Registered Number: 10544841

Arqit Limited

Annual report and audited financial statements

For the year ended 30 September 2020

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Directors	D J Bestwick S C Chandler D J Williams A K Hall (resigned 18 March 2021) T Elgamal (appointed 18 March 2021) N M Pointon (appointed 18 March 2021)
Company number	10544841
Registered office	1st floor, 3 More London Riverside More London Place London England SE1 2RE
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
Directors' Report
For the year ended 30 September 2020

The directors present their Directors' report and the financial statements for the year ended 30 September 2020. The directors have taken advantage of the small companies' exemption under section 414B of the Companies Act 2006 in relation to the preparation of the strategic report.

Principal Activity

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

Directors

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

D J Bestwick
S C Chandler
D J Williams
A K Hall (resigned 18 March 2021)
T Elgamal (appointed 18 March 2021)
N M Pointon (appointed 18 March 2021)

Going Concern

The Directors believe that its 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.

Business review

Arqit continues to meet technology and staffing milestones in its progress towards launch of commercial services. Additional funding was secured over the course of the period and further sources of funding are in advanced stages of progress. On 18 December 2020 the subsidiary Arqit Inc was incorporated, along with the immediate formation of Arqit LLC under Arqit Inc. These subsidiaries have been incorporated in the US for the purposes of the Company's future sales in the US market.

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. With careful focus on appropriate diversification and development of new products, as well as continuous review of the state of the market and the activities of competitors, the directors are confident in the company's ability to maintain and build on this position.

COVID-19 Uncertainty

The COVID-19 pandemic in the first quarter of 2020 has severely impacted markets and day-to-day working. Already many entities are grappling with disruptions to their businesses due to the COVID-19 outbreak, with many anticipating financial and operational consequences. The Company has invoked its business continuity processes, including remote working, to ensure the safety of its staff and to enable the Company to operate with minimal disruption.

Post balance sheet events

On 13 October 2020 the Company raised £8,500,000 of convertible loan notes through the Future Fund Scheme.

On 18 December 2020 the subsidiary Arqit Inc was incorporated, along with the immediate formation of Arqit LLC under Arqit Inc.

On 5 January 2021 the Company raised a further £2,000,000 through the issue of an unsecured convertible loan.

On 12 May 2021, the Company entered into a Business Combination Agreement with Centricus Acquisition Corp., a Cayman Islands exempted limited liability company, Arqit Quantum Inc., a Cayman Islands exempted limited liability company, and Centricus Heritage LLC, a Cayman Islands limited liability company. Centricus Acquisition Corp. agreed to combine with the Company in a business combination whereby Centricus Acquisition Corp. will merge with and into Arqit Quantum Inc. and Arqit Quantum Inc. will purchase all of the shares of the Company, making the Company become a direct wholly-owned subsidiary of Arqit Quantum Inc. Arqit Quantum Inc. is a newly formed entity that was formed for the sole purpose of entering into and consummating the transactions set forth in the Business Combination Agreement.

Dividends
The directors paid a dividend of £nil in the year (2019 - £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 risks and uncertainties
The company faces a number of business risks and uncertainties due to competitive trading conditions and new competition. In view of this, the directors are looking carefully at both existing and potential new markets. Financial risks have been considered in note 17 to the financial statements.

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.

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: 18 June 2021

Arqit Limited
Statement of Directors' Responsibilities
For the year ended 30 September 2020

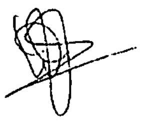
The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

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 international accounting standards in conformity with the requirements of the Companies Act 2006. 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 international accounting standards in conformity with the requirements of the Companies Act 2006 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: 18 June 2021

Opinion

We have audited the financial statements of Arqit Limited (the 'company') for the year ended 30 September 2020 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 a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2020 and of the company's loss for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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. 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. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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.

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

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

15 Westferry Circus
Canary Wharf
London E14 4HD

Date: 18 June 2021

Arqit Limited
Statement of Comprehensive Income
For the year ended 30 September 2020

	Note	Year ended 30 September 2020 £	Restated * Nine months ended 30 September 2019 £
Revenue		-	-
Other operating income	3	1,539,490	981,583
Administrative expenses	4	(2,173,713)	(697,282)
Operating (loss)/profit		(634,223)	284,301
Finance costs	5	(307,936)	(69,466)
Finance income	6	50,882	400,666
(Loss)/profit before tax		(891,277)	615,501
Income tax credit	7	445,723	199,227
(Loss)/profit for the financial year attributable to equity holders		(445,554)	814,728
Total comprehensive income for the year attributable to equity holders		(445,554)	814,728
Earnings per ordinary share from continuing operations attributable to equity holders	8	(0.3463)	0.6332

* See note 2 for details regarding the restatement for transition to IFRS

There was no other comprehensive income for 2020 (2019: £NIL).

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

The accompanying notes on pages 11 to 38 form an integral part of the financial statements.

Arqit Limited
Statement of financial position
Registered number: 10544841
As at 30 September 2020

	Note	30 September 2020 £	30 September 2019 Restated * £	1 January 2019 Restated * £
ASSETS				
Non-current assets				
Property, plant and equipment	9	20,722	4,115	-
Intangible assets	10	6,792,770	3,275,544	348,505
Fixed asset investments	11	25,000	-	-
		6,838,492	3,279,659	348,505
Current assets				
Trade and other receivables	12	217,169	726,329	36,144
Cash and cash equivalents		150,616	3,420,730	251,286
		367,785	4,147,059	287,430
Total assets		7,206,277	7,426,718	635,935
LIABILITIES				
Current liabilities				
Trade and other payables	13	1,846,518	3,074,136	388,838
Borrowings	14	4,225,854	-	-
Total current liabilities		6,072,372	3,074,136	388,838
Non-current liabilities				
Trade and other payables	13	413,358	167,289	-
Borrowings	14	-	2,668,800	-
Deferred tax	18	-	445,723	-
Total non-current liabilities		413,358	3,281,812	-
Total liabilities		6,485,730	6,355,948	388,838
Net assets		720,547	1,070,770	247,097
EQUITY				
Share capital	19	129	129	129
Convertible loan notes treated as equity	21	1,000,000	1,000,000	1,000,000
Other reserves	21	104,276	8,945	-
Retained earnings	20	(383,858)	61,696	(753,032)
Total equity		720,547	1,070,770	247,097

The directors have taken advantage of the small companies' exemption under section 414B of the Companies Act 2006 in relation to the preparation of the strategic report.

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

D J Williams
Director
Date: 18 June 2021

* See note 2 for details regarding the restatement for transition to IFRS

Arqit Limited
Statement of Changes in Equity
For the year ended 30 September 2020

	Share Capital £	CLNs treated as equity	Other Reserves £	Retained Earnings £	Total £
Balance at 1 January 2019	129	-	-	(922,178)	(922,049)
IFRS first time adoption adjustment	-	1,000,000	-	169,146	1,169,146
Balance at 1 January 2019 restated	129	1,000,000	-	(753,032)	247,097
Profit for the period (restated*)	-	-	-	814,728	814,728
Other comprehensive income	-	-	-	-	-
Total comprehensive income (restated*)	-	-	-	814,728	814,728
Transactions with owners in their capacity as owners:					
Share option charge	-	-	8,945	-	8,945
	-	-	8,945	-	8,945
Balance at 30 September 2019 attributable to owners of the company	**129**	**1,000,000**	**8,945**	**61,696**	**1,070,770**
Balance at 30 September 2019 as originally presented	129	-	6	(2,360,576)	(2,360,441)
IFRS first time adoption adjustment	-	1,000,000	8,939	2,422,272	3,431,211
Restated total equity as at 30 September 2019	129	1,000,000	8,945	61,696	1,070,770
Loss for the year	-	-	-	(445,554)	(445,554)
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	(445,554)	(445,554)
Transactions with owners in their capacity as owners:					
Share option charge	-	-	95,331	-	95,331
	-	-	95,331	-	95,331
Balance at 30 September 2020 attributable to owners of the company	**129**	**1,000,000**	**104,276**	**(383,858)**	**720,547**

The accompanying notes on pages 11 to 38 form an integral part of the financial statements.

Arqit Limited
Statement of Cash Flows
For the year ended 30 September 2020

	Note	Year ended 30 September 2020 £	Nine months ended 30 September 2019 £
Cash flows from operating activities			
Cash (used in)/generated from operations	15	(1,677,478)	3,100,841
Tax received		644,950	-
Net cash (used in)/generated from operating activities		(1,032,528)	3,100,841
Cash flows from investing activities			
Capital expenditure on property, plant and equipment		(20,360)	(4,357)
Capital expenditure on intangibles		(3,517,226)	(2,927,040)
Net cash (used in) investing activities		(3,537,586)	(2,931,397)
Cash flows from financing activities			
Proceeds from issue of convertible loans		500,000	3,000,000
Proceeds from borrowing		800,000	-
Net cash generated from financing activities		1,300,000	3,000,000
Net (decrease)/increase in cash and cash equivalents		(3,270,114)	3,169,444
Cash and cash equivalents at beginning of period		3,420,730	251,286
Cash and cash equivalents at end of period		150,616	3,420,730

The accompanying notes on pages 11 to 38 form an integral part of the financial statements.

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. The address of its registered office and its principal place of trading is 1st floor, 3 More London Riverside, More London Place, London SE1 2 RE, United Kingdom.

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

Basis of preparation

The financial statements have been prepared in accordance with international accounting standards in conformity 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.

For all periods up to and including the period ended 30 September 2019, the Company prepared its financial statements in accordance with UK generally accepted accounting principles (UK GAAP). These financial statements for the year ended 30 September 2020 are the first the Company has prepared in accordance with IFRS.

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.

On 12 May 2021, the Company announced its agreement with a special purpose acquisition company ("SPAC"), pursuant to which a newly formed entity will merge with the SPAC, with the newly formed entity surviving and acquiring all of the outstanding share capital of the Company, following which the Company will become a subsidiary of the newly formed entity. Substantially concurrently with the foregoing, investors will make a private investment in public equity ("PIPE") in the newly formed entity (the "Proposed Transactions"). The Proposed Transactions are subject to several conditions, including SPAC shareholder consent, which management believes will be forthcoming as a matter of course. In addition to the funds raised through the PIPE, the Directors have also considered the likely range of redemption levels by the initial SPAC investors prior to the close date, based upon other historic SPAC transactions. The Proposed Transactions are expected to close in the second half of the calendar year 2021. As a result, the Directors are actively managing the cash position of the Company between the date of approval of the financial statements and the closing date for the Proposed Transactions.

Once the Proposed Transactions have closed, Arqit Limited will be part of the newly created group with significant cash resources created with the sole purpose of investing in the Company's activities under the control of its management. Accordingly, management have considered the budgets and forecasts of the group and have prepared cash flow forecasts for a period of at least 12 months from the date of approval of the financial statements.

In the event the Proposed Transactions do not close, Arqit Limited must seek additional funding from a source other than the Proposed Transactions. Arqit Limited's three existing venture capital investors ("VC's") have expressed an intention to continue to support it with another funding round should the Proposed Transactions fail to close. To date the Company has been successful in securing funding when required. Any delays in the timing and / or quantum of raising additional funds can be accommodated by a range of alternative measures, including deferring discretionary expenditure or securing other short term funding.

Whilst no formal commitments remain in place, management recognise that this represents an uncertainty in relation to the possible future availability of funds such that the Company may meet its liabilities as they fall due. However, should the Proposed Transactions not close, management has every reason to believe the VC's intention to continue to provide support and is confident of being able to close a funding round within a short period of time raising sufficient funds to secure the Company's future for at least a further 12 months.

1. General information and significant accounting policies (continued)

Based on the above considerations, 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 a going concern basis. The financial statements do not include the adjustments that would be necessary should the going concern basis no longer be appropriate.

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 2019, none of which had a material impact :

- IFRS 16 'Leases'
- Amendments to IAS 28: Long-term interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015-2017
- Interpretation 23 'Uncertainty over Income Tax Treatments'

The Company has not early applied 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);
- IFRS 17: Insurance Contracts (effective for periods commencing on or after 1 January 2023);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) (effective for periods commencing on or after 1 January 2022);
- 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); and
- References to Conceptual Framework (Amendments to IFRS 3) (effective for periods commencing on or after 1 January 2022).

The directors of the Company (the "Directors") anticipate that the application of all new and amendments to IFRS 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 via satellite and terrestrial platforms.

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.

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 a 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 and other operating income

The Company adopted IFRS 15 'Revenue from contracts with customers' from 1 May 2018 and other income is recognised in accordance with this standard. 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.

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

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. 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.

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.

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.

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 on 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.

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

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

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 credit-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.

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.

Share based payments
Where share options are awarded to employees, the fair value of the options at the date of grant 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 Statement of Financial Position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options 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 takes into account 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).

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.

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.

1. General information and significant accounting policies (continued)

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.

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.

The Company as lessee has elected not to apply the requirements under IFRS 16 to short-term leases held. The lease payments associated with those leases are recognised 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.

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 2020, the carrying amount of capitalised development costs were £6,792,770 (2019: £3,275,544, 1 January 2019: £348,505).

Share-based payments
Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected 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 16.

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.

Market rate of interest used in accounting for convertible loan notes
Management have deemed the interest to be 10%. This assessment was made on the basis of informal opinions sought from advisers, and management's own experience of similar instruments from prior engagements in other businesses.

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 Group 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 Group to realise the net deferred tax assets recorded at the reporting date could be impacted.

2. First time adoption of IFRS

These financial statements, for the year ended 30 September 2020, are the first the Company has prepared in accordance with IFRS. For periods up to and including the year ended 30 September 2019, the Company prepared its financial statements in accordance with UK generally accepted accounting principles (UK GAAP).

Accordingly, the Company has prepared financial statements that comply with IFRS applicable as at 30 September 2020, together with the comparative period data for the period ended 30 September 2019, as described in the summary of significant accounting policies. In preparing the financial statements, the Company's opening statement of financial position was prepared as at 1 January 2019, the Company's date of transition to IFRS. This note explains the principal adjustments made by the Company in restating its UK GAAP financial statements, including the statement of financial position as at 1 January 2019 and the financial statements as of, and for, the period ended 30 September 2019.

The nature of the adjustments are explained within the notes to the reconciliation below.

2. First-time adoption of IFRS *continued*

Reconciliation of equity as at 1 January 2019 (date of transition)

	Note	UK GAAP £	Reclassification and Remeasurement £	IFRS as at 1 January 2019 £
Assets				
Non-current assets				
Property, plant and equipment		-	-	-
Intangible fixed assets	B	-	348,505	348,505
		-	348,505	348,505
Current assets				
Trade and other receivables		36,973	(829)	36,144
Cash and cash equivalents		251,286	-	251,286
		288,259	(829)	287,430
Total assets		288,259	347,676	635,935
Current liabilities				
Trade and other payables	A,C	(210,308)	(178,530)	(388,838)
Non-current liabilities		-	-	-
Total liabilities		(210,308)	(178,530)	(388,838)
Net assets		77,951	169,146	247,097
Equity and reserves				
Share capital	C	163	(34)	129
Share premium	C	999,966	(999,966)	-
Convertible loan notes treated as equity	C	-	1,000,000	1,000,000
Retained earnings		(922,178)	169,146	(753,032)
Total equity		77,951	169,146	247,097

2. First-time adoption of IFRS *continued*
Reconciliation of equity as at 30 September 2019

	Note	UK GAAP	Reclassification and Remeasurement	IFRS as at 30 September 2019
		£	£	£
Assets				
Non-current assets				
Property, plant and equipment		4,115	-	4,115
Intangible fixed assets	B	-	3,275,544	3,275,544
		4,115	3,275,544	3,279,659
Current assets				
Trade and other receivables	F	81,378	644,951	726,329
Cash and cash equivalents		3,420,736	(6)	3,420,730
		3,502,114	-	4,147,059
Total assets		3,506,229	3,920,495	7,426,718
Current liabilities				
Trade and other payables	A,E	(4,866,670)	1,792,534	(3,074,136)
Non-current liabilities				
Trade and other payables	A	-	167,289	167,289
Borrowings	E	-	2,668,800	2,668,800
Deferred tax	G	-	445,723	445,723
Total non-current liabilities		-	(3,281,812)	(3,281,812)
Total liabilities		(4,866,670)	(1,489,278)	(6,355,948)
Net assets/(liabilities)		(1,360,441)	2,431,211	1,070,770
Equity and reserves				
Share capital	C	163	(34)	129
Share premium	C	999,966	(999,966)	-
Convertible loan notes treated as equity	C	-	1,000,000	1,000,000
Other reserves	D	6	8,939	8,945
Retained earnings		(2,360,576)	2,422,272	61,696
Total equity		(1,360,441)	2,431,211	1,070,770

2. First-time adoption of IFRS *continued*

Reconciliation of total comprehensive income for the 9 month period ended 30 September 2019

	Note	UK GAAP £	Remeasurements	IFRS for the period ended 30 September 2019 £
Revenue		-	-	-
Other operating income	H	2,176,978	(1,195,395)	981,583
Administrative expenses	B,D	(3,615,376)	2,918,094	(697,282)
Operating profit / (loss)		(1,438,398)	1,722,699	284,301
Interest payable	E	-	(69,466)	(69,466)
Finance income	E	-	400,666	400,666
Profit / (Loss) before tax		(1,438,398)	2,053,899	615,501
Income tax expense	F,G	-	199,227	199,227
Profit / (Loss) for the financial year		(1,438,398)	2,253,126	814,728

A – Government Grants
Under UK GAAP, the Company had the option to recognise government grants on a performance basis or on accruals basis. The Company opted for the performance basis and thus recognised government grants as income in the statement of comprehensive income when performance conditions were met.

The government grants received by the Company are for the purposes of aiding in the build of a depreciable asset. Under IAS 20, such government grants are accounted for under the accruals basis and are recognised as deferred income and systematically amortised over a period matching the useful life of the asset. The grant is recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. Therefore, all income from government grants has been reversed and treated as deferred income. The grants will then be released to income over the same period the asset is depreciated.

B – Capitalisation of Development costs
Under UK GAAP, the Company had recognised development costs as expenditure through the profit or loss when incurred.

Under IAS 38, such development costs are required to be capitalised when all the recognition criteria are met.

C – Convertible loan note A

IAS 32 defines equity as 'any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities' The anti-dilutive provision within the agreement is structured in order to put the convertible debt holders in the same economic position relative to existing ordinary shareholders if an adjusting event were to occur and as such does not breach the fixed-for-fixed criterion and therefore the loan notes should be treated as equity.

D – Share option charge

Share options have been valued in line with IFRS 2. This has been recognised as an expense through profit or loss with the corresponding credit recognised through other reserves in equity.

E – Convertible loan note B

Convertible loan note is treated as a liability under IAS 32 as the loan notes attract no interest. However they are redeemable on maturity at the request of the holder and therefore the Company has an obligation to deliver cash or another financial asset to the loan holder. The initial recognition difference has been recognised within finance income.

F – R&D Tax Credit

An R&D claim was made for an R&D tax credits relating to 2018 and 2019. This has been accrued as the receipt was probable and the expenditure related to the period. The R&D tax credits were previously recognised on a cash received basis.

G – Deferred Tax Liability

A deferred tax liability has been recognised in respect of fixed asset timing differences relating to the capitalisation of development costs, offset by a deferred tax asset on unutilised losses.

H — European Space Agency

Other operating income previously recognised has been transferred to deferred income, pending satisfaction of the performance obligation for that milestone.

		Year ended 30 September 2020	Nine months ended 30 September 2019 Restated
3.	**Other operating income**	**£**	**£**
	European Space Agency (ESA) Contract	1,539,490	981,583

		Year ended 30 September 2020	Nine months ended 30 September 2019 Restated
4.	**Operating (loss)/profit**	**£**	**£**
	This is stated after charging:		
	Depreciation	3,753	242
	Foreign exchange	(7,725)	47,308
	Rent	124,315	45,748
	Share option charge	95,331	8,945
	Bad debt expense	6,373	-
	Auditor's remuneration - Audit services	65,000	-

		Year ended 30 September 2020	Nine months ended 30 September 2019 Restated
5.	**Finance costs**	**£**	**£**
	Interest payable on convertible loan notes	307,936	69,466

		Year ended 30 September 2020	Nine months ended 30 September 2019 Restated
6.	**Finance income**	**£**	**£**
	Initial recognition difference of convertible loan notes	50,882	400,666

7. Income tax credit

	2020	2019
	£	£
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	-	644,950
Deferred Tax	445,723	(445,723)
Income tax credit	445,723	199,227

Factors affecting tax charge/credit for the year

The tax assessed for the period is lower than (2019 - lower than) the standard rate of corporation tax in the United Kingdom of 19% (2019 – 19%). The differences are explained below:

	2020	2019 Restated
	£	£
(Loss) / Profit from continuing operations	(891,277)	615,501
Tax at the applicable rate of 19% (2019 – 19.00%)	(169,343)	116,945
Tax effect of expenses that are not deductible in determining profit		
Disallowable expenditure	18,826	47,210
Fixed asset timing differences	(668,272)	(556,138)
Unutilised losses	1,113,995	110,415
Tax losses surrendered for R&D credit	-	(164,155)
Unutilised tax losses on which deferred tax is not recognised	150,517	-
R&D tax credit	-	644,950
Total tax credit	445,723	199,227

8. Earnings per share

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to shareholders by the weighted average number of ordinary shares in issue during the period.

Basic EPS	Earnings	Weighted average number of shares	Per share amount
	£		£
2020	(445,554)	1,286,600	(0.3463)
2019	814,728	1,286,600	0.6332

Diluted EPS is equal to basic EPS in 2020 and 2019 as the potentially diluted instruments are not in the money and therefore not dilutive. Diluted EPS is not relevant for 2020 due to the loss for the year.

9 Property, plant and equipment

	Computer equipment £
Cost	
At 1 January 2019	-
Additions	4,357
At 30 September 2019	4,357
Additions	20,360
At 30 September 2020	**24,717**
Depreciation	
At 1 January 2019	-
Charge	(242)
At 30 September 2019	(242)
Charge	(3,753)
At 30 September 2020	**(3,995)**
Net Book Value	
At 30 September 2020	**20,722**
At 30 September 2019	4,115
At 1 January 2019	-

10 Intangible fixed assets

	Development Costs
	£
Cost	
At 1 January 2019	348,505
Additions	2,927,039
At 30 September 2019	3,275,544
Additions	3,517,226
At 30 September 2020	6,792,770
Amortisation	
At 1 January 2019	-
Charge	-
At 30 September 2019	-
Charge	-
At 30 September 2020	-
Net Book Value	
At 30 September 2020	6,792,770
At 30 September 2019	3,275,544
At 1 January 2019	348,505

10a. Restatement relating to IFRS adjustment

Following a review of the profit and loss accounts for the periods ended 31 December 2018 and 30 September 2019 it was noted that capital expenditure relating to the development of prototypes had been expensed. In accordance with IAS 38, and under IFRS, costs of £348,505 and £2,927,039 in the periods ending 31 December 2018 and 30 September 2019 respectively have been capitalised leading to the restatement of balances from these periods.

11 Fixed asset investments

	Investment in Joint Venture
	£
Cost	
At 1 January 2019	-
Additions	-
At 30 September 2019	-
Additions	25,000
At 30 September 2020	25,000

Joint venture

Quantum Keep Limited is a joint venture of Arqit Limited. 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 on incorporation.

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

12. Trade and other receivables

	30 September 2020 £	30 September 2019 Restated £	1 January 2019 Restated £
Other debtors	117,563	715,077	36,144
Prepayments and accrued income	99,606	11,252	-
Total	217,169	726,329	36,144

The directors consider that the carrying amount of financial assets recorded at amortised costs in the financial statements approximate their fair value. Other debtors in 209 included R&D tax credit receivables amounting to £644,950, which were fully received during 2020.

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

13. Trade and other payables

	2020 £	2019 Restated £	1 January 2019 Restated £
Current liabilities			
Trade payables	198,779	204,577	43,213
Other tax and social security	256,566	56,313	11,819
Other creditors	32,228	1,766	1,573
Accruals	151,478	1,604,013	23,050
Deferred income	1,207,467	1,207,467	309,183
Total	1,846,518	3,074,136	388,838

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.

	2020 £	2019 Restated £	1 January 2019 Restated £
Non-current Liabilities			
Deferred government grants	413,358	167,289	-
	413,358	167,289	-

14. Borrowings

	2020 £	2019 Restated £	1 January 2019 Restated £
Current liabilities			
Bridging finance	800,000	-	-
Convertible loan notes B	3,425,854	-	-
	4,225,854	-	-
Non-current Liabilities			
Convertible loan notes B	-	2,668,800	-

Fair value	2020 £	2019 Restated £	1 January 2019 Restated £
Bridging finance	800,000	-	-
Convertible loan notes A (treated as equity)	1,000,000	1,000,000	1,000,000
Convertible loan notes B	3,425,854	2,668,800	-
	4,425,854	3,668,800	1,000,000

Bridging Finance
The Company received a £800,000 loan from Evolution Equity Capital Limited in the year ended 30 September 2020. The loan attract interest at 0% and was fully repaid post year end.

Convertible loan notes A ("CLNA")
The Company issued £1,000,000 CLNAs on 22 March 2018. The CLNAs have a 0% interest rate and are not redeemable unless otherwise agreed in writing by the Company and Lender. As the CLNA attract no interest and are not redeemable without the written agreement of the Company, the Company has no obligation to deliver cash or another financial asset to the loan holder. Therefore, the CLNAs have been treated as equity in accordance with IAS 32.

Convertible loan notes B ("CLNB")
The Company issued £3,000,000 CLNBs on 21 June 2019 and issued a further £500,000 in the year ended 30 September 2020. The CLNBs have a 0% interest rate and are redeemable at the principal amount plus an amount equal to 20% of such principal amount at any time on or after the maturity date. The CLNBs are convertible at any time after the maturity date or upon an exit event for a variable number of ordinary shares. As the CLNB are redeemable at the want of the note holders and convert into a variable number of equity instruments, they have been treated as a financial liability in accordance with IAS 32.

15. Cash generated from operations

	2020 £	2019 Restated £
Loss before tax	(891,277)	615,501
Adjustments for:		
Depreciation	3,753	242
Change in trade and other receivables	(135,790)	(45,235)
Change in trade and other payables	(1,006,549)	2,852,588
Share option charge	95,331	8,945
Interest income	(50,882)	(400,666)
Interest payable	307,936	69,466
Cash (used in)/generated from operations	(1,677,478)	3,100,841
Reconciliation of net cashflow to movements in net debt:		
Opening net cash/(debt)	420,730	251,286
Facilities received	(1,300,000)	(3,000,000)
Movement in cash	(3,270,114)	3,169,444
Movement in net cash/ (debt)	(4,570,114)	169,444
Closing net cash/(debt)	(4,149,384)	420,730
Composition of closing net cash/(debt)		
Cash	150,616	3,420,730
Bank loans	(800,000)	
Convertible loans	(3,500,000)	(3,000,000)
Net cash/(debt)	(4,149,384)	420,730

16. 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 granted during the period are as follows:

	2020		2019	
	Number of Share options	Weighted Average Exercise Price (£)	Number of Share options	Weighted Average exercise Price (£)
Outstanding at beginning of period	72,700	0.0001	8,700	0.0001
Granted during the period	88,550	0.0001	64,000	0.0001
Forfeited/lapsed during the period	-	-	-	-
Exercised during the period	-	-	-	-
Outstanding at end of period	161,250	0.0001	72,700	0.0001
Exercisable at end of period	-		-	

The options outstanding at 30 September 2020 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:

	2020	2019
Weighted average share price (£)	3.30	2.95
Weighted average exercise price (£)	0.0001	0.0001
Expected volatility	50%	50%
Expected life	5 years	5 years
Risk-free rate	0.1%	0.1%
Expected dividend yield	0%	0%

	2020	2019 Restated
	£	£
Share option charge included in administrative expenses	95,331	8,945
	95,331	8,945

17. Staff costs and average number of employees

	2020	2019 Restated
	£	£
The aggregate remuneration comprised:		
Wages and salaries	997,167	296,333
Social security costs	128,219	29,555
Pension costs	94,626	31,911
Share option charge	95,331	8,945
	1,315,343	366,744

The average monthly number of professional employees (including executive directors) during the year was 16 (2019 - 6).

Total remuneration for key management personnel for 2020 was £986,849 (2019- £382,222). Total pension contributions of key management personnel totalled £92,917 (2019 - £32,065) and is included within the total remuneration for key management personnel. A total of 32,500 (2019: 12,500) share options were granted to key management personnel in the year.

A total of £1,530,132 (2019: £327,565) relating to staff costs was capitalised as relating to development costs within intangibles within the year.

During the year remuneration payable to directors was as follows:

	2020	2019 Restated
	£	£
Directors' remuneration	794,071	382,222

The highest paid Directors remuneration totalled £295,694 (2019: £160,132).

18. Deferred Tax

	2020	2019 Restated
	£	£
At the beginning of the period	445,723	-
Movement in the year recognised in profit or loss	(445,723)	445,723
At the end of the year	-	445,723

The deferred tax liability/(asset) is made up as follows:

	2020	2019 Restated
Intangible asset timing differences	1,224,410	556,138
Unrelieved tax losses	(1,224,410)	(110,414)
	-	445,723

19. Share capital

	Allotted, called up and fully paid		
	2020	2019 Restated	1 January 2019 Restated
	£	£	£
1,286,600 ordinary shares of £0.0001 each	129	129	129

Each share entitles the holder to one vote.

20. Retained earnings

	2020	2019 Restated
	£	£
At 1 October/ 1 January	61,696	(753,032)
Profit/(Loss) for the year	(445,554)	814,728
Dividends paid	-	-
At 30 September	(383,858)	61,696

21. Reserves

Convertible loan notes treated as equity
Includes cumulative portion of 1,000,000 £1 convertible A loan notes treated as equity.

Other reserves
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.

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 2020	Fair value 30 September 2020
Cash and cash equivalents	150,616	150,616
Trade and other receivables	167,050	167,050
	317,666	**317,666**

£	Carrying value 30 September 2019	Fair value 30 September 2019
Cash and cash equivalents	3,420,730	3,420,730
Trade and other receivables	715,077	715,077
	4,135,807	**4,135,807**

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

Financial liabilities at amortised cost

£	Carrying value 30 September 2020	Fair value 30 September 2020
Trade and other payables	1,589,952	1,589,952
Deferred government grants	413,358	413,358
Bridging finance	800,000	800,000
Convertible loans	3,425,854	3,425,854
	6,229,164	6,229,164

£	Carrying value 30 September 2019	Fair value 30 September 2019
Trade and other payables	3,017,823	3,017,823
Deferred government grants	167,289	167,289
Convertible loans	2,668,800	2,668,800
	5,853,912	5,853,912

(a) 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.

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 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 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
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 and euro bank accounts in order to limit its exposure.

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:

2020 **£**	**Trade and other payables**	**Deferred government grants**	**Loans**	**Convertible loans notes**	**Total**
On demand	-	-	-	-	-
Within one year	1,846,518	-	800,000	3,425,854	6,047,372
More than one year but less than two years	-	-	-	-	-
More than two year but less than five years	-	413,358	-	-	413,358
More than five years	-	-	-	-	-
	1,846,518	**413,358**	**800,000**	**3,425,854**	**6,485,730**

2019 £	Trade and other payables	Deferred government grants	Loans	Convertible loans notes	Total
On demand	-	-	-	-	-
Within one year	3,074,136	-	-	-	3,074,136
More than one year but less than two years	-	-	-	2,668,800	2,668,800
More than two year but less than five years	-	167,289	-	-	167,289
More than five years	-	-	-	-	-
	3,074,136	**167,289**	**-**	**2,668,800**	**5,910,225**

23. Ultimate controlling party

As at 30 September 2020 the Directors consider there to be no ultimate controlling party as no single shareholder controls more than 50% of votes in general meeting.

24. Post balance sheet events

On 13 October 2020 the Company raised £8,500,000 of convertible loan notes through the Future Fund Scheme.

On 18 December 2020, the subsidiary Arqit Inc., a Delaware corporation, was incorporated, along with the immediate formation of Arqit LLC Arqit Inc.

On 5 January 2021 the Company raised a further £2,000,000 through the issue an unsecured convertible loan.

On 12 May 2021, the Company entered into a Business Combination Agreement with Centricus Acquisition Corp., a Cayman Islands exempted limited liability company, Arqit Quantum Inc., a Cayman Islands exempted limited liability company, and Centricus Heritage LLC, a Cayman Islands limited liability company. Centricus Acquisition Corp. agreed to combine with the Company in a business combination whereby Centricus Acquisition Corp. will merge with and into Arqit Quantum Inc. and Arqit Quantum Inc. will purchase all of the shares of the Company, making the Company became a direct wholly-owned subsidiary of Arqit Quantum Inc. Arqit Quantum Inc. is a newly formed entity that was formed for the sole purpose of entering into and consummating the transactions set forth in the Business Combination Agreement.

25. Related party transactions

In the year ended 30 September 2020, Arqit paid £6,258 (2019: £7,843) for the company secretarial and accounting costs of Arqit PTE, a company owned 50% by David Williams and 50% by David Bestwick. As at 30 September 2019 there was a receivable of £6,373 due from Arqit PTE which was subsequently written off during the year ended 30 September 2020. All related party transactions were on and arm's length basis.

As at 30 September 2020, there was a receivable of £16,000 relating to an advance on commission paid to David Williams, a director of the Company. This was fully repaid in December 2020.

There were no further related party transactions.