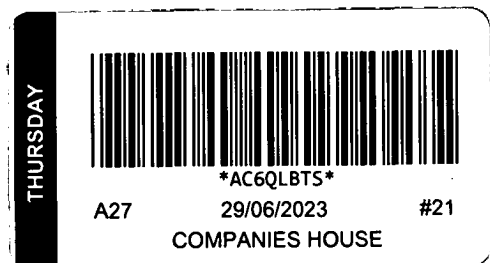


Registered Number: 10544841

Arqit Limited

Annual report and audited financial statements

For the year ended 30 September 2022



Arqit Limited
Annual report and audited financial statements
For the year ended 30 September 2022

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Arqit Limited
Company Information
For the year ended 30 September 2022

Directors

D J Bestwick
D J Williams
N M Pointon

Company number

10544841

Registered office

7th Floor, Nova North
11 Bressenden Place
London
England
SW1E 5BY

Independent auditor

PKF Littlejohn LLP
15 Westferry Circus
London
England
E14 4HD

Bankers

HSBC UK Bank PLC
8 Canada Square
London
England
E14 5HQ

Arqit Limited
Strategic Report
For the year ended 30 September 2022

The Directors present their Strategic Report together with the financial statements for the year ended 30 September 2022.

Principal Activity

The principal activity of Arqit is the provision of cybersecurity services via terrestrial platforms.

Business review

The Company recorded an operating loss of £19.8 million for the year ended 30 September 2022, against an operating loss of £12.6 million recorded for the year ended 30 September 2021. Turnover for the year ended 30 September 2022 was £2 million, against £35 thousand for the year ended 30 September 2021.

Arqit commenced commercialisation and began generating revenue on QuantumCloud™. Arqit has a series of major channel partner relationships which refocuses and accelerates the go-to-market strategy and is expected to drive growth and annual recurring revenues within the next fiscal year.

The company has net liabilities as at 30 September 2022 of £18.3 million compared to net assets as at 30 September 2021 of £1.5 million.

Future Developments

The directors anticipate the business environment will remain competitive. They believe that the Company is in a good financial position and that the risks that have been identified are being well managed. Arqit anticipates that generating annual recurring revenues through channel partnerships with global vendors will ultimately result in more consistent and predictable results compared with selling enterprise licenses and although there is no certainty on the scale and timing thereof they are hopeful for a ramp-up of revenue per the strategy. The directors are confident in the Company's ability to maintain and build on this position.

Environmental

The Company has consumed less than 40,000kWh of energy in the year.

Financial key performance indicators

In line with operating objectives, the company uses both financial and non-financial KPI's. These are monitored on a daily, weekly, and monthly basis. KPI's are used to measure our primary objectives of the business and the performance of the company as a whole.

The KPI's used to measure this performance are turnover and profit.

Going Concern

The directors believe that it is appropriate to prepare the financial statements on a going concern basis, having taken into account all relevant available information about the current and future position of the Company. As part of their assessment, the directors have taken into account the ability to raise additional funding whilst maintaining sufficient cash resources to meet all commitments. Further details on going concern are disclosed in note 1 to the financial statements.

As at 30 September 2022 the company had £8.7m in cash reserves (2021 - £64.5m).

Based on the above, the directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future, such that it will be able to realise its assets and discharge its liabilities in the normal course of business for a period of at least 12 months from the date of signing these financial statements, and beyond. Therefore, the financial statements are prepared on the going concern basis.

Arqit Limited
Strategic Report (continued)
For the year ended 30 September 2022

Principal risks and uncertainties

The Company faces a number of business risks and uncertainties due to competitive trading conditions and the economic environment.

In view of this, the directors are looking carefully at both existing and potential new markets. Financial risks have been considered in note 22 to the financial statements.

The ultimate parent undertaking of the Company is Arqit Quantum Inc., which files consolidated financial statements. These consolidated financial statements contain additional risks and uncertainties which are also applicable to the Company, within the section 'Risks Related to Arqit's Business and Operations'. The consolidated financial statements are publicly available via the Nasdaq stock market or c/o Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

Capital risk management

The company manages its capital to ensure that it will continue as a going concern whilst looking to maximise returns to shareholders. The capital structure of the company consists of equity (this being issued share capital, share premium and retained earnings), inter-company balances, cash and cash equivalents. The company monitors its capital structure on a regular basis through cash flow reporting and forecasting.

Foreign exchange risk

The company is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than Pound Sterling (£). The company maintains a natural hedge that minimises the foreign exchange exposure by matching foreign currency income with foreign currency costs. Given that the majority of the company's transactions remain Sterling denominated, the company does not consider it necessary to enter into foreign exchange contracts to manage its current foreign exchange risks.

Liquidity risk

The company manages its exposure to liquidity risk through a low level of debtors and, maintaining a diversity of funding sources. The cybersecurity industry is a relatively new and emerging sector and therefore could face a number of challenges which could impact liquidity. To manage liquidity risk, the company prepares regular working capital and cash flow forecasts to assess cash requirements. The risk posed by liquidity has been considered and we are satisfied, with the support of the company's parent undertaking if necessary, there is sufficient funding available in the company to meet its requirements.

Interest rate risk

The company does not have formal policies on interest rate risk but monitors interest rates and risk to the business on a regular basis.

Operational risk

The company aims to manage operational risks within the risk appetite determined by management and the Board. Risks could arise as a result of inadequate or failed internal processes, people and system, or from external events. The company has a number of operational risk mechanisms to monitor and manage these risks.

Arqit Limited
Strategic Report (continued)
For the year ended 30 September 2022

Employees

The successful delivery of the company's services to its customers depends on the recruiting, training, and retaining people of the highest quality. The company is committed to the welfare of its staff and all employees are given opportunities and are encouraged to develop with the company.

The company is committed to the involvement of employees in the business. Staff are kept informed of the performance and objectives of the company through staff meetings.

The company is an equal opportunities employer. Its policy is to ensure that all employees are treated with the same respect and consideration regardless of sex, age, colour, disability, sexual orientation, nationality, and ethnic or national origins.

Management facilitates the employment of disabled persons whenever a suitable vacancy arises. Continued employment and re-training of employees who become disabled whilst employed by the company is ensured. The company provides career development, training and promotion of disabled employees with a view to encouraging them to play an active role in the development of the company.

This report was approved by the board and signed on its behalf.



D J Williams
Director

Date: 23 June 2023

Arqit Limited
Directors' Report
For the year ended 30 September 2022

The directors present their Directors' report and the financial statements for the year ended 30 September 2022.

Directors

The directors in office during the year and to the date of signing the financial statements were as follows:

D J Bestwick
D J Williams
N M Pointon

Research and development

The Company invests in the commercialisation of promising technologies across all areas of the business. In the financial year, the Company recorded £22.8m (2021 - £6.7m) all of which was internally funded. Additionally, £22.8m (2021 - £6.7m) of late-stage development costs were capitalised and £Nil (2021 - £Nil) of capitalised development costs were amortised in the year.

Dividends

The directors paid a dividend of £nil in the year (2021 - £nil).

Directors' Liabilities

The Company has made qualifying third party indemnity payments for the benefit of its directors during the year. The directors remain indemnified at the date of this report.

Principal activities, business review and future developments

The Company's principal activities, business review and future developments are referred to in the Strategic Report.

Disclosure of information to auditors

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

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

Post balance sheet events

Details of post balance sheet events are disclosed in note 24 to the financial statements.

Independent auditors

The auditors, PKF Littlejohn LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006. PKF Littlejohn LLP has indicated its willingness to continue in office.

Approved by the Board of Directors and signed on behalf of the Board



D J Williams

Director

Date: 23 June 2023

Arqit Limited
Statement of Directors' Responsibilities
For the year ended 30 September 2022

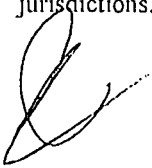
The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

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

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

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

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



D J Williams
Director

Date: 23 June 2023

Independent Auditor's Report to the Members of Arqit Limited for the year ended 30 September 2022

Opinion

We have audited the financial statements of Arqit Limited (the 'company') for the year ended 30 September 2022 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2022 and of its loss 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.

Basis for opinion

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's 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 other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the 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.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Independent Auditor's Report to the Members of Arqit Limited For the year ended 30 September 2022 (continued)

Matters on which we are required to report by exception

In 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.

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 company and the sector in which it operates to identify laws and regulations that could reasonably be expected to have a direct effect on the financial statements. We obtained our understanding in this regard through discussions with management and the application of cumulative audit knowledge.
- We determined the principal laws and regulations relevant to the company in this regard to be those arising from federal, state and local government regulations relating to the provision of global satellite quantum key distribution systems, together with the conditions attached to government grants.
- We designed our audit procedures to ensure the audit team considered whether there were any indications of non-compliance by the company with those laws and regulations. These procedures included, but were not limited to enquiries of management, review of minutes and review of legal / regulatory correspondence.

Independent Auditor's Report to the Members of Arqit Limited For the year ended 30 September 2022
(continued)

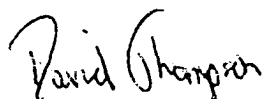
- We also identified the risks of material misstatement of the financial statements due to fraud. We considered, in addition to the non-rebuttable presumption of a risk of fraud arising from management override of controls, that the estimates, judgement and assumptions applied by management in their assessment of capitalisation of employee expenditure to intangible assets gave the greatest potential for management bias.
- As in all of our audits, we addressed the risk of fraud arising from management override of controls by performing audit procedures which included, but were not limited to: the testing of journals; reviewing accounting estimates for evidence of bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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

Use of our report

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



David Thompson (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor

15 Westferry Circus
Canary Wharf
London E14 4HD

Date: 23 June 2023

Arqit Limited
Statement of Comprehensive Income
For the year ended 30 September 2022

| | Note | Year ended 30 September 2022 £ | Year ended 30 September 2021 £ |
|---|------|---|---|
| Revenue | 2 | 2,040,965 | 35,000 |
| Other operating income | 3 | 11,834,648 | - |
| Administrative expenses | 5 | (33,643,221) | (12,621,509) |
| Operating loss | | (19,767,608) | (12,586,509) |
| Finance costs | 6 | (157,000) | (787,571) |
| Loss before tax | | (19,924,608) | (13,374,080) |
| Income tax | 7 | - | - |
| Loss for the financial year attributable to equity holders | | (19,924,608) | (13,374,080) |
| Total comprehensive loss for the year attributable to equity holders | | (19,924,608) | (13,374,080) |

There was no other comprehensive income for 2022 (2021: £nil).

All of the Company's activities were derived from continuing operations during the above financial periods.

The notes on pages 14 to 40 form an integral part of the financial statements.

Arqit Limited
Statement of Financial Position
As at 30 September 2022
Registered number: 10544841

| | Note | 30 September 2022 £ | 30 September 2021 £ |
|--|------|------------------------------|------------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 1,479,810 | 147,579 |
| Right-of-use assets | 18 | 5,247,290 | - |
| Intangible assets | 9 | 36,358,760 | 13,533,497 |
| Fixed asset investments | 10 | 33,520 | 25,037 |
| Other receivables | 12 | 20,709,752 | 3,642,138 |
| | | <u>63,829,132</u> | <u>17,348,251</u> |
| Current assets | | | |
| Trade and other receivables | 12 | 4,663,748 | 944,861 |
| Amounts owed by group undertakings | 12 | 1,090,062 | - |
| Cash and cash equivalents | | 8,671,516 | 64,543,409 |
| | | <u>14,425,326</u> | <u>65,488,270</u> |
| Total assets | | <u>78,254,458</u> | <u>82,836,521</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 13 | 14,032,375 | 5,960,935 |
| Amounts owed to group undertakings | 13 | 71,982,697 | 73,582,861 |
| Lease liabilities | 18 | 931,857 | - |
| | | <u>86,946,929</u> | <u>79,543,796</u> |
| Total current liabilities | | <u>86,946,929</u> | <u>79,543,796</u> |
| Non-current liabilities | | | |
| Trade and other payables | 13 | 3,775,005 | 1,825,303 |
| Lease liabilities | 18 | 5,849,692 | - |
| | | <u>9,624,697</u> | <u>1,825,303</u> |
| Total non-current liabilities | | <u>9,624,697</u> | <u>1,825,303</u> |
| Total liabilities | | <u>96,571,626</u> | <u>81,369,099</u> |
| Net (liabilities)/assets | | <u>(18,317,168)</u> | <u>1,467,422</u> |
| EQUITY | | | |
| Share capital | 19 | 200 | 200 |
| Share premium | 21 | 14,999,929 | 14,999,929 |
| Convertible loan notes treated as equity | 21 | - | - |
| Share based payment reserve | 21 | 365,249 | 225,231 |
| Retained earnings | 20 | (33,682,546) | (13,757,938) |
| Total equity | | <u>(18,317,168)</u> | <u>1,467,422</u> |

Arqit Limited
Statement of Financial Position (continued)
As at year ended 30 September 2022

The financial statements were approved by the Board of Directors and signed on its behalf by



D J Williams

Date: 23 June 2023

REGISTERED NUMBER: 10544841

The notes on pages 14 to 40 form an integral part of the financial statements.

Arqit Limited
Statement of Changes in Equity
For the year ended 30 September 2022

| | Share Capital £ | Share Premium £ | CLNs treated as equity £ | Share based payment reserves £ | Retained Earnings £ | Total £ |
|---|-----------------------|-----------------------|-----------------------------------|---|---------------------------|--------------|
| Balance at 1 October 2020 | 129 | - | 1,000,000 | 104,276 | (383,858) | 720,547 |
| Loss for the year | - | - | - | - | (13,374,080) | (13,374,080) |
| Other comprehensive income | - | - | - | - | - | - |
| Total comprehensive income | - | - | - | - | (13,374,080) | (13,374,080) |
| Transactions with owners in their capacity as owners: | | | | | | |
| Share option charge | - | - | - | 120,955 | - | 120,955 |
| Conversion of convertible loan notes | 71 | 14,999,929 | (1,000,000) | - | - | 14,000,000 |
| | 71 | 14,999,929 | (1,000,000) | 120,955 | - | 14,120,955 |
| Balance at 30 September 2021 attributable to owners of the Company | 200 | 14,999,929 | - | 225,231 | (13,757,938) | 1,467,422 |
| Balance at 1 October 2021 | 200 | 14,999,929 | - | 225,231 | (13,757,938) | 1,467,422 |
| Loss for the year | - | - | - | - | (19,924,608) | (19,924,608) |
| Other comprehensive income | - | - | - | - | - | - |
| Total comprehensive income | - | - | - | - | (19,924,608) | (19,924,608) |
| Transactions with owners in their capacity as owners: | | | | | | |
| Share option charge | - | - | - | 140,018 | - | 140,018 |
| | 200 | 14,999,929 | - | 365,249 | - | 15,365,378 |
| Balance at 30 September 2022 attributable to owners of the Company | 200 | 14,999,929 | - | 365,249 | (33,682,546) | (18,317,168) |

The notes on pages 14 to 40 form an integral part of the financial statements..

Arqit Limited
Statement of Cash Flows
For the year ended 30 September 2022

| | | Year ended 30 September 2022 £ | Year ended 30 September 2021 £ |
|---|------|---|---|
| | Note | | |
| Cash flows from operating activities | | | |
| Cash used in operations | 14 | (16,219,338) | (11,984,094) |
| Movement on foreign exchange | | (11,695,239) | - |
| Net cash used in operating activities | | <u>(27,914,577)</u> | <u>(11,984,094)</u> |
| Cash flows from investing activities | | | |
| Capital expenditure on property, plant and equipment | 8 | (1,547,955) | (165,247) |
| Capital expenditure on intangibles | 9 | (22,825,263) | (6,740,727) |
| Purchase of investments in subsidiaries | 10 | (8,483) | - |
| Net cash used in investing activities | | <u>(24,381,701)</u> | <u>(6,905,974)</u> |
| Cash flows from financing activities | | | |
| Proceeds from issue of convertible loans | | - | 10,500,000 |
| Proceeds from borrowing | | - | 77,582,861 |
| Loans issued to group undertakings | | (3,587,574) | - |
| Repayments of borrowing | | (12,338,110) | (4,800,000) |
| Proceeds from government grants | | 956,297 | - |
| Repayment of principal elements of leases | | (647,063) | - |
| Repayments of interest elements of leases | | (157,000) | - |
| Net cash (used in)/generated from financing activities | | <u>(15,773,450)</u> | <u>83,282,861</u> |
| Net (decrease) / increase in cash and cash equivalents | | <u>(68,069,728)</u> | <u>64,392,793</u> |
| Cash and cash equivalents at beginning of period | | 64,543,409 | 150,616 |
| Foreign exchange on cash and cash equivalents | | 12,197,835 | - |
| Cash and cash equivalents at end of period | | <u>8,671,516</u> | <u>64,543,409</u> |

The notes on pages 14 to 40 form an integral part of the financial statements.

Arqit Limited
Notes to the Financial Statements
For the year ended 30 September 2022

1. General information and significant accounting policies

General information

Arqit Limited (the "Company") is a private limited company, limited by shares, incorporated in England and Wales under the Companies Act 2006 with registered number 10544841. The address of its registered office and its principal place of trading is 7th Floor, Nova North, 11 Bressenden Place, London, SW1E 5BY, United Kingdom.

The principal activity of the Company is provision of cybersecurity services via terrestrial platforms.

Basis of preparation

These financial statements have been prepared in accordance with UK-adopted international accounting standards and International Accounting Standards as issued by the International Accounting Standards Board (IASB) and Interpretations (collectively IFRSs) and with the requirements of the Companies Act 2006. The financial statements are prepared on the historical cost basis and the accounting policies set out below have been consistently applied. The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

Arqit Limited are claiming exemption from the requirement of the Companies Act 2006 to deliver consolidated accounts by virtue of section 401 on the basis that it is itself a subsidiary undertaking and its parent undertaking is not established under the law of any part of the United Kingdom, and the entity is a wholly-owned subsidiary of that parent undertaking, Arqit Quantum Inc., which produces consolidated financial statements. Copies of the Arqit Quantum Inc. consolidated financial statements are available at c/o Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The significant accounting policies of the Company are set out below:

Going Concern

The directors believe that it is appropriate to prepare the financial statements on a going concern basis. In assessing whether the going concern assumption is appropriate, the directors have taken into account all relevant available information about the current and future position of the Company. As part of their assessment, the directors have also taken into account the ability to raise additional funding whilst maintaining sufficient cash resources to meet all commitments.

As at 30 September 2022 the company had £8.7m in cash reserves (2021 - £64.5m).

Based on the above, the directors have a reasonable expectation that the company will have adequate resources to continue in operational existence for the foreseeable future, such that it will be able to realise its assets and discharge its liabilities in the normal course of business for a period of at least 12 months from the date of signing these financial statements, and beyond. Therefore, the financial statements are prepared on the going concern basis.

1. General information and significant accounting policies (continued)

Standards, interpretations and amendments to published standards not yet effective

The Company has applied the following standards and amendments to standards for the first time for their annual reporting period commencing 1 October 2021, none of which had a material impact :

- Amendments to IFRS 9, IAS 39 and IFRS 17: Interest Rate Benchmark Reform Phase 2
- Amendments to IFRS 16 - Covid-19-Related Rent Concessions beyond 30 June 2021

The Company has not early adopted the following new and amendments to IFRS that have been issued but are not yet effective:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37) (effective for periods commencing on or after 1 January 2022);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) (effective for periods commencing on or after 1 January 2022);
- Amendments to IAS 1: Presentation of Financial Statements – Classification of Liabilities as Current or Non-current (effective for periods commencing on or after 1 January 2023);
- Amendments to IAS 1: Presentation of Financial Statements – Disclosure of Accounting Policies (effective for periods commencing on or after 1 January 2023);
- Amendments to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (effective for periods commencing on or after 1 January 2023);
- Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for periods commencing on or after 1 January 2023);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16, and IAS 41) (effective for periods commencing on or after 1 January 2022);
- References to Conceptual Framework (Amendments to IFRS 3) (effective for periods commencing on or after 1 January 2022); and
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date is deferred indefinitely).

The directors of the Company anticipate that the application of all new and amended standards will have no material impact on the future results of the Company in the foreseeable future.

Operating Segments

The directors consider the Company to operate within one operating segment, being the provision of cybersecurity services..

1. General information and significant accounting policies (continued)

Government grants

Government grants are recognised only when there is reasonable assurance that (a) the entity will comply with any conditions attached to the grant and (b) the grant will be received.

Grants related to research and development are included in non-current liabilities as deferred income and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate. The grants will be systematically amortised to profit or loss over a period matching the useful life of the acquired asset.

Intangible assets - Research and development expenditure

Research costs are expensed through the income statement as they are incurred. Under IAS 38, development costs are only capitalised after technical and commercial feasibility of the asset for sale or use have been established. The Company must intend and be able to complete the asset and either use it or sell it and be able to demonstrate how the asset will generate future economic benefit. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Intangible assets not yet subject to amortisation are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

Current and deferred income tax

The current income tax expense or credit is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company operates and generates taxable income, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Management periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The research and development ("R&D") tax credit is calculated using the current rules as prescribed by HMRC. The estimation is based on the actual UK R&D projects that qualify for the scheme that have been carried out in the period. This is treated on an accruals basis when the R&D tax credit has been calculated for the relevant period.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax assets is realised or the deferred income tax liability is settled. Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

1. General information and significant accounting policies (continued)

Revenue

The Company adopts IFRS 15 'Revenue from contracts with customers' for revenue including other income which is recognised in accordance with this standard. Revenue from services related to the Quantum Cloud product has been recognised in the year once the service has been performed and accepted by the customer. Other income represents income derived from contracts for the provision of goods and services by the Company to customers in exchange for consideration in the ordinary course of the Company's activities.

Performance obligations

Upon approval by the parties to a contract, the contract is assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract.

Transaction price

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative standalone selling prices. Given the bespoke nature of many of the Company's products and services, which are designed and/or manufactured under contract to the customer's individual specifications, there are sometimes no observable standalone selling prices. Instead, standalone selling prices are typically estimated based on expected costs. The Company utilizes a practical expedient in the standard to not adjust the promised amount of consideration for the effects of a significant financing component, when it is expected at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

Contract liabilities

Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

The Company utilizes a practical expedient in the standard to recognise the incremental costs of obtaining a contract as an expense when incurred, if the amortisation period of the asset that would otherwise be recognised is one year or less.

Other operating income

Other operating income is recognised at the point in time when the relevant performance obligation is satisfied. There are no contracts for other operating income whose performance obligations are satisfied over time. Revenue is measured at the transaction price, being the fair value of the consideration received or receivable.

Other operating income is recognised on meeting the design milestones and acceptance by the contracting party of the specified deliverables within the contract. Each milestone is considered to be a separate performance obligation.

Accounting for Joint Ventures

An entity is treated as a joint venture where the Company is a party to a contractual agreement with one or more parties from outside the Company to undertake an economic activity that is subject to joint control.

This is initially recognised as an investment at cost and subsequently accounted for using the equity method in accordance with IAS 28 Investments in Associates and Joint Ventures.

1. General information and significant accounting policies (continued)

Financial instruments

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

(a) Financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition that are debt instruments depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

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

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

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

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

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

Financial assets at amortised cost are subsequently measured using the effective interest rate ("EIR") method and are subject to impairment. Interest received is recognised as part of finance income in the statement of profit or loss and other comprehensive income. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Company's financial assets at amortised cost include trade receivables (not subject to provisional pricing) and other receivables.

1. General information and significant accounting policies (continued)

Derecognition

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

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

Impairment of financial assets

The Company recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value. For trade receivables (not subject to provisional pricing) and other receivables due in less than 12 months, the Company applies the simplified approach in calculating ECLs, as permitted by IFRS 9. Therefore, the Company does not track changes in credit risk, but instead, recognises a loss allowance based on the financial asset's lifetime ECL at each reporting date.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows and usually occurs when past due for more than one year and not subject to enforcement activity. At each reporting date, the Company assesses whether financial assets carried at amortised cost are impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

(b) Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include trade and other payables and loans.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss and other comprehensive income.

1. General information and significant accounting policies (continued)

Loans and borrowings and trade and other payables

After initial recognition, interest-bearing loans and borrowings and trade and other payables are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised, as well as through the EIR amortisation process.

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

This category generally applies to trade and other payables.

Derecognition

A financial liability is derecognised when the associated obligation is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss and other comprehensive income.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised costs. Any difference between the proceeds (net of transaction costs) and the redemption value are recognised in the income statement over the period of the borrowings using the effective interest rate method. Borrowing costs are expensed in the period in which they are incurred.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Convertible loan notes

Convertible loan notes are assessed on inception and classified as either a liability, equity, or a compound financial instrument in accordance with IAS 32. When a convertible loan note is assessed to be wholly equity it is recognised immediately in other reserves.

When a convertible loan note is assessed a liability, it is treated as a hybrid instrument containing a host debt contract and an embedded derivative liability (written call option over own shares). The embedded derivative is measured at fair value with changes in fair value recognised in profit or loss. Should it be concluded that the equity component of the combined instrument may be sufficiently significant to preclude it from obtaining a reliable estimate of the fair value of the entire instrument, the combined instrument is measured at cost less impairment.

1. General information and significant accounting policies (continued)

When a convertible loan note is assessed as a compound financial instrument, the net proceeds received from the issue of convertible bonds are split between a liability element and an equity component at the date of issue. The fair value of the liability component is estimated using the prevailing market interest rate for similar nonconvertible debt. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Company, is included in equity and is not remeasured. The liability component is carried at amortised cost.

Any difference between the carrying amount of the financial liability that has been extinguished and the consideration paid is recognised in profit or loss as finance income or finance costs.

The interest expense on the liability component is calculated by applying the prevailing market interest rate, at the time of issue, for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible bonds.

Defined contribution pension

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

Non-financial assets

At each reporting date, the Company reviews the carrying amount of its non-financial assets to determine whether there is any indication for impairment. If such indication exists, then the assets recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash flows from continuing to use the asset (CGU). The recoverable amount of an asset or CGU is the greater of its fair value less cost to sell or its value in use.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds the recoverable amount. Impairment losses are recognised in profit or loss.

Share-based compensation

Share options

Where share options are awarded to employees, the fair value of the options at grant date is charged to the Statement of Comprehensive Income over the vesting period. Nonmarket vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options or warrants that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also considers non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Company keeping the scheme open or the employee maintaining any contributions required by the scheme).

Arqit Limited
Notes to the Financial Statements (continued)
For the year ended 30 September 2022

1. General information and significant accounting policies (continued)

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the Statement of Comprehensive Income over the remaining vesting period. Where equity instruments are granted to persons other than employees, the Statement of Comprehensive Income is charged with fair value of goods and services received.

The share option charge was calculated using the Black Scholes Option pricing model which requires the use of various estimates and assumptions (note 15).

When share options lapse, any amounts credited to the share-based payments reserve are released to the retained earnings reserve.

Foreign currencies

The directors believe pounds sterling ("sterling") best represents the functional currency of the Company. Therefore the books and records are maintained in sterling and, for the purpose of the financial statements, the results and financial position are presented in sterling.

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange at the balance sheet date. Transactions in foreign exchange are translated into sterling at the rates of exchange at the date of the transaction. Exchange differences are charged to the Statement of Comprehensive Income.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and all other cash amounts with maturities of three months or less.

Property, plant and equipment

Property, plant and equipment are stated at historic cost less accumulated depreciation and impairment losses, if any.

Depreciation is calculated under the straight-line method to write off the depreciable amount of the assets over their estimated useful lives. Depreciation of an asset does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. The principal annual rates used for this purpose are between three and five years. Depreciation is provided on the following basis:

| | |
|-----------------------|---------|
| Computer equipment | 3 years |
| Fixtures and fittings | 5 years |
| Office equipment | 5 years |

The depreciation method, useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period to ensure that the amounts, method and years of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of the property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred. Costs also comprise the initial estimate of dismantling and removing the asset and restoring the site on which it is located for which the Company are obligated to incur when the asset is acquired, if applicable.

1. General information and significant accounting policies (continued)

Leases

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

As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

1. General information and significant accounting policies (continued)

The lease liability is measured at amortised cost using the EIR. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property and lease liabilities in the statement of financial position.

Short-term leases and leases of low-value assets

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

Share capital

Ordinary shares are classified as equity. Any incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Risk management is overseen by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Please see note 22 for financial instruments and fair value disclosures.

Expected credit losses

Management assess recoverability of balances at year end. Balances that are considered doubtful are provided for within the period which management first deem this necessary. Balances which are deemed not fully recoverable are written off.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on experience and other factors that are considered to be relevant. Actual results may differ from these estimates. 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 revision and future periods if the revision affects both current and future periods. The directors consider the below to be the critical judgements in respect of the period.

Arqit Limited
Notes to the Financial Statements (continued)
For the year ended 30 September 2022

1. General information and significant accounting policies (continued)

Capitalisation of development costs

The Company capitalises costs for product development projects. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. At 30 September 2022, the carrying amount of capitalised development costs were £36.3m (2021: £13.5m).

Share-based compensation

Estimating fair value for share option payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. For the measurement of the fair value of equity settled transactions with employees at the grant date, the Company uses a Black Scholes valuation. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 15.

Accounting treatment of income from European Space Agency ("ESA")

There are mixed indicators whether the arrangement is in scope of IAS 20 or IFRS 15, and this assessment is a key management judgement.

In 2019 the Company entered in an agreement with the ESA whereby the Company has undertaken to carry out all work necessary to design, develop, manufacture, assemble, integrate, verify, obtain licenses and launch a satellite ("QKDSat"), and to deploy and pilot the operations of the QKDSat system. ESA has undertaken to pay specified amounts upon the achievement of specific milestones related to this undertaking, as set out in the agreement. QKDSat is constituted under the ARTES 33-11 programme line which ESA has created with the objective of validating Quantum Key Distribution technologies.

Based on our analysis, Arqit is providing specific deliverables (intellectual property) and services (satellite design) to ESA, which in our view it is a reasonable judgement that IAS 20 is not applicable and Arqit is providing services to ESA in its capacity as a customer. The primary output of the Company is the provision of Quantum Key Distribution rather than satellite design services and the sale of intellectual property. Whilst the performance obligations in the ESA Agreement are not the primary output of the Company, the sale of satellite design services and intellectual property is an ordinary output of the Company.

Given the judgement associated with the above, and whether the provision of such services is 'revenue' from the ordinary activities of the business, presentation as 'Other Income' is concluded as appropriate and reflects the substance of the ESA Agreement.

Deferred tax asset

Judgement is required to determine whether deferred tax assets are recognised in the statement of financial position. Deferred tax assets, arising from unutilised tax losses, require the Company to assess the likelihood it will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the net deferred tax assets recorded at the reporting date could be impacted.

Arqit Limited
Notes to the Financial Statements (continued)
For the year ended 30 September 2022

| 2. Revenue | Year ended 30 September 2022 | Year ended 30 September 2021 |
|---|------------------------------------|------------------------------------|
| | £ | £ |
| QuantumCloud™ – provision of services | 2,040,965 | 35,000 |
| All revenue was earned within the United Kingdom and is recognised over time. | | |
| 3. Other operating income | Year ended 30 September 2022 | Year ended 30 September 2021 |
| | £ | £ |
| Other operating income – European Space Agency | 10,178,201 | - |
| Income received from group undertakings | 1,656,447 | - |
| Total | 11,834,648 | - |
| 4. Operating loss | Year ended 30 September 2022 | Year ended 30 September 2021 |
| | £ | £ |
| This is stated after charging: | | |
| Depreciation – property, plant, and equipment | 215,724 | 38,390 |
| Depreciation – right-of-use assets | 722,429 | - |
| Foreign exchange | 11,296,722 | 455,259 |
| Rent | 94,108 | 137,150 |
| Share option charge | 140,018 | 120,955 |
| Auditor's remuneration - Audit services to company and its parent undertaking | 91,300 | 75,000 |
| 5. Expenses by nature | Year ended 30 September 2022 | Year ended 30 September 2021 |
| | £ | £ |
| Employee benefit expense and other staff costs | 14,400,948 | 8,432,269 |
| Capitalised within intangible assets | (3,843,113) | (2,540,836) |
| Legal and professional | 3,610,649 | 2,967,430 |
| Foreign exchange | 11,296,722 | 455,259 |
| Property costs | 581,816 | 139,476 |
| Share based compensation | 140,018 | 120,955 |
| Depreciation | 215,724 | 38,390 |
| Depreciation on right of use assets | 722,429 | - |
| Other expenses | 6,518,028 | 3,008,566 |
| Total administrative expenses | 33,643,221 | 12,621,509 |

Arqit Limited
Notes to the Financial Statements (continued)
For the year ended 30 September 2022

| 6. Finance costs | Year ended 30 September 2022 | Year ended 30 September 2021 |
|--|------------------------------------|------------------------------------|
| | £ | £ |
| Interest payable on convertible loan notes | - | 787,571 |
| Interest payable on lease liabilities | 157,000 | - |
| | <u>157,000</u> | <u>787,571</u> |

| 7. Income tax | 2022 | 2021 |
|--|----------|----------|
| | £ | £ |
| The tax charge/(credit) on the profit/(loss) on ordinary activities for the year was as follows: | | |
| Current tax | | |
| Current tax credit/(charge) – R&D | - | - |
| Deferred Tax | - | - |
| | <u>-</u> | <u>-</u> |
| Income tax | <u>-</u> | <u>-</u> |

Factors affecting tax charge/credit for the year

The tax assessed for the period is higher than (2021 - higher than) the standard rate of corporation tax in the United Kingdom of 19% (2021 – 19%). The differences are explained below:

| | 2022 | 2021 |
|--|--------------|--------------|
| | £ | £ |
| Loss from continuing operations | (19,924,608) | (13,374,080) |
| Tax at the applicable rate of 19% (2021 – 19%) | (3,785,676) | (2,541,075) |
| Tax effect of expenses that are not deductible in determining profit | | |
| Disallowable expenditure | 274,307 | 551,088 |
| Fixed asset timing differences | (60,020) | - |
| Unutilised losses | - | - |
| Unutilised tax losses on which deferred tax is not recognised | 3,571,389 | 3,738,925 |
| R&D tax credit | - | 24,291 |
| Additional deduction for R&D | - | (807,008) |
| Remeasurement of R&D | - | (966,221) |
| | <u>-</u> | <u>-</u> |
| Total tax credit | <u>-</u> | <u>-</u> |

Factors affecting the future tax charge

An increase in the UK corporate tax rate from 19% to 25% (effective from 1 April 2023) was substantively enacted on 14 May 2021. This will increase the Company's future current tax charge accordingly.

In addition to the deferred tax liability of £Nil (2021 - £Nil), a deferred tax asset of £49,082,059 (2021 - £29,430,485) was not recognised in respect of losses carried forward.

Arqit Limited
Notes to the Financial Statements (continued)
For the year ended 30 September 2022

8. Property, plant and equipment

| | Computer equipment £ | Fixtures and fittings £ | Office equipment £ | Total |
|-----------------------|----------------------------|-------------------------------|--------------------------|-----------|
| Cost | | | | |
| At 1 October 2020 | 24,717 | - | - | 24,717 |
| Additions | 165,247 | - | - | 165,247 |
| At 30 September 2021 | 189,964 | - | - | 189,964 |
| At 1 October 2021 | 189,964 | - | - | 189,964 |
| Additions | 1,037,473 | 494,978 | 15,504 | 1,547,955 |
| At 30 September 2022 | 1,227,437 | 494,978 | 15,504 | 1,737,919 |
| Depreciation | | | | |
| At 1 October 2020 | (3,995) | - | - | (3,995) |
| Charge | (38,390) | - | - | (38,390) |
| At 30 September 2021 | (42,385) | - | - | (42,385) |
| At 1 October 2021 | (42,385) | - | - | (42,385) |
| Charge | (181,658) | (32,498) | (1,568) | (215,724) |
| At 30 September 2022 | (224,043) | (32,498) | (1,568) | (258,109) |
| Net Book Value | | | | |
| At 30 September 2022 | 1,003,394 | 462,480 | 13,936 | 1,479,810 |
| At 30 September 2021 | 147,579 | - | - | 147,579 |

Arqit Limited
Notes to the Financial Statements (continued)
For the year ended 30 September 2022

9. Intangible fixed assets

| | Development Costs £ |
|-----------------------|------------------------------------|
| Cost | |
| At 1 October 2020 | 6,792,770 |
| Additions | 6,740,727 |
| | <hr/> |
| At 30 September 2021 | 13,533,497 |
| Additions | 22,825,263 |
| | <hr/> |
| At 30 September 2022 | 36,358,760 |
| | <hr/> |
| Amortisation | |
| At 1 October 2020 | - |
| Charge | - |
| | <hr/> |
| At 30 September 2021 | - |
| Charge | - |
| | <hr/> |
| At 30 September 2022 | - |
| | <hr/> |
| Net Book Value | |
| At 30 September 2022 | 36,358,760 |
| | <hr/> |
| At 30 September 2021 | 13,533,497 |
| | <hr/> |

The Company's intangible assets under development are internally generated and the Company has not yet begun amortisation of these finite useful economic life assets. £428,000 (2021: £181,000) of these capitalised costs relate to QuantumCloud.

An impairment test was performed for the year ended September 30, 2022, which considered the value of existing contracts and forecasted revenues. No impairment was deemed necessary. The Company will begin amortisation when the intangible assets are available for use.

Arqit Limited
Notes to the Financial Statements (continued)
For the year ended 30 September 2022

10. Fixed asset investments

| | Investment in Joint Venture £ | Investment in Subsidiaries £ | Total |
|----------------------|-------------------------------------|------------------------------------|--------|
| Cost | | | |
| At 1 October 2020 | 25,000 | - | 25,000 |
| Additions | - | 37 | 37 |
| | <hr/> | <hr/> | <hr/> |
| At 30 September 2021 | 25,000 | 37 | 25,037 |
| Additions | - | 8,483 | 8,483 |
| | <hr/> | <hr/> | <hr/> |
| At 30 September 2022 | 25,000 | 8,520 | 33,520 |
| | <hr/> | <hr/> | <hr/> |

Joint venture

Quantum Keep Limited is a joint venture of Arqit Limited, which is a 100% owned subsidiary of Arqit Quantum Inc. The registered office is One Fleet Place, London, England, EC4M 7WS. Arqit Limited jointly holds 50% of shares for the entity. The nature of Quantum Keep Limited's activities is that of business and domestic software development.

Quantum Keep Limited was incorporated on 12 August 2020 with Arqit Limited taking a 50% investment in incorporation.

Quantum Keep Limited has no activity relating to continuing or discontinued operations within the year. There was no other or total comprehensive income.

11. Subsidiaries

Details of the company's subsidiaries at 30 September 2022 are as follows:

| Name of undertaking | Registered office | Domicile | % held |
|-----------------------|---|-----------|--------|
| Arqit Inc. | 1209 Orange Street, Wilmington, County of Newcastle, Delaware 19801 | U.S. | 100 |
| Arqit LLC* | 1209 Orange Street, Wilmington, County of Newcastle, Delaware 19801 | U.S. | 100 |
| Arqit Italia S.R.L | Via Delle Quattro Fontane, 20, 00184 Roma | Italy | 100 |
| Arqit Quantum PTY Ltd | Level 10, 171 Clarence Street, Sydney NSW 2000 | Australia | 100 |

*Denotes indirect shareholding

Arqit Limited
Notes to the Financial Statements (continued)
For the year ended 30 September 2022

| 12. Trade and other receivables | 2022 | 2021 |
|--------------------------------------|------------------|----------------|
| | £ | £ |
| Current assets | | |
| Trade debtors | 1,736,241 | 42,000 |
| Other debtors | 2,229,369 | 635,736 |
| Amounts owed from group undertakings | 1,090,062 | - |
| Prepayments and accrued income | 698,138 | 267,125 |
| Total | 5,753,810 | 944,861 |

The directors consider that the carrying amount of financial assets recorded at amortised costs in the financial statements approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

| | | |
|--------------------------------------|-------------------|------------------|
| | 2022 | 2021 |
| | £ | £ |
| Non-current assets | | |
| Trade debtors | 879,884 | - |
| Prepayments | 14,323,908 | 3,642,138 |
| Amounts owed from group undertakings | 5,505,960 | - |
| Total | 20,709,752 | 3,642,138 |

Non-current prepayments comprise the payment of a non-refundable deposit towards the cost of the first satellite launch service, which is expected to be more than one year from the accounting reference date.

| 13. Trade and other payables | 2022 | 2021 |
|------------------------------------|-------------------|-------------------|
| | £ | £ |
| Current liabilities | | |
| Trade payables | 11,030,552 | 550,569 |
| Other tax and social security | 571,999 | 304,306 |
| Other creditors | 563,449 | 756,134 |
| Accruals | 1,866,375 | 2,378,717 |
| Deferred income | - | 1,971,209 |
| Amounts owed to group undertakings | 71,982,697 | 73,582,861 |
| Total | 86,015,072 | 79,543,796 |

Trade payables and accruals relate to amounts payable at the balance sheet date for services received during the year. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. The directors consider that the carrying amount of financial liabilities recorded at amortised costs in the financial statements approximate their fair value.

Within other creditors, a total of £nil (2021: £713,425) relates to interest owed on convertible loan notes which converted within the prior year.

Amounts owed to group undertakings are repayable on demand.

Arqit Limited
Notes to the Financial Statements (continued)
For the year ended 30 September 2022

13. Trade and other payables (continued)

| | 2022 | 2021 |
|--------------------------------|------------------|------------------|
| | £ | £ |
| Non-current Liabilities | | |
| Deferred government grants | 3,775,005 | 1,825,303 |
| | <u>3,775,005</u> | <u>1,825,303</u> |

| | | |
|---|---------------------|---------------------|
| 14. Cash generated from operations | 2022 | 2021 |
| | £ | £ |
| Loss before tax | (19,924,608) | (13,374,080) |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 215,724 | 38,390 |
| Depreciation of right-of-use assets | 722,429 | - |
| Change in trade and other receivables | (18,288,989) | (4,369,868) |
| Change in trade and other payables | 20,759,088 | 4,812,938 |
| Share option charge | 140,018 | 120,955 |
| Interest payable | 157,000 | 787,571 |
| Cash used in from operations | <u>(16,219,338)</u> | <u>(11,984,094)</u> |
| Reconciliation of net cashflow to movements in net debt: | | |
| Opening net cash/(debt) | 64,543,409 | (4,149,384) |
| Facilities received | - | (14,500,000) |
| Facilities converted | - | 14,000,000 |
| Loans issued to group undertakings | 3,587,574 | - |
| Repayment of borrowings | 12,338,110 | 4,800,000 |
| Movement in cash | (83,995,412) | 64,392,793 |
| Movement on foreign exchange | 12,197,835 | - |
| Movement in net (debt)/cash | <u>(55,871,893)</u> | <u>68,618,467</u> |
| Closing net cash/(debt) | <u>8,671,516</u> | <u>64,543,409</u> |
| Composition of closing net cash | | |
| Cash | 8,671,516 | 64,543,409 |
| Bank loans | - | - |
| Net cash/(debt) | <u>8,671,516</u> | <u>64,543,409</u> |

Arqit Limited
Notes to the Financial Statements (continued)
For the year ended 30 September 2022

15. Share-based payments

The Company has share option schemes for employees of the Company. Options are exercisable at the price agreed at the time of the issue of the share option. The vesting periods are consistent between employees. Options are typically forfeited if the employee leaves the Company before the options vest. Details of the share options movements during the period are as follows:

| | 2022 | Weighted Average Exercise Price (£) | 2021 | Weighted Average Exercise Price (£) |
|------------------------------------|----------------------------|--|----------------------------|--|
| | Number of Share options | | Number of Share options | |
| Outstanding at beginning of period | - | - | 161,250 | 0.0001 |
| Granted during the period | - | - | 55,210 | 0.0001 |
| Forfeited/lapsed during the period | - | - | (32,963) | 0.0001 |
| Exercised during the period | - | - | - | - |
| Transferred to parent undertaking | - | - | (183,497) | 0.0001 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Outstanding at end of period | - | - | - | - |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Exercisable at end of period | - | - | - | - |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

The options outstanding at 30 September 2021 had a weighted average exercise price of £0.01 pence, and a weighted average remaining contractual life of 4 years. Volatility is based on management's best estimate given that no historical share price is available. The inputs into the Black-Scholes model are as follows:

| | 2021 |
|-------------------------------------|---------|
| Weighted average share price (£) | 3.30 |
| Weighted average exercise price (£) | 0.0001 |
| Expected volatility | 50% |
| Expected life | 5 years |
| Risk-free rate | 0.1% |
| Expected dividend yield | 0% |

Following the reverse acquisition of AQI and in accordance with the Business Combination Agreement, all rights under the share option scheme transferred up to AQI on 3 September 2021.

| | 2022 £ | 2021 £ |
|---|----------------|----------------|
| Share option charge included in administrative expenses | 140,018 | 120,955 |
| | <u>140,018</u> | <u>120,955</u> |

Arqit Limited
Notes to the Financial Statements (continued)
For the year ended 30 September 2022

| 16. Staff costs and average number of employees | 2022 | 2021 |
|---|-------------------|------------------|
| | £ | £ |
| The aggregate remuneration comprised: | | |
| Wages and salaries | 8,968,167 | 6,963,440 |
| Social security costs | 1,039,151 | 904,741 |
| Pension costs | 550,516 | 120,669 |
| Share option charge | 140,018 | 120,955 |
| | <u>10,697,852</u> | <u>8,109,805</u> |

A total of £3,843,113 (2021: £2,540,836) relating to staff costs was capitalised as relating to development costs within intangibles within the year.

The average monthly number of professional employees (including executive directors) during the year was 113 (2021 – 59).

Total remuneration for key management personnel for 2022 was £2,966,315 (2021 - £2,433,318). Total pension contributions of key management personnel totalled £69,407 (2021 - £62,871) and is included within the total remuneration for key management personnel. Following the reverse acquisition of AQI and in accordance with the Business Combination Agreement, all rights under the share option scheme transferred up to AQI on 3 September 2021, no new share options were granted during the year (2021: 15,000).

During the year remuneration payable to directors was as follows:

| | | |
|-------------------------|------------------|----------------|
| | 2022 | 2021 |
| | £ | £ |
| Directors' remuneration | <u>1,450,613</u> | <u>994,974</u> |

Director's remuneration for the year ended 30 September 2021 has been restated from £1,440,314 to £994,974. The highest paid Director's remuneration for the year ended 30 September 2022 totalled £616,789 (2021: £510,883).

| 17. Deferred Tax | 2022 | 2021 |
|---|--------------------|--------------------|
| | £ | £ |
| At the beginning of the period | - | - |
| Movement in the year recognised in profit or loss | - | - |
| At the end of the year | <u>-</u> | <u>-</u> |
| The deferred tax liability/(asset) is made up as follows: | | |
| Intangible asset timing differences | 3,625,076 | 3,477,184 |
| Short term timing differences | 57,525 | - |
| Unrelieved tax losses | <u>(3,682,601)</u> | <u>(3,477,184)</u> |
| | <u>-</u> | <u>-</u> |

Arqit Limited
Notes to the Financial Statements (continued)
For the year ended 30 September 2022

18. Leases

The Company leases several assets including buildings and IT equipment. The average lease term for buildings is 5 years and for IT equipment is 3 years. Information about leases for which the Company is a lessee is presented below.

Right-of-use assets

| | Land and buildings | IT equipment | Total |
|-----------------------|--------------------|--------------|-----------|
| Cost | | | |
| At 1 October 2020 | - | - | - |
| Additions | - | - | - |
| At 30 September 2021 | - | - | - |
| At 1 October 2021 | - | - | - |
| Additions | 5,946,666 | 23,053 | 5,969,719 |
| At 30 September 2022 | 5,946,666 | 23,053 | 5,969,719 |
| Depreciation | | | |
| At 1 October 2020 | - | - | - |
| Charge | - | - | - |
| At 30 September 2021 | - | - | - |
| At 1 October 2021 | - | - | - |
| Charge | (717,947) | (4,482) | (722,429) |
| At 31 September 2022 | (717,947) | (4,482) | (722,429) |
| Net Book Value | | | |
| At 30 September 2022 | 5,228,719 | 18,571 | 5,247,290 |
| At 30 September 2021 | - | - | - |

| | 2022 £ | 2021 £ |
|--------------------------------|-----------|-----------|
| Current liabilities | | |
| Lease liabilities | 931,857 | - |
| Non-current liabilities | | |
| Lease liabilities | 5,849,692 | - |
| | 6,781,549 | - |

Amounts recognised in profit or loss

| | 2022 £ | 2021 £ |
|---|-----------|-----------|
| Depreciation expense on right of use assets | 722,429 | - |
| Interest on lease liabilities | 157,000 | - |
| Total | 879,429 | - |

Arqit Limited
Notes to the Financial Statements (continued)
For the year ended 30 September 2022

18. Leases (continued)

Amounts recognised in statement of cash flows

| | 2022 | 2021 |
|-------------------------------|------------------|----------|
| | £ | £ |
| Total cash outflow for leases | (804,063) | - |
| Total | (804,063) | - |

19 Share capital

| | Number of ordinary shares | Number of deferred shares* | Share capital £ |
|---------------------------------------|------------------------------|-------------------------------|--------------------|
| At 1 October 2021 – par value £0.0001 | 1,954,174 | 42,500 | 200 |
| Conversion of convertible loan notes | - | - | - |
| Deferred shares issued | - | - | - |
| At 30 September 2022 | 1,954,174 | 42,500 | 200 |

* Deferred shares are non-redeemable and have no voting rights and no rights to dividends. On a distribution or a winding up, the holders of the shares shall receive a total of £1.00 for the entire class of deferred shares.

20. Retained earnings

| | 2022 | 2021 |
|------------------------|---------------------|---------------------|
| | £ | £ |
| At 1 October | (13,757,938) | (383,858) |
| Loss for the year | (19,924,608) | (13,374,080) |
| Dividends paid | - | - |
| At 30 September | (33,682,546) | (13,757,938) |

21. Reserves

Share premium

Includes the difference in price between the par value of shares, and the total price a company received for those shares.

Convertible loan notes treated as equity

Included cumulative portion of 1,000,000 £1 convertible A loan notes treated as equity within 2020. This was removed within the prior year as the convertible loan notes converted on 3 September 2021.

Share based payment reserve

Cumulative charges in respect of share options issued.

Retained earnings

Includes cumulative profit and loss and all other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

Arqit Limited
Notes to the Financial Statements (continued)
For the year ended 30 September 2022

22. Financial instruments and fair value disclosures

Capital management

The Company's policy is to maintain a strong balance sheet for the business and to have an appropriate funding structure. Shareholders' equity and long-term debt are used to finance assets under construction.

Financial assets and financial liabilities

Categories of financial assets and financial liabilities are as follows:

Financial assets at amortised cost

| £ | Carrying value 30 September 2022 | Fair value 30 September 2022 |
|------------------------------------|-------------------------------------|---------------------------------|
| Cash and cash equivalents | 8,671,516 | 8,671,516 |
| Amounts owed by group undertakings | 6,596,022 | 6,596,022 |
| Trade and other receivables | 4,845,494 | 4,845,494 |
| | 20,113,032 | 20,113,032 |
| £ | Carrying value 30 September 2021 | Fair value 30 September 2021 |
| Cash and cash equivalents | 64,543,409 | 64,543,409 |
| Trade and other receivables | 677,736 | 677,736 |
| | 65,221,145 | 65,221,145 |

The Directors consider the carrying amounts of financial assets and financial liabilities recorded at amortised costs in the financial statements to approximate their fair value.

Financial liabilities at amortised cost

| £ | Carrying value 30 September 2022 | Fair value 30 September 2022 |
|------------------------------------|-------------------------------------|---------------------------------|
| Trade and other payables | 12,165,700 | 12,165,700 |
| Amounts owed to group undertakings | 71,982,697 | 71,982,697 |
| Lease liabilities | 6,781,549 | 6,781,549 |
| Deferred government grants | 3,775,005 | 3,775,005 |
| | 94,704,951 | 94,704,951 |
| £ | Carrying value 30 September 2021 | Fair value 30 September 2021 |
| Trade and other payables | 3,520,131 | 3,520,131 |
| Amounts owed to group undertakings | 73,582,861 | 73,582,861 |
| Deferred government grants | 1,638,507 | 1,638,507 |
| | 78,741,499 | 78,741,499 |

The Directors consider the carrying amounts of financial assets and financial liabilities recorded at amortised costs in the financial statements to approximate their fair value.

22. Financial instruments and fair value disclosures (continued)

Market risk

It is, and has been throughout the period under review, the Company's policy not to use or trade in derivative financial instruments. The Company's financial instruments comprise its cash and cash equivalents and various items such as trade debtors and creditors that arise directly from its operations. The main purpose of the financial assets and liabilities is to provide finance for the Company's operations in the period.

Interest rate risk management

The Company would be exposed to interest rate risk if the Company borrows funds, when required, at variable interest rates. There is currently no exposure to interest rate risk.

Credit risk

Credit risk is the risk of financial loss where counterparties are not able to meet their obligations. Company policy is that surplus cash, when not used to repay borrowings, is placed on deposit with the Company's main relationship banks and with other banks or money market funds based on a minimum credit rating of A3/A- and maximum exposure.

There is no significant concentration of risk to any single counterparty.

Management consider that the credit quality of the various receivables is good in respect of the amounts outstanding and therefore credit risk is considered to be low. There is no significant concentration of risk.

The carrying amount of financial assets, as detailed above, represents the Company's maximum exposure to credit risk at the reporting date assuming that any security held has no value.

Having considered the Company's exposure to bad debts and the probability of default by customers, no expected credit losses have been recognised in accordance with IFRS 9.

Foreign Exchange risk

The Company is exposed to foreign exchange risk to the extent that some of its transactions are in currencies in dominations other than pounds sterling ("sterling"). The Company holds sterling, US dollar and euro bank accounts in order to limit its exposure.

The company is also exposed to foreign exchange risk to the extent that its ultimate parent entity has a US dollar functional currency. This is limited to the parent consolidated accounts.

The table below summarises the FX exposure on the net monetary position against its functional currency.

| | |
|-------------------------------------|--------------|
| Year ended 30 September 2022 | £'000 |
| Total | 73,889 |

The reasonable shifts in exchange rates below are based on historic volatility.

If the £/\$ rates moved by +/- 10.41% then the effect on loss would be as follows:

| | |
|---------------------------------------|--------------|
| Year ended 30 September 2022 | £'000 |
| Reasonable shift | 10.41% |
| Total effect on Loss of +ve movements | 7,694 |
| Total effect on Loss of -ve movements | (7,694) |

Arqit Limited
Notes to the Financial Statements (continued)
For the year ended 30 September 2022

22. Financial instruments and fair value disclosures (continued)

Liquidity risk

Liquidity risk is the risk that the Company does not have sufficient financial resources available to meet its obligations as they fall due. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows, matching the expected cash flow timings of financial assets and liabilities with the use of cash and cash equivalents, borrowings, overdrafts and committed revolving credit facilities with a minimum of 12 months to maturity.

Future borrowing requirements are forecast on a monthly basis and funding headroom is maintained above forecast peak requirements to meet unforeseen events.

The maturity profile of the anticipated future cash flows including interest, using the latest applicable relevant rate, based on the earliest date on which the Company can be required to pay financial liabilities on an undiscounted basis, is as follows:

| 2022 £ | Trade and other payables | Amounts owed to group undertakings | Lease liabilities | Deferred government grants | Total |
|---|--------------------------------|--|----------------------|----------------------------------|------------|
| On demand | - | - | - | - | - |
| Within one year | 14,032,375 | 71,982,697 | 931,857 | - | 86,946,929 |
| More than one year but less than two years | - | - | 1,879,257 | - | 1,879,257 |
| More than two year but less than five years | - | - | 3,970,435 | 3,775,005 | 7,745,440 |
| More than five years | - | - | - | - | - |
| | 14,032,375 | 71,982,697 | 6,781,549 | 3,775,005 | 96,571,626 |

| 2021 £ | Trade and other payables | Amounts owed to group undertakings | Deferred government grants | Total |
|---|--------------------------------|--|----------------------------------|------------|
| On demand | - | - | - | - |
| Within one year | 5,960,935 | 73,582,861 | - | 79,543,796 |
| More than one year but less than two years | - | - | - | - |
| More than two year but less than five years | - | - | 1,825,303 | 1,825,303 |
| More than five years | - | - | - | - |
| | 5,960,935 | 73,582,861 | 1,825,303 | 81,369,099 |

23. Ultimate parent company

The immediate and ultimate parent undertaking is Arqit Quantum Inc., a Cayman Islands exempted limited liability company. This is the smallest and largest group to prepare consolidated financial statements.

Copies of the Arqit Quantum Inc. consolidated financial statements are available at c/o Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

24. Post balance sheet events

On October 17, 2022 Arqit Quantum (Singapore) Pte. Ltd became a wholly owned subsidiary of Arqit Limited.

On 4 April 2023 Virgin Orbit (VO) filed for Chapter 11 bankruptcy protection under the U.S. Bankruptcy Code. This has resulted in Arqit Limited recognising an impairment loss of £6.8m within the statement of comprehensive income post year-end.

Arqit Limited
Notes to the Financial Statements (continued)
For the year ended 30 September 2022

25. Related party transactions

In the year ended 30 September 2022, Arqit paid £4,594 (2021: £8,532) for the Company secretarial and accounting costs of Arqit PTE, a Company owned 50% by D Williams and 50% by D Bestwick. All related party transactions were on an arm's length basis.

In the year ended September 30, 2022, Arqit Limited paid £1,579 (2021: £nil) to Notion Capital for professional services, a related party company of Board Director member and Audit Committee Chair Stephen Chandler. All related party transactions were on an arm's length basis.

There were no further related party transactions.