Canonical Group Limited

Annual Report and Financial Statements

Year Ended 31 December 2023

Company Number 06870835

Canonical Group Limited

Annual report and financial statements
for the year ended 31 December 2023

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Directors

Neil French

Registered office

5 New Street Square, London EC4A 3TW

Company number

06870835

Auditors

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

Canonical Group Limited

Strategic report
for the year ended 31 December 2023

The director presents the strategic report together with the audited financial statements for the year ended 31 December 2023.

Principal activities

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

Review of development and strategic position of the business

Ubuntu is the preferred platform for developers and is widely used for Linux deployments across both public clouds, private data centres and embedded infrastructures. Thanks to its security, versatility and policy of regular updates, Ubuntu is the leading cloud guest operating system and the only free cloud operating system with the option of enterprise-grade commercial support. Today, most large-scale private clouds are built with OpenStack on top of Ubuntu. Ubuntu's adaptability and the secure, open-source nature of Ubuntu Core make it an attractive choice also for IoT developers and manufacturers. Given Ubuntu's prominence in the developer community and its suitability for IoT applications, a significant portion of IoT devices (network equipment, smart home devices, self-driving cars and advanced humanoid robots) run on Ubuntu.

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

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

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

Canonical Group Limited

Strategic report
for the year ended 31 December 2023 *(continued)*

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

Performance

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

In the year to 31 December 2023, revenue increased by US$ 46m to US$ 251m. The CHL Group continued to invest in human resources with average headcount moving from 858 to 1034, compared to the previous fiscal year. Growth in revenue was primarily invested in Sales & Marketing and Research & Development. Operating profit was US$ 45m for the year (2022: US$ 44m).

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

KPIs	**2023**	2022
Revenue	**US$ 251m**	US$ 205m
Gross margin	**80%**	82%
Sales & Marketing expense (% of revenue)	**21%**	19%
Research & Development expense (% of revenue)	**26%**	26%
General & Administrative expense (% of revenue)	**15%**	16%
Cash flows from operating activities	**US $47m**	US$ 62m
Average headcount	**1,034**	858

The Board is satisfied with the overall performance as indicated by these metrics. The increase in revenue year on year reflects growth with existing customers and new wins. This was supported by the increased investment in sales and marketing, and staffing levels in the CHL Group to adequately support the additional performance obligations arising from the additional revenue. Additionally, the Board elected to invest some of last year's profitability in additional R&D activity to bolster long term revenue growth rates. Cash flow was lower in 2023 than the prior year, reflecting growth in working capital as the business scaled

Principal risks and uncertainties

We identify risks to the business with input from the Board of Directors and from senior managers that occupy leadership roles across the company, focusing on the risks that are most significant for us. These are then assessed and mitigating action plans are reviewed and committed, with documented owners and reporting cadence. Risks and mitigations are reviewed by the Audit Committee and the Board on a regular basis. The principal risks are as follows.

Cyber security risk - the Group is exposed to external and internal threats that may impact our products, our data, and our ability to operate our systems. The consequences may include significant reputational damage, legal liability, and disruption to core business functions. We have actions in place to ensure our development cycle is secure, we have visibility into and protection of our corporate infrastructure and the devices accessing that infrastructure. These are continuously reviewed to mitigate the risks as sophistication of actors increases.

People risk - our continued success depends critically on our ability to develop mature, strong and complete teams at Board and Executive levels and more broadly to attract talent at the required pace, volume, quality and cost, to retain and develop that talent, and to engage and motivate them. We invest heavily in attracting talent into the business, including over the past year significantly strengthening our Board and Executive teams, however there are still a number of open senior positions to fill and areas where the business is critically dependent on certain individuals. We have developed a rigorous process for hiring that seeks excellence in all roles and leverages our remote-first nature to tap into the widest talent pools in multiple geographies. We regularly review engagement within the business and act on the feedback we receive to maintain competitive compensation, benefits and career development opportunities.

Emerging technology risk - our industry moves at a fast pace and therefore we are at risk that we may not adapt to technological changes, both from innovation and commercialisation perspectives. Our development plans and product direction is shaped through Board discussion, regular internal product strategy reviews and close collaboration with leading edge customers and alliance partners. These multiple perspectives are integrated into a vision and roadmap that is designed to intercept, and drive where appropriate, the technology directions in our industry and ensure we are resilient to competitor and industry actions.

Geopolitical risk – the Group operates globally, including working in Taiwan with semiconductor manufacturers. The Group could be affected by geopolitical trade and technology disputes and by wars. The war in Ukraine has not significantly impacted the Group during 2023 as it had very limited exposure to contracts in Ukraine and Russia, and no exposure to Belarus. Management have taken steps to ensure compliance with payment restrictions and other regulations affecting these regions.

Financial risk management objectives and policies

The group only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from related parties and accrued expenses. The main purpose of these financial instruments is to support the cross-border financing needs of the group's operations. Given the increase in both interest rates and foreign exchange volatility during 2023, the Board directed management to begin investing excess cash in low risk fixed term deposits and to purchase operating currencies in higher quantities to cover a longer period of expected expenses than was previously the policy.

Financial risk management objectives and policies *(continued)*

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

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

Credit risk - The group's principal credit risk relates to recovery of amounts owed by trade debtors. This risk is managed by determining payment terms and a credit limit for customers based on third party credit references, payment history and other factors. This risk is reviewed regularly in conjunction with debtor ageing and bad debt expense. Additionally, the group also has minor credit risk from fixed term deposits, which are only placed with Global Systemically Important Banks domiciled in countries with strong regulatory frameworks.

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

Geopolitical risk – The war in eastern Europe has not significantly impacted the Group during 2023 as the Group had very limited exposure to contracts in Ukraine and Russia, and no exposure to Belarus. Management have taken steps to ensure compliance with payment restrictions and other regulations affecting these regions.

Future developments

The group's principal strategic initiatives during the year included ongoing improvement of the product offerings via the group's software roadmap, and continued development of the various global channel-led sales routes. The group is going to continue to grow its resources during the year ahead to ensure long term success of the business.

Section 172 Statement

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

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

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

In addition to the above, during 2023 the Board initiated the following specific activities, limited here to matters of strategic importance only:

Canonical invested in the Ubuntu Pro product in an effort to expand benefits for customers. Historically, Canonical has only supported its core infrastructure software, including its operating system. Ubuntu Pro is an additional stream of security updates and packages that meet compliance requirements such as FIPS or HIPAA, on top of an Ubuntu Long Term Support releases. Ubuntu Pro provides an SLA for security fixes for the entire distribution for ten years which represents more than 25,000 open source packages. Historically 90% of them came with no security maintenance commitment from Canonical. Canonical and the Ubuntu community only provided best-effort maintenance for those packages. With the launch of Ubuntu Pro, all of the packages of the Ubuntu distribution (Main and Universe) get the same long term security maintenance commitment from Canonical. In directing this investment, the Board expects to support previous investments in stickier products that affect a smoother stream of recurring subscription revenue with less extreme alternating churn and expansion characteristics over a two year cycle (the release cycle of Long Term Support versions of Ubuntu).

The Board also directed Canonical management to continue making material investments in attaching subscription and services up-sales to revenue coming through the public cloud channel, via joint go-to-market initiatives with Canonical's channel partners. This is a multiyear strategic initiative, but 2023 was another record year for both channel revenue and cloud revenue, which both had revenue growth rates in excess of the company-wide average. Significant product launches are scheduled for 2024 which are expected to continue to drive these business lines.

The group is going to continue to grow its resources during the year ahead to ensure long term success of the business.

Approval

This strategic report was approved on behalf of the Board on 2 April 2024.

DocuSigned by:

Nil French

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Director

The directors present their report together with the audited financial statements of the Group for the year ended 31 December 2023.

Results and dividends

The consolidated income statement is set out on page 14 and shows the profit for the year.

During the period, no dividends were paid (2022 – US$ Nil).

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

Political Contributions

The Group made no political contributions during the financial year (2022 - US$ Nil).

Going concern

The Directors are confident of building on the successes of 2023 and expect to further improve financial performance in 2024.

The Directors have considered the potential risks to financial performance and modelled a variety of scenarios over the going concern period. Based on these scenarios, the Directors are satisfied that the Group has adequate resources to continue in operational existence for at least 12 months from the date of signing of these financial statements and is able to meet its liabilities as they fall due. Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

The full going concern statement is disclosed on page 25 in note 3.

Director

The director of the company during the year and after the year-end was:

Neil French

Employee policies

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

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

Canonical's diversity initiatives are applicable but not limited to our practices and policies on recruitment and selection; compensation and benefits; professional development and training; promotions; transfers; social and recreational programs; layoffs; terminations; and the ongoing development of a work environment built on the premise of gender and diversity equity that encourages and enforces:

1. Respectful communication and cooperation between all team members.
2. Teamwork and individual participation, permitting the representation of all groups and team member perspectives.
3. Work/life balance through flexible work schedules to accommodate team members' varying needs.
4. Organisation and team member contributions to the communities we serve to promote a greater understanding and respect for diversity.

All team members at Canonical have a responsibility to treat others with dignity and respect at all times. All team members are expected to exhibit conduct that reflects inclusion during work, at work functions on or off the work site, and at all other organisation-sponsored and participative events. All team members are also required to attend and complete annual diversity awareness training to enhance their knowledge to fulfil this responsibility.

Employee involvement

The company operates in a predominantly remote capacity, with team members coming together in person at multiple points throughout the year to spark creativity, collaboration and further embed our cultural values. In addition, following the lifting of COVID related travel restrictions we re-introduced in-person inductions, spanning 3 days, to best embed and solidify personnel into the organisation.

Recruiting new talent is an area in which we invest heavily, and requires large involvement from our personnel to ensure we attract, identify and subsequently engage with highly talented individuals, so as to continue to grow and develop the organisation. An area of current focus is in relation to ensuring we are representative of the demographics of the market in which we operate, and the disciplines in which we recruit; largely engineering. Our Women's Resource Group is active in supporting these initiatives, including company support and attendance of WomenTech.

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

Employee involvement *(continued)*

High engagement and employee well-being are key priorities for Canonical Group Limited. Engaged employees are more motivated, committed and focused on their work, their team and the future of the organisation they work for. We invest a lot of time and money in ensuring we are hiring the top people in the industry and we work hard to ensure we provide an environment to foster a culture of engaged employees.

Understanding what motivates and keeps people engaged is key to supporting retention and productivity. For this reason we collate feedback via the Canonical People Survey each year, providing team members with an opportunity to share candid, confidential feedback to the business on motivating factors and areas we could improve. The survey provides us with an opportunity to understand the temperature of the company and to support a culture of transparency and open communication.

We partner with CultureAmp, an industry leader in employee engagement practices and are able to track trends and changes year over year. We recently experienced an uplift in Engagement with the main area of concern being visible action, from this we decided that each leader would define, with input from their team, and action 3 areas of improvement unique to each team, to collectively address this area and ensure engagement is at the forefront of leaders minds.

Auditors

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

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

Energy and carbon reporting

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

On behalf of the Board

DocuSigned by:
Neil French
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Director

Neil French

2 April 2024

Directors' responsibilities statement
for the year ended 31 December 2023

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

Company law requires the director to prepare financial statements for each financial year. Under that law. the director has elected to prepare the group and company financial statements in accordance with UK adopted international accounting standards. Under company law. the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period.

In preparing these financial statements, the Director is required to:

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

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

Canonical Group Limited

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2023 and of the Group's profit and the Parent Company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Canonical Group Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2023 which comprise Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of financial position, Consolidated statement of changes in equity, Consolidated statement of cash flows, Company statement of profit or loss and other comprehensive income, Company statement of financial position, Company statement of changes in equity, Company statement of cash flows and notes to the financial statements, including a summary of material accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Other information

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

Other information *(continued)*

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

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

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

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

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

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

Responsibilities of Director

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

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent 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.

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

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

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

Non-compliance with laws and regulations
Based on:

- Our understanding of the Group and the industry in which it operates;
- Discussion with management and those charged with governance and those responsible for legal, tax, accounting and compliance procedures;
- Obtaining and understanding of the Group's policies and procedures regarding compliance with laws and regulations.

We considered the significant laws and regulations to be the applicable accounting framework, UK tax legislation, Data Privacy, Companies Act 2006, Health & Safety Legislation and Bribery Act 2010.

The Group is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be Companies Act 2006.

Our procedures in respect of the above included:

- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of correspondence with tax authorities for any instances of non-compliance with laws and regulations;
- Review of financial statement disclosures and agreeing to supporting documentation;
- Involvement of tax specialists in the audit; and
- Review of legal expenditure accounts to understand the nature of expenditure incurred.

Fraud
We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Group and Company's policies and procedures relating to:
  - Detecting and responding to the risks of fraud; and
  - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and
- Considering remuneration incentive schemes and performance targets and the related financial statement areas impacted by these.

Based on our risk assessment, we considered the areas most susceptible to fraud to be revenue from professional services contracts open at the year end and management override of controls.

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

Our procedures in respect of the above included:
- Testing a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation;
- Challenging management's assessments, assumptions and evaluating data used as the basis for making estimates to assess whether judgements made in making accounting estimates are indicative of potential bias by management;
- With regards to the risk of fraud for open professional services revenue contracts, our procedures included assessing whether the revenue recognition policies adopted by the Group and Company comply with accounting standards. We checked a sample of revenue transaction amounts recognised around year end against the date the performance obligation was satisfied to check that revenue was recorded in the correct period and deferred revenue was appropriately calculated.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

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

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

Date: 2 April 2024

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

Canonical Group Limited

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2023

	Note	2023 US$ 000	2022 US$ 000
Revenue	5	**250,506**	205,358
Cost of Sales		**(32,015)**	(25,030)
Gross profit		**218,491**	180,328
Other Operating Income		**7,866**	6,326
Sales and Marketing Expenses		**(75,413)**	(52,328)
Research and Development Expenses		**(31,634)**	(27,757)
General and Administrative Expenses		**(108,089)**	(102,124)
Operating profit	6	**11,220**	4,445
Finance Income		**4,334**	108
Finance Costs	8	**(372)**	(175)
Profit before Tax		**15,182**	4,378
Taxation	9	**(2,596)**	(452)
Profit for the financial year		**12,586**	3,926
Other Comprehensive Income			
Foreign Currency Translation		**(83)**	-
Total Comprehensive Income		**12,503**	3,926

All amounts relate to continuing activities.

The accompanying notes form an integral part of these financial statements.

Canonical Group Limited

Consolidated statement of financial position
at 31 December 2023

	Note	2023	2022
		US$ 000	US$ 000
Non-Current Assets			
Plant Property and Equipment	10	**8,107**	5,438
Intangible Assets	11	**2,507**	2,000
Right of Use Assets	15	**5,459**	1,884
Deferred tax Asset	17	**7,791**	8,302
Contract Costs	14	**970**	293
Total Non-Current Assets		**24,834**	17,917
Current Assets			
Contract Assets	13	**6,733**	6,165
Contract Costs	14	**790**	654
Trade and Other Receivables	16	**38,123**	23,284
Cash and Cash Equivalents	21	**85,588**	98,953
Total Current Assets		**131,234**	129,056
Total Assets		**156,068**	146,973
Non-Current Liabilities			
Contract liabilities	23	**7,913**	6,945
Lease Liabilities	18	**4,170**	1,225
Total Non-Current Liabilities		**12,083**	8,170
Current Liabilities			
Trade and Other Payables	19	**106,169**	118,677
Contract Liabilities	23	**43,488**	38,925
Lease Liabilities	18	**1,537**	974
Total Current Liabilities		**151,194**	158,576
Total Liabilities		**163,277**	166,746
Net Liabilities		**(7,209)**	(19,773)
Equity			
Share Capital	20	**-**	-
Share Premium		**-**	-
Capital Contribution	22	**3,628**	3,567
Accumulated Losses		**(10,837)**	(23,340)
Total Equity		**(7,209)**	(19,773)

The accompanying notes form an integral part of these financial statements.
The financial statements of Canonical Group Limited, registered number 06870835 were approved by the Board of Directors and authorised for issue on 2 April 2024.

Director
Neil French

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Neil French
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Canonical Group Limited

Consolidated statement of changes in equity
at 31 December 2023

	Share capital	Share premium	Capital Contribution	Accumulated Losses	Total equity
	US$ 000	US$ 000	US$ 000	US$ 000	US$ 000
Balance at 1 January 2022	**-**	**-**	**3,455**	**(27,266)**	**(23,811)**
Profit for the year	-	-	-	3,926	3,926
Total comprehensive income	**-**	**-**	**-**	**3,926**	**3,926**
Transactions with owners:					
Share based payments	-	-	112	-	112
Dividend Paid	-	-	-	-	-
Total transactions with owners	**-**	**-**	**112**	**-**	**112**
Balance at 31 December 2022	**-**	**-**	**3,567**	**(23,340)**	**(19,773)**
Balance at 1 January 2023	**-**	**-**	**3,567**	**(23,340)**	**(19,773)**
Profit for the year	-	-	-	12,586	12,586
Other comprehensive income	-	-	-	(83)	(83)
Total comprehensive income	**-**	**-**	**-**	**12,503**	**12,503**
Transactions with owners:					
Share based payments	-	-	61	-	61
Dividend Paid	-	-	-	-	-
Total transactions with owners	**-**	**-**	**61**	**-**	**61**
Balance at 31 December 2023	**-**	**-**	**3,628**	**(10,837)**	**(7,209)**

The accompanying notes form an integral part of these financial statements.

Canonical Group Limited

Consolidated statement of cash flows for the year ended 31 December 2023

	Note	2023	2022
		US$ 000	US$ 000
Operating activities:			
Profit for the year		**12,586**	3,926
Adjustments for:			
Finance income		**(4,334)**	(108)
Finance costs		**372**	175
Share based payment expenses	22	**61**	112
Tax charge		**2,596**	452
Depreciation and amortisation		**4,692**	4,447
(Increase)/decrease in trade and other receivables		**(17,660)**	4,803
(Decrease)/increase in trade and other payables		**(6,977)**	26,458
Cash (used in)/generated by operations		**(8,665)**	40,265
Income taxes (paid)/received		**(461)**	1,032
Net cash flow (used in) / from operating activities		**(9,126)**	41,297
Investing activities:			
Purchase of property, plant and equipment		**(5,528)**	(3,299)
Capitalisation of development costs		**(1,189)**	(492)
Interest Received		**4,334**	108
Net cash flow used in investing activities		**(2,383)**	(3,683)
Financing activities:			
Payment of lease liabilities - capital		**(1,484)**	(1,270)
Payment of lease liabilities – interest		**(366)**	(175)
Other interest charges		**(6)**	-
Net cash used in financing activities		**(1,856)**	(1,445)
Net (decrease) / increase in cash and cash equivalents		**(13,365)**	36,168
Cash and cash equivalents at 1 January	21	**98,953**	62,785
Cash and cash equivalents at 31 December		**85,588**	98,953

The accompanying notes form an integral part of these financial statements.

Canonical Group Limited

Company statement of profit or loss and other comprehensive income for the year ended 31 December 2023

	Note	2023 US$ 000	2022 US$ 000
Revenue	5	**249,197**	205,266
Cost of Sales		**(11,886)**	(9,249)
Gross profit		**237,311**	196,017
Other Operating Income		**725**	837
Sales and Marketing Expenses		**(55,050)**	(36,918)
Research and Development Expenses		**(9,341)**	(5,985)
General and Administrative Expenses		**(168,980)**	(152,675)
Operating profit	6	**4,665**	1,276
Finance Income		**4,334**	107
Finance Costs	8	**(302)**	(128)
Profit before Tax		**8,697**	1,255
Taxation		**(727)**	**(337)**
Profit for the financial period and total comprehensive income		**7,970**	918

All amounts relate to continuing activities.

The accompanying notes form an integral part of these financial statements.

Canonical Group Limited

Company statement of financial position
at 31 December 2023

	Note	2023	2022
		US$ 000	US$ 000
Non-Current Assets			
Plant Property and Equipment	10	**6,494**	3,150
Intangible Assets	11	**413**	98
Right of Use Assets	15	**4,339**	1,542
Investments in Subsidiaries	12	**710**	710
Deferred Tax Asset	17	**7,429**	6,962
Contract Costs	14	**60**	2
Total Non-Current Assets		**19,445**	12,464
Current Assets			
Contract Assets	13	**6,472**	6,164
Contract Costs	14	**46**	8
Trade and Other Receivables	16	**36,615**	21,997
Short-Term Loans Receivable		**-**	719
Cash and Cash Equivalents	21	**61,002**	91,241
Total Current Assets		**104,135**	120,129
Total Assets		**123,580**	132,593
Non-Current Liabilities			
Deferred Tax Liabilities	17	**-**	-
Contract Liabilities	23	**7,709**	6,896
Lease Liabilities	18	**3,198**	1,193
Total Non-Current Liabilities		**10,907**	8,089
Current Liabilities			
Trade and Other Payables	19	**121,460**	146,289
Contract Liabilities	23	**43,217**	38,925
Lease Liabilities	18	**1,334**	620
Total Current Liabilities		**166,011**	185,834
Total Liabilities		**176,918**	193,923
Net Liabilities		**(53,338)**	(61,330)
Equity			
Share Capital	20	**-**	-
Share Premium		**-**	-
Capital Contribution		**1,154**	1,132
Accumulated Losses		**(54,492)**	(62,462)
Total Equity		**(53,338)**	(61,330)

The accompanying notes form an integral part of these financial statements.
The financial statements of Canonical Group Limited, registered number 06870835 were approved by the Board of Directors and authorised for issue on 2 April 2024.

DocuSigned by:

Director Neil French

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Neil French

Canonical Group Limited

Company statement of changes in equity for the year ended 31 December 2023

	Share capital	Share premium	Capital Contribution	Accumulated Losses	Total equity
	US$ 000	US$ 000	US$ 000	US$ 000	US$ 000
Balance at 1 January 2022	-	-	**1,069**	**(63,380)**	**(62,311)**
Profit for the year	-	-	-	918	918
Total comprehensive income	-	-	-	**918**	**918**
Transactions with owners:					
Share based payments	-	-	63	-	63
Deferred tax on share based payments recognised within equity	-	-	-	-	-
Total transactions with owners	-	-	**63**	-	**63**
Balance at 31 December 2022	-	-	**1,132**	**(62,462)**	**(61,330)**
Balance at 1 January 2023	-	-	**1,132**	**(62,462)**	**(61,330)**
Profit for the year	-	-		7,970	7,970
Total comprehensive income	-	-		**7,970**	**7,970**
Transactions with owners:					
Share based payments	-	-	22	-	22
Deferred tax on share based payments recognised within equity	-	-	-	-	-
Total transactions with owners	-	-	**22**	-	**22**
Balance at 31 December 2023	-	-	**1,154**	**(54,492)**	**(53,338)**

The accompanying notes form an integral part of these financial statements.

Canonical Group Limited

Company statement of cash flows
for the year ended 31 December 2023

	Note	2023	2022
		US$ 000	US$ 000
Operating activities:			
Profit for the year		**7,970**	918
Adjustments for:			
Finance income		**(4,334)**	(107)
Finance costs		**302**	128
Share based payment expenses	22	**22**	63
Tax charge		**727**	337
Depreciation and amortisation		**2,180**	2,484
(Increase)/decrease in trade and other receivables		**(15,161)**	6,193
(Decrease)/increase in trade and other payables		**(19,893)**	28,640
Cash (used in)/generated by operations		**(28,186)**	38,656
Income taxes received		**100**	806
Net cash flow (used in) / from operating activities		**(28,086)**	39,462
Investing activities:			
Purchase of property, plant and equipment		**(4,824)**	(1,426)
Capitalisation of development costs		**(315)**	(98)
Interest Received		**4,334**	107
Net cash flow used in investing activities		**(805)**	(1,417)
Financing activities:			
Payment of lease liabilities - capital		**(1,046)**	(850)
Payment of lease liabilities – interest		**(302)**	(128)
Net cash used in financing activities		**(1,348)**	(978)
Net (decrease) / increase in cash and cash equivalents		**(30,239)**	37,067
Cash and cash equivalents at 1 January	21	**91,241**	54,174
Cash and cash equivalents at 31 December		**61,002**	**91,241**

The accompanying notes form an integral part of these financial statements.

1. General Information

Canonical Group Limited is a private company, limited by shares, incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on the contents page and the nature of the group's operations, and its principal activities are set out in the directors' report. The 2023 consolidated financial statements have been prepared in accordance with UK adopted International Financial Reporting Standards ("IFRS").

2. New standards, amendments and interpretations

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

There are a number of standards, amendments to standards, and interpretations which have been issued that are effective in the current accounting periods as below.

IFRS 17 Insurance Contracts (including the June 2020 and December 2021 Amendments to IFRS 17)
IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts. IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The group has adopted IFRS 17 and the related amendments for the first time in the current year. The group does not have any contracts that meet the definition of an insurance contract under IFRS 17.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 *Making Materiality Judgements—Disclosure of Accounting Policies*

The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'Material accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The group has adopted the amendments to IAS 1 for the first time in the current year.

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

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit.

The group has adopted the amendments to IAS 12 for the first time in the current year, however, they do not have a material impact.

Amendments to IAS 12 Income Taxes— International Tax Reform — Pillar Two Model Rules

The IASB amends the scope of IAS 12 to clarify that the Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the OECD, including tax law that implements qualified domestic minimum top-up taxes described in those rules.

The amendments introduce a temporary exception to the accounting requirements for deferred taxes in IAS 12, so that an entity would neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

The group has adopted the amendments to IAS 12 for the first time in the current year, however, they do not have a material impact.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The definition of a change in accounting estimates was deleted. The group has adopted the amendments to IAS 8 for the first time in the current year.
There are a number of standards, amendments to standards, and interpretations which have been issued that are effective in future accounting periods that the group has decided not to adopt early.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures—Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. This would not be applicable to the Group as there are no Associated or Joint Ventures within the Group.

Amendments to IAS 1 Presentation of Financial Statements—Classification of Liabilities as Current or Non-current
The amendments to IAS 1, published in January 2020, affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The Group is currently assessing the potential impact of this amendment on its financial statements, however, such impact, if any, is not expected to be material.

Amendments to IAS 1 Presentation of Financial Statements— Non-current Liabilities with Covenants
The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or non-current). Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g. a covenant based on the entity's financial position at the reporting date that is assessed for compliance only after the reporting date). This would not be applicable to the Group as there are no non-current liabilities with covenants within the Group.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures— Supplier Finance Arrangements
The amendments add a disclosure objective to IAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, IFRS 7 was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk. This would not be applicable to the Group as there are no Supplier Finance Agreements within the Group.

Amendment to IFRS 16 Leases—Lease Liability in a Sale and Leaseback
The amendments to IFRS 16 add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller- lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognise a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date. This would not be applicable to the Group as there are no Sales and Leaseback Agreements within the Group.

The above changes do not have a significant impact on the group's financial statements.

3. Material accounting policies

Basis of accounting

The financial statements have been prepared in accordance with UK-adopted international accounting standards and on the historical cost basis, at the end of each reporting period, as explained in the accounting policies below. The financial statements have been prepared using the US Dollar as the presentation currency, due to the fact that the US Dollar is the functional currency of the company. The year-end exchange rate between US Dollar and Sterling was 1.2731 (2022: 1.2105). Amounts are rounded to the nearest thousand, unless otherwise stated.

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

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

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

Basis of consolidation

The group financial statements consolidate the financial statements of Canonical Group Limited and all its subsidiary undertakings as at 31 December 2023. The group uses the acquisition method of accounting to consolidate the results of the subsidiary undertakings unless otherwise stated.

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

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

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

3. Material accounting policies *(continued)*

Basis of consolidation *(continued)*

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

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

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

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

Going concern

The Directors are confident of building on the successes of 2023 and expect to further improve financial performance in 2024. However, despite a successful 2023, with high levels of recurring revenue and cash in the business as of 31 December 2023, the Directors have considered associated risks with doing business in the current economic and geo-political climate.

The ongoing conflicts in Eastern Europe and the Middle East have had negligible impact on Canonical operations.

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

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

The base case budget for the year ended 2024 and the long-range plan for 2025 involves a plan for the group to reach a positive cash flow position, despite increasing annualised costs by 34%. The Group has been profitable since 2018, owing to the ability of the Directors to limit cost growth to less than sales growth during that time.

3. Material accounting policies *(continued)*

Going concern *(continued)*

Given the high level of planned, but unexecuted investment in people in the 2024 plan and 2025 long-range plan, there is a high level of immediate control available to the Directors in order to respond to the current uncertain economic environment and any additional crises that emerge. Furthermore, the level of committed, non-cancellable costs in the business are very low, being primarily comprised of relatively small rents and annual software licences.

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

The forecasts prepared by the Directors include scenarios where the group's sales and renewal plan is significantly impacted, by an approximate 25% reduction in recognized revenue which can be comfortably sustained before enacting significant cost-cutting measures. This level of reduction is not expected by management due to the nature of the services provided and due to the fact that a large portion of income throughout the plan period (to 31 December 2025) has already been contracted with large customers that are expected to succeed and continue growing (e.g., public cloud operators with market capitalizations in excess of a trillion USD).

Based on the forecasts noted above, the various scenarios considered and the sensitivities applied thereto, including the CHL Group's inherent remote operating capabilities, and the high level of management's ability to reduce future costs rapidly, the Directors are satisfied that the Group has adequate resources to continue in operational existence for at least 12 months from the date of signing of these financial statements and is able to meet its liabilities as they fall due. Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

After making enquiries of the shareholders and having given consideration to the fact that the parent company, Canonical Holdings Limited, has confirmed that it will not recall the amounts due to related undertakings within one year of the date of signing of these financial statements and the company will provide further financial support if needed, the directors are satisfied that the company has sufficient resources to continue in operational existence for at least 12 months from the date of signing of these financial statements and consequently continue to adopt the going concern basis in preparing these financial statements.

3. Material accounting policies *(continued)*

Revenue recognition

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

- Subscriptions
- Professional Services

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

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

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

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

2. **Identify the performance obligations in the contract:**

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

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

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

3. **Determine the transaction price:**

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

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

3. Material accounting policies *(continued)*

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

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

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

The customer credit policy of the Group is 30 days.

4. Allocate the transaction price to the performance obligations:

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

5. Recognise revenue:

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

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

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

3. Material accounting policies *(continued)*

Contract assets and Contract liabilities

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

Contract costs

Sales Commissions: The Group capitalises sales commission costs when they are incremental and, if expected to be recovered, they are amortised over the customer life or pattern of revenue for the related contract. The Group applies a practical expedient to expense sales commissions costs as incurred where the related benefit is one year or less. The effect of using this expedient is US$ 1,665,000 (2022 - US$ 206,000) additional expense. The Company is US$ 125,000 (2022 - US$ 5,000).

Foreign currency

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

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

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

3. Material accounting policies *(continued)*

Investments in subsidiaries

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

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

Property, plant, and equipment

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

Computer equipment	- over 30 months straight line
Fixtures and fittings	- over 30 or 60 months straight line depending on local requirements
Leasehold improvements	- over the term of the lease

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

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

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

3. Material accounting policies *(continued)*

Internally-generated intangible assets – research and development expenditure

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

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

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

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

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

Amortisation policy

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

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

The basis for choosing these useful lives is with reference to the typical period between long-term releases of the Ubuntu software.

3. Material accounting policies *(continued)*

Short-term and other long-term employee benefits

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

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

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

Defined contribution schemes

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

Taxation

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

Current tax

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

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

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

Deferred tax

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

3. Material accounting policies *(continued)*

Deferred tax *(continued)*

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

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

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

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

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

Current tax and deferred tax for the year

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

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

Financial Instruments

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

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

3. Material accounting policies *(continued)*

Financial Instruments *(continued)*

A. Financial assets

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

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

(i) Classification of financial assets

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

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

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

(ii) Amortised cost and effective interest method

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

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

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

(iii) Impairment of financial assets

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

3. Material accounting policies *(continued)*

Financial Instruments *(continued)*

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

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

All Intercompany Short Term Loans within the Group are repayable on demand, and therefore, IFRS 9 Section B applies when considering the recoverability and impairment of these loans. In line with Paragraph B5.5.38 of IFRS 9 Canonical applies the assumption that the loan is demanded at the reporting date (31 December 2023) and thus will reflect any impairment losses that may be incurred at this date.

The following aspects are taken into account by the Group when performing these assessments:

- The probability of default – the likelihood that the borrower would not be able to repay in the payment period,
- The loss given default – the loss that occurs if the borrower is unable to repay in that payment period
- The exposure at default – the outstanding balance at the reporting date.

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

(iv) Derecognition of financial assets

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

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

3. Material accounting policies *(continued)*

B. Financial liabilities and equity

(i) Classification as debt or equity

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

(ii) Equity instruments

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

(iii) Share capital

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

(iv) Financial liabilities

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

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

3. Material accounting policies *(continued)*

Financial Instruments *(continued)*

(v) Derecognition of financial liabilities

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

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

Leases

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

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

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

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

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

3. Material accounting policies *(continued)*

Leases (*continued*)

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

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

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

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

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

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

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

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

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

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

3. Material accounting policies *(continued)*

Share-based payments

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

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

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

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

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

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

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

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

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

3. **Material accounting policies** *(continued)*

Cost of sales

Cost of sales represent the costs that arise in order to deliver the product that gives rise to revenue. These include costs of consulting, cost of delivering support services and royalties payable to third parties.

Operating expenses

The operating expenses arise from running an operating business. These costs are largely fixed i.e. they would be incurred whether revenue is generated or not.

Sales and marketing expenses represent the portion of operating costs concerned with marketing, pipeline generation, selling and business development.

Research and development expenses represent the portion of operating expenses concerned with product development, including both engineering and commercial development (product management).

General and administrative costs arise from the central non-operating divisions i.e Operations(finance, facilities, legal, HR, talent, workplace engineering) and Commercial and Information Systems.

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements

Revenue Stage of Completion

Determination of the stage of completion in respect of revenue recognised for professional services.

Stage of completion takes into account the completion of various milestones within the contract and is determined on a monthly basis by the project managers of the relevant contracts. Completion of these milestones look into when the customer receives and benefits from the services delivered depending on the various tasks performed. These include tasks such as initiation and design of the projects, testing phases, training, certification, deployment and acceptance.

Functional Currency

The parent company of the group is incorporated in the UK where the primary currency is GBP. However, as the majority of revenue contracts are in USD, USD has been determined as the functional currency. USD has been chosen as the presentation currency for the group.

Capitalised Development Costs

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

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

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

The Group's life cycle of development is outlined below:

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

Deferred Tax Asset Recognition

At the reporting date, the Group has unused tax losses of US$ 47.7 million (2022: US$ 54.8 million) available for offset against future profits. The group is profitable in 2023. The use of losses is restricted to 50% of taxable profits over £5m (US$ 6.4m) resulting in a spreading of losses across periods where brought forward losses are over £5m (US$ 6.4m). A deferred tax asset has been recognised in respect of US$ 26.0million (2022: US$ 25.6million) of the remaining losses. The US$ 6.5m deferred tax asset on losses has been recognised on the basis that the Group will continue to make profits in the near future against which the losses can be used.

In order to support the recognition of the $6.5m deferred tax asset on losses, modelling was undertaken to review the recovery period of the deferred tax asset. The modelling was based on management forecasts for the following 5 years and showed that the deferred tax asset on losses is expected to be recovered by 2028. A plausible downside case was also modelled which included reduced sales volumes and margins; this downside case modelling showed that the deferred tax asset on losses would be recovered by 2028 also.

No deferred tax asset has been recognised in respect of the remaining US$ 21.7 million (2022: US$ 29.2 million) as it is not currently considered probable that there will be future taxable profits available. Other losses may be carried forward indefinitely.

5. Revenue

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

	Group	Group	**Company**	Company
	2023	2022	**2023**	2022
Revenue by type of service	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Subscription revenue	197,128	151,297	195,988	151,205
Professional services	53,378	54,061	53,209	54,061
Total	**250,506**	205,358	**249,197**	205,266

	Group	Group	**Company**	Company
	2023	2022	**2023**	2022
External revenue by timing of revenue	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Services transferred at a point in time	4,681	5,628	4,681	5,628
Services transferred over time	245,825	199,730	244,516	199,638
Total	**250,506**	205,358	**249,197**	205,266

	Group	Group	**Company**	Company
	2023	2022	**2023**	2022
Revenue analysed by geographic region	**US$ 000**	US$ 000	**US$ 000**	US$ 000
United States of America	195,830	160,997	195,460	160,997
Europe	20,752	18,867	20,751	18,867
Rest of the world	33,924	25,494	32,986	25,402
Total	**250,506**	205,358	**249,197**	205,266

6. Operating Profit

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

CGL Stats

	Group	Group	**Company**	Company
	2023	2022	**2023**	2022
	US$ 000	US$ 000	**US$ 000**	US$ 000
Net foreign exchange (gains)/losses	(822)	3,141	(821)	908
Depreciation of property, plant and equipment	2,601	2,264	1,220	1,643
Depreciation of right-of-use assets	1,409	1,244	960	840
Amortisation of capitalised development costs	682	479	-	-
Employee benefit expense (note 7)	88,382	74,264	18,084	14,221
Loss allowance on trade receivables (note 16)	781	195	781	188
Fees payable to the Group's auditor for: the audit of the Group and its subsidiaries	385	315	291	238

7. Staff costs

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

	Group 2023 Number	Group 2022 Number	**Company 2023 Number**	Company 2022 Number
Software development	**181**	172	**40**	28
Technical and sales support	**279**	245	**79**	66
Operations	**49**	45	**25**	24
Other	**5**	7	**3**	5
	514	**469**	**147**	**123**

Their aggregate remuneration comprised:

	Group 2023 US$ 000	Group 2022 US$ 000	**Company 2023 US$ 000**	Company 2022 US$ 000
Wages, Salaries, Bonus and Commissions	**76,146**	63,913	**15,523**	12,317
Social security costs	**6,821**	5,512	**1,283**	985
Other pension costs	**5,354**	4,727	**1,256**	856
Share Based Payments	**61**	112	**22**	63
	88,382	74,264	**18,084**	14,221

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

	Group 2023 US$ 000	Group 2022 US$ 000	**Company 2023 US$ 000**	Company 2022 US$ 000
Cost of Sales	**23,634**	19,612	**5,270**	4,363
Sales & Marketing	**29,055**	22,327	**3,218**	2,832
Research & Development	**27,664**	25,219	**5,692**	3,725
General & Admin	**8,030**	7,106	**3,903**	3,301
	88,382	74,264	**18,084**	14,221

Canonical Group Limited

7. Staff costs *(continued)*

Aggregate directors' remuneration

The total amounts for directors' remuneration:

	Group 2023 US$ 000	Group 2022 US$ 000	**Company 2023 US$ 000**	Company 2022 US$ 000
Salaries, Fees, bonuses and benefits in kind	**612**	438	**333**	356
	612	438	**333**	356

The Group's highest paid director received a total of US$ 333,000 in 2023 (2022: US$ 356,000).

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

Directors' transactions

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

8. Finance Costs

	Group 2023 US$ 000	Group 2022 US$ 000
IFRS 16 Finance Cost on Lease Liabilities	**366**	175
Other Interest Charges	**6**	-
	372	175

	Company 2023 US$ 000	**Company** 2022 US$ 000
IFRS 16 Finance Cost on Lease Liabilities	**302**	128
Other Interest Charges	**-**	-
	302	128

9. Income tax

	Group 2023 US$ 000	Group 2022 US$ 000
Corporation income tax:		
Current year	**1,408**	247
Adjustments in respect of prior years	**(45)**	162
Foreign tax suffered	**774**	320
	2,137	729
Deferred tax (see note 17)		
Current year	**(399)**	(281)
Adjustments in respect of prior years	**910**	-
Effect of changes in tax rates	**1**	4
RDEC Step 2	**(53)**	-
	459	(277)
Tax per income statement	**2,596**	452

The standard rate of corporation tax applied to reported profit is 23.52 per cent (2022 - 19 per cent).

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The Company is subject to UK Corporate Income Tax at 23.52%.

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

	Group 2023 US$ 000	Group 2022 US$ 000
Profit before tax	**15,182**	4,378
Tax at the UK corporation tax rate of 23.52% (2022 – 19%)	**3,571**	832
Tax effect of expenses that are not deductible in determining taxable profit	**414**	58
Adjustment to tax charge in respect of previous periods	**792**	162
Effect of changes in tax rates	**(20)**	4
Other		-
Share based payments	**14**	28
Income not taxable	**(418)**	(163)
RDEC temporary differences	**(513)**	(498)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**217**	152
Utilisation of losses not recognised previously	**36**	(123)
Non qualifying asset	**-**	-
Amounts not recognised	**(1,497)**	-
Tax expense for the year	**2,596**	452

10. Property, plant and equipment

Group	Leasehold Improvements	Computer equipment	Furniture, fixtures and fittings	Total
	US$ 000	US$ 000	US$ 000	US$ 000
Cost				
At 1 January 2022	1,911	6,978	3,368	12,257
Additions	435	2,209	655	3,299
Disposals	(1,029)	(359)	(89)	(1,477)
Adjustments	285	(237)	(137)	(89)
At 31 December 2022	1,602	8,591	3,797	13,990
Additions	3,795	1,000	733	5,528
Disposals	-	(198)	-	(198)
Foreign Currency Translation Adjustment	-	(63)	(254)	(317)
At 31 December 2023	**5,397**	**9,330**	**4,276**	**19,003**
Accumulated depreciation and impairment				
At 1 January 2022	1,335	5,129	1,379	7,843
Charge for the year	295	1,353	616	2,264
Disposals	(1,029)	(359)	(89)	(1,477)
Adjustments	269	(237)	(110)	(78)
At 31 December 2022	870	5,886	1,796	8,552
Charge for the year	225	1,664	711	2,601
Disposals	-	(198)	-	(198)
Foreign Currency Translation Adjustment	-	(13)	(44)	(57)
At 31 December 2023	**1,095**	**7,339**	**2,463**	**10,898**
Carrying amount				
At 31 December 2023	**4,303**	**1,991**	**1,813**	**8,107**
At 31 December 2022	732	2,705	2,001	5,438

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

Company	Leasehold Improvements	Computer equipment	Furniture, fixtures and fittings	Total
	US$ 000	US$ 000	US$ 000	US$ 000
Cost				
At 1 January 2022	1,030	3,646	2,226	6,902
Additions	430	341	655	1,426
Disposals	(1,029)	(50)	(72)	(1,151)
Adjustments	-	(161)	154	(7)
At 31 December 2022	430	3,776	2,963	7,170
Additions	3,785	306	733	4,824
Disposals	-	(198)	-	(198)
Foreign Currency Translation Adjustment	-	(58)	(252)	(310)
At 31 December 2023	**4,215**	**3,826**	**3,445**	**11,486**
Accumulated depreciation and impairment				
At 1 January 2022	1,006	2,217	314	3,537
Charge for the year	41	1,030	572	1,643
Disposals	(1,029)	(50)	(72)	(1,151)
Adjustments	-	(163)	154	(8)
At 31 December 2022	18	3,034	968	4,020
Charge for the year	(18)	532	705	1,220
Disposals	-	(198)	-	(198)
Foreign Currency Translation Adjustment	-	(9)	(41)	(50)
At 31 December 2023	**-**	**3,360**	**1,632**	**4,992**
Carrying amount				
At 31 December 2023	**4,215**	**466**	**1,812**	**6,494**
At 31 December 2022	412	742	1,995	3,150

11. Intangible assets

Group	Capitalised development costs US$ 000
Cost	
At 1 January 2022	3,458
Additions from internal development	492
At 1 January 2023	3,950
Additions from internal development	1,189
At 31 December 2023	**5,139**
Accumulated depreciation and impairment	
At 1 January 2022	1,471
Charge for the year	479
At 1 January 2023	1,950
Charge for the year	682
At 31 December 2023	**2,632**
Carrying amount	
At 31 December 2023	**2,507**
At 31 December 2022	2,000

Company	Capitalised development costs US$000
Cost	
At 1 January 2022	-
Additions from internal development	98
At 1 January 2023	98
Additions from internal development	315
At 31 December 2023	**413**
Accumulated depreciation and impairment	
At 1 January 2022	-
Charge for the year	-
At 1 January 2023	-
Charge for the year	-
At 31 December 2023	-
Carrying amount	
At 31 December 2023	**413**
At 31 December 2022	98

12. Subsidiaries

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

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

The nature of business of all subsidiaries is software development.

Registered offices:

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

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

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

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

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

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

The Company also has a branch: Canonical Taiwan Limited at Room D, 46F, No.7, Xin Yi Rd., Sec. 5. Taipei City.

The directors have carried out an assessment of the recoverable value of the investments and believe that there are no indications of impairment.

Investments in Subsidiaries

	US$ 000
At 1 January 2022	710,398
Addition: Investment in subsidiaries	-
At 31 December 2022	710,398
Addition: Investment in subsidiaries	-
At 31 December 2023	710,398

13. Contract assets

	2023	2022
Group	**US$ 000**	US$ 000
Current	**6,733**	6,165
Non-Current	**-**	-
	6,733	6,165

	2023	2022
Company	**US$ 000**	US$ 000
Current	**6,472**	6,164
Non-Current	**-**	-
	6,472	6,164

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

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

14. Contract costs

	2023	2022
Group	**US$ 000**	US$ 000
Costs to obtain contracts	**1,760**	947
Current	**790**	654
Non-Current	**970**	293
	1,760	947

	2023	2022
Company	**US$ 000**	US$ 000
Costs to obtain contracts	**106**	10
Current	**46**	8
Non-Current	**60**	2
	106	10

Costs to obtain contracts relate to incremental commission fees paid to intermediaries as a result of obtaining new or renewal sales contracts. The commission fees are the only cost that the Group would not

14. Contract costs *(continued)*

have incurred if the contract had not been obtained. Whilst the Group incurs other costs that are necessary to facilitate a sale, those costs would have been incurred even if the customer decided not to execute the contract and therefore have not been capitalised.

The capitalised sales commission costs are amortised over the customer life or pattern of revenue for the related contract. The Group as a practical expedient expenses sales commissions costs as incurred where the related benefit is one year or less. In 2023, amortisation amounting to US$769,000 (2022 - US$460,000) were recognised as part of cost of sales in the consolidated statement of profit or loss. There was no impairment loss in 2023 and 2022.

15. Leases (Group as a lessee)

	Group Buildings US$ 000	Group Data centres US$ 000	Group Total US$ 000	Company Buildings US$ 000	Company Data centres US$ 000	Company Total US$ 000
Cost						
At 1 January 2022	5,948	1,162	7,110	4,957	736	5,693
Additions	-	-	-	-	-	-
Disposals	(3,073)	-	(3,073)	(3,073)	-	(3,073)
At 31 December 2022	2,875	1,162	4,037	1,884	736	2,620
Additions	4,922	-	4,922	3,695	-	3,695
Disposals	(335)	(425)	(760)	-	-	-
Foreign Currency Translation Adjustment	62	-	62	62	-	62
At 31 December 2023	**7,524**	**737**	**8,261**	**5,641**	**736**	**6,377**
Accumulated depreciation						
At 1 January 2022	3,586	396	3,982	3,081	230	3,311
Charge for the year	918	326	1,244	655	185	840
Disposals	(3,073)	-	(3,073)	(3,073)	-	(3,073)
At 31 December 2022	1,431	722	2,153	663	415	1,078
Charge for the year	1,107	302	1,409	776	184	960
Disposals	(335)	(425)	(760)	-	-	-
At 31 December 2023	**2,203**	**599**	**2,802**	**1,439**	**599**	**2,038**
Carrying amount						
At 31 December 2023	**5,321**	**138**	**5,459**	**4,202**	**137**	**4,339**
At 31 December 2022	1,444	440	1,884	1,221	321	1,542

The maturity analysis of lease liabilities is presented in note 18.

15. Leases (Group as a lessee) *(continued)*

	Group	Group	**Company**	Company
	2023	2022	**2023**	2022
Amounts recognised in profit and loss	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Depreciation expense on right-of-use assets	**1,409**	1,244	**960**	840
Interest expense on lease liabilities	**366**	175	**302**	128
Expense relating to short-term leases	**775**	1,295	**474**	631

The total cash outflow for leases amount to US$ 1.85 million (2022 - US$ 1.44 million). Company was US$ 1.35 million (2022 - US$ 0.98 million).

There are no extension or termination options on the lease.

At 31 December 2023, the Group is committed to US$ 138,000 (2022 - US$ 316,000) for short-term and low value leases. (Company: US$ 82 thousand, (2022 - US$ 316 thousand)).

16. Trade and other receivables

	Group	Group
	2023	2022
	US$ 000	US$ 000
Trade receivables	**28,092**	17,034
Loss allowance	**(1,210)**	(429)
Trade Receivables Net	**26,882**	16,605
Other receivables	**2,002**	1,263
Prepayments	**8,507**	3,468
Amounts due from group undertakings	**589**	128
Taxation and social security	**144**	1,820
	38,123	23,284

	Company	Company
	2023	2022
	US$ 000	US$ 000
Trade receivables	**27,345**	17,028
Loss allowance	**(1,210)**	(429)
Trade Receivables Net	**26,134**	16,599
Other receivables	**1,767**	1,005
Prepayments	**8,134**	3,140
Amounts due from group undertakings	**581**	128
Taxation and social security	**-**	1,125
	36,615	21,997

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

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

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16. Trade and other receivables *(continued)*

The group does not hold any collateral as security.

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

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

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

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

Group	**Trade receivables – days past due**					
At 31 December 2023	**Not past due**	**<30**	**31-60**	**61-90**	**>90**	**Total**
	US$ 000	**US$ 000**	**US$ 000**	**US$ 000**	**US$ 000**	**US$ 000**
Expected credit loss rate	0.13%	1.64%	6.13%	30.00%	35.00%	
Estimated total gross carrying amount at default	18,439	4,213	2,615	1,085	1,740	28,092
Lifetime ECL	38	85	158	354	576	1,210
	38	**85**	**158**	**354**	**576**	**1,210**

Group	**Trade receivables – days past due**					
At 31 December 2022	**Not past due**	**<30**	**31-60**	**61-90**	**>90**	**Total**
	US$ 000	**US$ 000**	**US$ 000**	**US$ 000**	**US$ 000**	**US$ 000**
Expected credit loss rate	0.13%	1.64%	6.13%	30.00%	35.00%	
Estimated total gross carrying amount at default	13,289	1,086	1,801	359	499	17,034
Lifetime ECL	18	18	110	108	175	429
	18	**18**	**110**	**108**	**175**	**429**

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Notes forming part of the financial statements for the year ended 31 December 2023 *(continued)*

16. Trade and other receivables *(continued)*

Company

At 31 December 2023	**Not past due**	**<30**	**31-60**	**61-90**	**>90**	**Total**
	Trade receivables – days past due					
	US$ 000	**US$ 000**	**US$ 000**	**US$ 000**	**US$ 000**	**US$ 000**
Expected credit loss rate	0.13%	1.64%	6.13%	30.00%	35.00%	
Estimated total gross carrying amount at default	17,692	4,213	2,615	1,085	1,740	27,345
Lifetime ECL	38	85	158	354	576	1,210
	38	**85**	**158**	**354**	**576**	**1,210**

At 31 December 2022	**Not past due**	**<30**	**31-60**	**61-90**	**>90**	**Total**
	Trade receivables – days past due					
	US$ 000	**US$ 000**	**US$ 000**	**US$ 000**	**US$ 000**	**US$ 000**
Expected credit loss rate	0.13%	1.64%	6.13%	30.00%	35.00%	
Estimated total gross carrying amount at default	13,286	1,083	1,801	359	499	17,028
Lifetime ECL	18	18	110	108	175	429
	18	**18**	**110**	**108**	**175**	**429**

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

Group & Company	**Total**
	US$ 000
At 1 January 2022	234
Increase in loss allowance during the year	195
At 31 December 2022	429
Amounts written off	(22)
Increase in loss allowance during the year	803
At 31 December 2023	**1,210**

17. Deferred tax

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

Group	**Fixed asset**	**Temporary differences trading**	**Tax credits**	**Tax losses**	**Total**
	US$ 000	**US$ 000**	**US$ 000**	**US$ 000**	**US$ 000**
At 1 January 2022	(173)	(950)	(562)	(6,406)	(8,091)
Charge/(credit) to profit or loss	661	(676)	(266)	0	(281)
Charge to other comprehensive income	-	-	-	-	-
Charge direct to equity	-	-	-	-	-
Exchange differences	-	70	-	-	70
Effect of change in tax rate:					
– profit or loss	-	-	-	-	-
– other comprehensive income	-	-	-	-	-
– direct to equity	-	-	-	-	-
At 31 December 2022	488	(1,556)	(828)	(6,406)	(8,302)
Charge/(credit) to profit or loss	(238)	(100)	60	(121)	(399)
Adjustments in respect of prior periods	-	-	910	-	910
Charge direct to equity	-	-	-	-	-
Exchange differences	-	-	-	-	-
Effect of change in tax rate:					
– profit or loss	-	-	-	-	-
– other comprehensive income	-	-	-	-	-
– direct to equity	-	-	-	-	-
At 31 December 2023	**250**	**(1,656)**	**142**	**(6,527)**	**(7,791)**

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

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17. Deferred tax *(continued)*

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

	Group	Group
	2023	2022
	US$ 000	US$ 000
Deferred Tax Assets	**7,791**	8,302

At the reporting date, the Group has unused tax losses of US$ 48.0 million (2022 - US$ 54.8 million) available for offset against future profits. A deferred tax asset has been recognised in respect of US$ 26.0 million (2022 - US$ 25 million) of such losses. No deferred tax asset has been recognised in respect of the remaining US$ 22.0 million (2022 - US$ 29.2 million) as it is not currently considered probable that there will be future taxable profits available. Other losses may be carried forward indefinitely.

No deferred tax liability is recognised on temporary differences of US$ 0.8 million (2022 - US$ 1.1 million) relating to the unremitted earnings of overseas subsidiaries as the Group is able to control the timings of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future. Temporary differences arising in connection with interests in associates are insignificant.

18. Lease liabilities

	Group	**Group**	**Group**
	Buildings	**Data centres**	**Total**
	US$ 000	**US$ 000**	**US$ 000**
Lease Liabilities			
At 1 January 2022	2,542	927	3,469
Repayment of Lease Liabilities	(907)	(363)	(1,270)
Addition of New Lease Liabilities	-	-	-
At 31 December 2022	1,635	564	2,199
Repayment of Lease Liabilities	(1,113)	(371)	(1,484)
Addition of New Lease Liabilities	4,992	-	4,992
At 31 December 2023	**5,514**	**193**	**5,707**

	Company	**Company**	**Company**
	Buildings	**Data centres**	**Total**
	US$ 000	**US$ 000**	**US$ 000**
Lease Liabilities			
At 1 January 2022	2,004	659	2,663
Repayment of Lease Liabilities	(629)	(221)	(850)
Addition of New Lease Liabilities	-	-	-
At 31 December 2022	1,375	438	1,813
Repayment of Lease Liabilities	(800)	(246)	(1,046)
Addition of New Lease Liabilities	3,765	-	3,765
At 31 December 2023	**4,340**	**192**	**4,532**

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Notes forming part of the financial statements
for the year ended 31 December 2023 *(continued)*

18. Lease liabilities *(continued)*

Total Interest Expense on Lease Liabilities for the year at the Group level was US$ 366,000 (2022 - US$ 175,000) and for the Company it was US$ 302,000 (2022 - US$ 128,000).

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

	Group 2023 US$ 000	Group 2022 US$ 000
Maturity analysis:		
Year 1	**1,537**	974
Year 2 - 5	**4,170**	1,225
	5,707	2,199
Analysed as:		
Non-current	**4,170**	1,225
Current	**1,537**	974
Total	**5,707**	2,199

	Company 2023 US$ 000	**Company** 2022 US$ 000
Maturity analysis:		
Year 1	**1,334**	620
Year 2 - 5	**3,198**	1,193
	4,532	1,813
Analysed as:		
Non-current	**3,198**	1,193
Current	**1,334**	620
Total	**4,532**	1,813

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

19. Trade and other payables

	Group 2023 US$ 000	Group 2022 US$ 000
Trade payables	**3,744**	2,974
Other payables	**186**	826
Accruals	**13,476**	9,245
Amounts owing to fellow subsidiaries	**88,763**	105,632
Taxation and social security	**-**	-
	106,169	118,677

	Company 2023 US$ 000	Company 2022 US$ 000
Trade payables	**3,349**	1,947
Other payables	**99**	740
Accruals	**3,657**	3,001
Amounts owing to fellow subsidiaries	**114,186**	140,601
Taxation and social security	**169**	-
	121,460	146,289

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

Deferred Income has been disclosed in the Contract Liabilities in note 23.

20. Share capital

	Company 2023 US$	Company 2022 US$
Allotted, called up and fully paid		
Ordinary shares of £1 each	**1**	1

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

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

Share capital represents the nominal amount subscribed for shares.

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

Retained earnings is the accumulated profit and loss from operations as at 31 December 2023.

21. Notes to the cash flow statement

Cash and cash equivalents

	Group	Group
	2023	2022
	US$ 000	US$ 000
Cash and cash equivalents	**85,588**	98,953
	85,588	98,953

	Company	Company
	2023	2022
	US$ 000	US$ 000
Cash and cash equivalents	**61,002**	91,241
	61,002	91,241

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

Non-cash transactions

There were two additions to buildings during the year that were financed by new lease which have been disclosed in Note 15 Right of Use Asset and Note 18 Lease Liabilities valued at US$ 4,922,000. (Group 2022 - US$ Nil; Company 2022 - US$ Nil).

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

Changes in liabilities arising from financing activities

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

Group	1 January 2023	New Leases Acquired	Repayments	31 December 2023	Interest Expenses	Total Cashflows
	US$ 000	US$ 000	US$ 000	US$ 000	US$ 000	US$ 000
Lease liabilities (note 18)	2,199	4,992	(1,484)	5,707	(366)	(1,850)
Total liabilities from financing activities	**2,199**	**4,992**	**(1,484)**	**5,707**	**(366)**	**(1,850)**

Company	1 January 2023	New Leases Acquired	Repayments	31 December 2023	Interest Expenses	Total Cashflows
	US$ 000	US$ 000	US$ 000	US$ 000	US$ 000	US$ 000
Lease liabilities (note 18)	1,813	3,765	(1,046)	4,532	(302)	(1,348)
Total liabilities from financing activities	**1,813**	**3,765**	**(1,046)**	**4,532**	**(302)**	**(1,348)**

22. Capital Contribution

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

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

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

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

Calculation of IFRS 2 expense

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

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

Fair value

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

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

Vesting conditions of the options and RSU awards

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

22. Capital Contribution *(continued)*

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

Group – share options	**2023**	2022	
	Number of share options	Number of share options	**Weighted average exercise price (in US$ 000)**
Outstanding at beginning of year	**21,386**	21,389	**670**
Granted during the year	-	-	-
Forfeited during the year	-	(3)	**670**
Exercised during the year	-	-	-
Expired during the year	-	-	-
Outstanding at the end of the year	**21,386**	21,386	**670**
Exercisable at the end of the year	-	-	-

Company – share options	**2023**	2022	
	Number of share options	Number of share options	**Weighted average exercise price (in US$ 000)**
Outstanding at beginning of year	**3,534**	3,536	**670**
Granted during the year	-	-	-
Forfeited during the year	-	(2)	**670**
Exercised during the year	-	-	-
Expired during the year	-	-	-
Outstanding at the end of the year	**3,534**	3,534	**670**
Exercisable at the end of the year	-	-	-

22. Capital Contribution *(continued)*

Group – RSUs	**2023**	2022	
	Number of share options	Number of share options	**Weighted average exercise price (in US$ 000)**
Outstanding at beginning of year	**4,151**	4,303	-
Granted during the year	-	-	-
Forfeited during the year	-	(152)	-
Exercised during the year	-	-	-
Expired during the year	-	-	-
Outstanding at the end of the year	**4,151**	4,151	-
Exercisable at the end of the year	-	-	-

Company – RSUs	**2023**	2022	
	Number of share options	Number of share options	**Weighted average exercise price (in US$ 000)**
Outstanding at beginning of year	**1,561**	1,561	-
Granted during the year	-	-	-
Forfeited during the year	-	-	-
Exercised during the year	-	-	-
Expired during the year	-	-	-
Outstanding at the end of the year	**1,561**	1,561	-
Exercisable at the end of the year	-	-	-

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

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

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

Canonical Group Limited

22. Capital Contribution *(continued)*

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

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

Volatility assumptions were based on the 5 year historical trend of comparable companies as at each date. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

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

Share based payments to subsidiary staff expensed	**US$ 000**
At 1 January 2022	3,455
Expensed during the year	112
At 31 December 2022	3,567
Expensed during the year	61
Foreign currency translation	57
Total at 31 December 2023	**3,685**

23. Contract liabilities

	Group 2023 US$ 000	Group 2022 US$ 000
Current	**43,488**	38,925
Non-Current	**7,913**	6,945
	51,401	45,870

23. Contract liabilities *(continued)*

	Company 2023 US$ 000	Company 2022 US$ 000
Current	**43,217**	38,925
Non- Current	**7,709**	6,896
	50,926	45,821

	Group 2023 US$ 000	Group 2022 US$ 000
Opening	**45,870**	43,796
Cash received in advance of performance and not recognised as revenue during the period	**50,867**	38,015
Amounts included in contract liabilities that was recognised as revenue during the period	**(45,336)**	(35,941)
Closing	**51,401**	45,870

	Company 2023 US$ 000	Company 2022 US$ 000
Opening	**45,821**	43,721
Cash received in advance of performance and not recognised as revenue during the period	**50,441**	38,041
Amounts included in contract liabilities that was recognised as revenue during the period	**(45,336)**	(35,941)
Closing	**50,926**	45,821

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

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

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

Canonical Group Limited

24. Financial instruments

(a) Financial risk management objectives

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

The Group does not have derivative financial instruments.

(b) Market risk

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

(c) Foreign currency risk management

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

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

	Group		Company	
	2023	2022	**2023**	2022
Cash Balances as per Currency	**US$ 000**	US$ 000	**US$ 000**	US$ 000
BRL	**292**	389	-	-
CAD	**1,626**	628	**1,178**	147
CNY	**548**	594	-	-
EUR	**2,152**	29,779	**2,152**	29,779
GBP	**7,568**	17,812	**989**	17,645
JPY	**283**	208	-	-
TWD	**747**	703	**747**	703
Total	**13,216**	50,113	**5,066**	48,274

24. Financial instruments *(continued)*

	Group		Company	
	2023	2022	**2023**	2022
Foreign Currency Trade Receivables	**US$ 000**	US$ 000	**US$ 000**	US$ 000
BRL	**748**	5	**-**	-
CAD	**11**	3	**11**	-
CNY	**-**	1	**-**	-
EUR	**1,627**	1,022	**1,627**	1,022
GBP	**2,642**	660	**2,642**	660
Total	**5,028**	1,691	**4,280**	1,682

	Group		Company	
	2023	2022	**2023**	2022
Foreign Currency Trade Payables	**US$ 000**	US$ 000	**US$ 000**	US$ 000
BRL	**110**	4	**-**	-
CAD	**13**	32	**6**	4
CNY	**28**	43	**-**	-
EUR	**2,143**	586	**2,143**	586
GBP	**911**	798	**902**	794
INR	**-**	8	**-**	8
JPY	**85**	46	**12**	-
TWD	**-**	5	**-**	-
ZAR	**50**	-	**50**	-
Total	**3,340**	1,522	**3,113**	1,392

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

24. Financial instruments *(continued)*

Foreign currency sensitivity analysis

The Group is mainly exposed to the currency of GBP and EUR. All other currencies are immaterial.

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

		Group		Company
	2023	2022	**2023**	2022
	US$ 000	US$ 000	**US$ 000**	US$ 000
EUR impact	**82**	1,511	**82**	1,510
GBP impact	**465**	884	**136**	876
Profit or loss	**547**	2,395	**218**	2,386

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

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

(d) Credit risk management

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

24. Financial instruments *(continued)*

(d) Credit risk management *(continued)*

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

Of the trade receivables balance at the end of the year, US$ 26,000 (2022 - US$ 2,527,000) is due from the Group's largest customer. Apart from this, the Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk related to the Group's largest customer did not exceed 20 percent of gross monetary assets at any time during the year. Concentration of credit risk to any other counterparty did not exceed 19 per cent of gross monetary assets at any time during the year. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

(e) Liquidity risk management

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

(e)(i) Liquidity and interest risk tables

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

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

24. Financial instruments (*continued*)

Financial Liabilities

	Group			Company		
	Less than 1 Year	More than 1 Year	Total	Less than 1 Year	More than 1 Year	Total
	US$ 000	US$ 000	US$ 000	US$ 000	US$ 000	US$ 000
31 December 2023						
Trade payables	3,744	-	3,744	3,349	-	3,349
Other Payables	186	-	186	99	-	99
Accruals	13,476	-	13,476	3,657	-	3,657
Lease Liabilities	1,537	4,170	5,707	1,334	3,198	4,532
31 December 2022						
Trade payables	2,974	-	2,974	1,947	-	1,947
Other Payables	826	-	826	740	-	740
Accruals	9,245	-	9,245	3,001	-	3,001
Lease Liabilities	974	1,225	2,199	620	1,193	1,813

Canonical Group Limited

Notes forming part of the financial statements
for the year ended 31 December 2023 *(continued)*

24. Financial instruments (*continued*)

Financial Assets

	Group			Company		
	Less than 1 Year	More than 1 Year	Total	Less than 1 Year	More than 1 Year	Total
	US$ 000	US$ 000	US$ 000	US$ 000	US$ 000	US$ 000
31 December 2023						
Trade Receivables	26,882	-	26,882	26,134	-	26,134
Other receivables	2,002	-	2,002	1,767	-	1,767
Prepayments	8,507	-	8,507	8,134	-	8,134
Cash	85,588	-	85,588	61,002	-	61,002
31 December 2022						
Trade Receivables	16,605	-	16,605	16,599	-	16,599
Other receivables	1,263	-	1,263	1,005	-	1,005
Prepayments	3,468	-	3,468	3,140	-	3,140
Cash	98,953	-	98,953	91,241	-	91,241

24. Financial instruments *(continued)*

(f) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2022.

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

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

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

25. Related party transactions

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

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

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

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

Group	Amounts owed by related parties		Amounts owed to related parties	
	2023	2022	**2023**	2022
	US$ 000	US$ 000	**US$ 000**	US$ 000
Canonical Ltd	-	-	**(84)**	(103,207)
Canonical Services Ltd	-	-	**(4)**	(2,425)
Canonical Holdings	1	128	-	-
Canonical Services Spain	-	-	-	-

25. Related party transactions *(continued)*

Company	Amounts owed by related parties		Amounts owed to related parties	
	2023	2022	**2023**	2022
	US$ 000	US$ 000	**US$ 000**	US$ 000
Canonical Brazil	-	-	-	(615)
Canonical Canada	-	-	-	(361)
Canonical China	-	-	-	(457)
Canonical UK	-	-	**(14)**	(18,605)
Canonical USA	-	-	**(10)**	(13,858)
Canonical Japan	-	-	-	(21)
Canonical Ltd	-	-	**(88)**	(103,207)
Canonical Services Ltd	-	-	**(4)**	(2,425)
Canonical Holdings Ltd	**1**	128	-	-

Remuneration of key management personnel

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

	Group	Group	**Company**	Company
	2023	2022	**2023**	2022
	US$ 000	US$ 000	**US$ 000**	US$ 000
Short-term employee benefits	**578**	366	**299**	**284**
Post-employment benefits	**12**	11	**12**	11
Share Based Payments Expense	**22**	61	**22**	61
	612	438	**333**	356

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

26. Ultimate controlling party

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

27. Events after the reporting period

There are no events after the balance sheet date that affect the financial statements.