	-	-	-	-
Share premium		-	-	-	-
Foreign currency translation reserve		-	-	-	-
Capital Contribution	22	-	492	-	492
Retained earnings		**(78 315)**	**(492)**	94	(78 713)
Total equity		**(78 315)**	**-**	**94**	**(78 221)**

Canonical Group Limited

**Notes forming part of the financial statements
for the year ended 31 December 2021 *(continued)***

g. Company reconciliation of Equity as at 31 December 2020

	Note	FRS 102 US$'000's	Correction of Error US$'000's	Reclassifications and remeasurements US$'000's	IFRS at 31 December 2020 US$'000's
Non-current assets					
Property, plant and equipment	10	2 319	-	-	2 319
Intangible assets	11	-	-	-	-
Right of use assets	15	-	-	2 682	2 682
Lease Receivable	15	-	-	362	362
Investment in Subsidiaries		710	-	-	710
Total non-current assets		**3 029**	**-**	**3 044**	**6 073**
Current assets					
Contract asset	13	5 180	-	-	5 180
Contract costs	14	-	-	-	-
Trade and other receivables	16	30 988	-	(10 736)	20 252
Cash and cash equivalents		43 580	-	-	43 580
Total current assets		**79 748**	**-**	**(10 736)**	**69 012**
Total assets		**82 777**	**-**	**(7 691)**	**75 086**
Non-current liabilities					
Contract liabilities	23	-	2 195		2 195
Lease liabilities	18	-	-	948	948
Total non-current liabilities		**-**	**2 195**	**948**	**3 143**

Canonical Group Limited

Notes forming part of the financial statements for the year ended 31 December 2021 *(continued)*

g. Company reconciliation of Equity as at 31 December 2020 *(continued)*

	Note	FRS 102 US$'000's	Correction of Error US$'000's	Reclassifications and remeasurements US$'000's	IFRS at 31 December 2020 US$'000's
Current liabilities					
Trade and other payables	19	121 269	-	(638)	120 631
Contract liabilities	23	40 317	(2 195)	(10 328)	27 794
Current tax liability		-	-	-	-
Lease liabilities	18	-	-	1 976	1 976
Total current liabilities		**161 586**	**(2 195)**	**(8 990)**	**150 401**
Total liabilities		**161 586**	**-**	**(8 042)**	**153 544**
Net assets/(liabilities)		**(78 809)**	**-**	**351**	**(78 458)**
Equity					
Share capital	20	-	-	-	-
Share premium		-	-	-	-
Foreign currency translation reserve		-	-	-	-
Capital Contribution	22	-	870	-	870
Retained earnings		(78 809)	(870)	351	(79 328)
Total equity		**(78 807)**	**-**	**740**	**(78 458)**

Canonical Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2021 *(continued)*

h. Company reconciliation of Comprehensive Income for the year ended 31 December 2020

	Note	FRS 102	Correction of Error	Reclassifications & Remeasurements	IFRS at 31 December 2020
Revenue	5	136 967	-	-	**136 967**
Costs of sales		(1 789)	-	-	**(1 789)**
Gross Profit		135 178	-	-	**135 178**
Other operating income		1 619	-	(353)	**1 266**
Administrative expenses		(137 099)	(377)	706	**(136 770)**
Other operating expenses		-	-	-	-
Operating profit	6	(302)	(377)	353	**(326)**
Finance income		-	-	-	-
Finance costs	8	-	-	(96)	**(96)**
Profit/(Loss) before tax		(302)	(377)	257	**(422)**
Income tax expense	9	(191)	-	-	**(191)**
Profit/(Loss) from for the period		(493)	(377)	257	**(613)**

The Statement of Cash Flows has not previously been prepared for the Company under FRS. Therefore, no recon of the statement from FRS to IFRS has been prepared.

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Notes to the reconciliation tables

1. Intangible assets – capitalisation of development costs

Under FRS 102 the capitalisation of such expenses is optional whereas the Group is required to capitalise such expenses under IFRS. Therefore, the Group has thoroughly analysed its research and development process and its relation to revenue. Subsequently, it has defined the moment in which costs related to R&D projects can be considered as development costs as it is certain that they will generate economic benefits and are controllable and separable. This also impacted amortization in comparison with previous GAAP. Capitalised costs have been amortised over two years. The reported impact of the capitalization of development costs are as follows:

Canonical Group Ltd Consolidated Adjustments:

Capitalised Costs:

Name	**2019**	**2020**	**2021**
Staff Costs	2 020	883	555

Amortisation of Capitalised Costs:

Name	**2019**	**2020**	**2021**
Staff Costs	-	725	747

Canonical Group Ltd Company Adjustments: There were no costs capitalised under IFRS in 2019 or 2020.

2. Leases

Under previous GAAP leases were classified as operating leases, i.e. by recognizing an expense of the amount of payments, based on the fact that legal title did not pass by the end of the lease. The implementation of IFRS 16 gives rise to a "Right of Use" asset, current and non-current lease liabilities and a provision for site closures across the Group.

The Group has elected to present comparative information including IFRS 16 adjustments for the Statement of Financial Position as at 1 January 2020. The implementation of IFRS 16 give rise to a US$5.958milion "Right of Use" asset, lease liabilities of US$6.282million.

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Canonical Group Ltd Consolidated Adjustments:

1 January 2020 Recognition of IFRS 16:

	US$'000
Right of Use Asset	5 958
Lease Liability	(6 282)
Lease receivable	715
Prepayments	(391)

31 December 2020 IFRS 16 Adjustments:

	US$'000
Right of Use Asset	3 790
Lease Liability	(4 067)
Lease receivable	362
Prepayments	(391)
Lease Liability Financing Cost	166
Rent Adjustment	(2 028)
Right of Use Asset Amortisation	(2 168)

Canonical Group Ltd Company Adjustments:
1 January 2020 Recognition of IFRS 16:

	US$'000
Right of Use Asset	4 582
Lease Liability	(4 908)
Lease receivables	715
Prepayments	(389)

31 December 2020 IFRS 16 Adjustments:

	US$'000
Right of Use Asset	2 683
Lease Liability	(2 925)
Lease receivables	362
Prepayments	(389)
Lease Liability Financing Cost	97
Rent Adjustment	(1 727)
Right of Use Asset Amortisation	1 899

3. Financial instruments

The Group adopted the Expected Credit Loss ("ECL") impairment model by using the simplified approach, therefore it has developed a provision matrix setting out the expected credit losses, considering credit sales uncollected after 90 days as a predictor of future credit losses.

The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. In applying IFRS 9, the calculations to determine the expected credit loss allowance can be found under Note 16.

The changes due to this can be noted as follows for the Group and Company:

	2021 US$'000	2020 US$'000
IFRS 9 Expected Credit Loss Allowance Adjustment	188	(66)

4. Revenue

The conversion to IFRS has resulted in having the below changes to the recognition of revenue:

Sales Commissions:
Under FRS 102, commissions are calculated and accrued for (expensed) in the relevant 'performance quarter' that the product or service was 'booked' in (i.e., when the customer signs up to a contract). Commissions are paid two months later. Initial and renewal commissions relating to sales contracts with amortisation periods (i.e., contract terms) of greater than one year will be capitalised. Capitalised sales commissions will be amortised using the same amortisation profile corresponding to the underlying pattern of revenue recognition (i.e., either back-ended or straight-line, as applicable, over the contract period, excluding renewal periods). This mainly relates to the multi-year licensing and operations contracts. Commissions relating to sales contracts with amortisation periods of one year or less will be expensed as incurred (under the practical expedient provided in IFRS 15:94).

Canonical Group Ltd Consolidated Adjustments:
1 January 2020:

	US$'000
Contract Costs - Sales Commission Capitalised	292

31 December 2020:

	US$'000
Contract Costs - Sales Commission Capitalised	314
Retained Earnings	(292)
Administrative Expenses - Bonus & Commissions	(184)
Administrative Expenses - Sales Commission Amortisation	139

Canonical Group Ltd Company Adjustments: There were no costs capitalised under IFRS in 2019 or 2020.

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5. Correction of Error

Share based payments

Restatement of share based payment relate to IFRS 2 charge to be recognised over the vesting period from the date of the grant. Previously the directors believed that the schemes shares are exercisable upon realisation and certainty of exit events, the timing and probability of which was not predicable and was treated as vesting condition. The directors believe the exit event is considered as non-vesting condition taking into account the exit event is not deemed to be necessary for the employee to retain their proportionate vested shares awards. Previously no charge was recognised, hence the directors have corrected the position and the charge related to prior periods has been adjusted.
The impact of above correction has been adjusted at the consolidated and standalone primary statements. In case of the consolidated financial position, there is an increase in share based payments reserve and corresponding impacted on retained earnings by $1,647k (as at 1/Jan/20) and cumulative amount of $2,816k (as at 31/Dec/20). The profit before tax has reduced due to the share based payment charge (administrative expenses) of $1,169k for the year end 31/Dec/20. The impact of this correction has reduced the profit before tax for cashflow purposes and share based payment charge of $1,169k has been added back as a non-cash item to the profit before tax, with no impact on cash generated from operating activities.

In case of the standalone financial position, there is an increase in the share based payment reserve of $492k as at 1/Jan/2020 and $378k for the year 31/Dec/2020.

Prior period reclassification of contract liabilities

In the prior year, the long term (non-current) portion of deferred revenue (contract liabilities) amounting to $2.1m, were incorrectly classified as current, as result the directors have rectified the position in 2020. This reclassification has no impact on the Group's total net assets, retained earnings or income statement and statement of comprehensive income, except the current and non-current portion of the trade and other payable (contract liabilities).

6. Income taxes

There is no impact on income taxes in prior years.

7. Retained earnings

The effect on retained earnings has been shown above in the individual adjustments.

8. Contract Liabilities – Trade Receivables Net Off

The Group has trade receivables raised for which it has invoiced but for which a corresponding contract liability has been raised as no work towards revenue recognition has been performed. In adopting IFRS, the Group has had to net off these contract liabilities for which a trade receivable has been raised as the Group does not have a right to these trade receivables. The impact of this adjustment is as such for the Group and the Company:

	1 Jan 2020	**31 Dec 2020**
Trade Receivables	(7 342)	(10 328)
Contract Liabilities	7 342	10 328

9. Transfer Pricing Adjustment

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The adjustments above have had an overall effect on transfer pricing which has been performed in each financial year. The adjustments for transfer pricing are as follows:

Transfer Pricing Adjustments – Group	**1 Jan 2020**	**31 Dec 2020**
Trade & Other Receivables	(1 074)	(224)
Trade & Other Payables	94	544