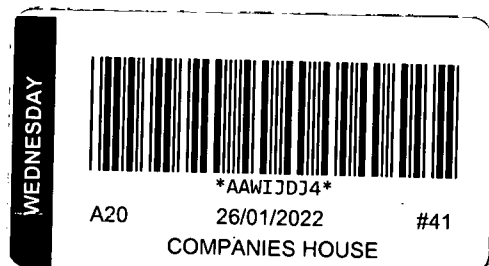


Optilan (UK) Limited

**Annual report and financial
statements**

Registered number 02715788

31 December 2020



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Strategic report

Principal activities and review of the business

The principal activity of the Company is the design, supply and installation of communication and security systems.

Operations are directed by the Board from the level of Optilan Holdco 3 Limited and its subsidiaries ("the Group") which includes the Company.

Through 2020, the Directors continued the strategy to diversify the Group's target sectors beyond Oil & Gas and to refocus away from certain geographies. Whilst this work continues, the group has experienced reduced profitability which is expected to continue through 2021 but will allow the Group to be more resilient moving forward. The Directors remain positive about the pipeline of work and anticipated improving end markets in 2021 into 2022.

Performance

The Key Performance Indicators ("KPIs") used by the Board to assess the Group's (and Company's) performance are Turnover, Gross profit, Adjusted Earnings Before Interest, Tax, Depreciation and Amortisation ("Adjusted EBITDA") and Net Assets. Adjusted EBITDA is an alternative performance measure (see note 2.17):

	2020 £000	2019 £000
Turnover	30,811	35,032
Gross profit / (loss)	747	(1,210)
Operating (loss)/profit before impairment of intercompany receivables and depreciation ("Adjusted EBITDA") (see Profit and Loss Account)	(3,977)	(7,570)
Loss before taxation	(6,478)	(13,612)
Net assets	(2,553)	4,294

The Company has continued to report an operating loss in 2020 reported a Gross profit in 2020 principally off the back of a contraction in the market and project delivery, and the Directors' ongoing re-assessment of the performance of certain the Group's contracts.

The Company's net assets fell by some £6.8 million reflecting the loss in the year.

Future developments

In 2020 the Company continued its strategic refocus away from certain geographies and sectors, the realignment of geographic focus is expected to continue in 2022.

By February of 2021 the Group had restructured its capital and debt such that it had no secured or unsecured loans. This is expected to have limited impact on the Company's balance sheet but positions the Group for growth moving forward.

Any expected improvements in profitability were significantly impacted by the global disruption of Covid-19 and, at the date of approving these financial statements, it is not expected that the Group will return to full-year profitability until 2022.

On 9 August 2021 the Group was acquired by DarkPulse Inc., a US public company.

Strategic report (continued)

Principal Risks and Uncertainties

The principal risks and uncertainties arising from both internal and external factors that could impact the Group's performance are considered below. The Group has risk management processes to identify, monitor, evaluate and escalate such issues as they emerge such that the Directors are able to take appropriate action.

Going concern risk

The Company is a subsidiary of Optilan Holdco 3 Limited, and is reliant upon Optilan Holdco 3 Limited, and the wider group of Companies within the Optilan Group (hereafter referred to as "the Optilan Group"), for the ongoing availability of funds in order to continue to meet its liabilities as they fall due. As detailed below, the Optilan Group has also received a letter of support from the new ultimate parent company of the Optilan Group, DarkPulse Inc.

As outlined in note 2.4 to these financial statements, at the date of approving these financial statements, the Optilan Group had no secured or unsecured loans (other than lease liabilities).

The Directors of Optilan Holdco 3 Limited have prepared cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements which indicate that the Optilan Group will have sufficient funding to meet its liabilities as they fall due, albeit with minimum headroom.

The new ultimate parent company of the Optilan Group, DarkPulse Inc. has indicated its intention to continue to make available such funds as are needed by the Optilan Group, and therefore also the Company, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so. DarkPulse Inc. is actively pursuing additional sources of financing sufficient to generate enough cash flow to fund its operations, with DarkPulse Inc.'s ability to continue as a going concern being dependent upon the success of future capital offerings or alternative financing arrangements, expansion of its operations and generating sales. In the longer term it is DarkPulse's stated intention to continue to invest additional resources for the Optilan Group's ongoing operations, including working capital, expansion of the business and growth strategies as the two companies work to solidify joint operations.

However, continued support is dependent on the ability of the Optilan Group being able to settle its liabilities as they fall due. The Directors of Optilan Holdco 3 Limited have concluded that a material uncertainty exists over the Optilan Group's ability to continue as a going concern as significant uncertainty exists in the timing of cash receipts on projects both in progress and due to commence, the impact of the Covid-19 pandemic on the global economy and it remains uncertain as to whether territories in which the Optilan Group operates will be subject to further restrictions, or the its suppliers or customers are subject to further disruption resulting from the pandemic.

Given the above, a material uncertainty related to these events and conditions exist which may cast significant doubt on the Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Economic and market risk

The Group's historical focus on the oil and gas sector means demand for the Group's services turns on prevailing oil and gas prices. This risk has lessened in 2020 and 2021 as the Group has diversified its customer base, but diversification brings new challenges as the Group has a wider set of customer needs and wants

Tendering and Contracting risk

The risk that work is tendered at a price too low to be delivered competitively, or that the specification of the project is not well defined, or that risk is not appropriately shared between the customer and the Group, or that the Group does not have the capability, either technically or from a resourcing perspective, to deliver the project scope on time.

Project execution risk

The services provided by the Company are highly dependent on equipment and personnel and therefore any equipment failure, delayed supply of equipment, missing parts, field personnel mistake or failure to understand key project deliverables could lead to delay and consequential cost and/or penalty.

HSQE risk

The environment of the Group's project work exposes field personnel to potential accidents.

Strategic report (continued)

Section 172 Statement

The Directors are mindful of their duty to promote the success of the Company in accordance with section 172 of the Companies Act for the benefit of its members as a whole and in doing so have regards for the matters set out in section 172 (1) (a)-(f). This includes considering the interest of other stakeholders which will have an impact on the long-term success of the Company. This section of the report is designed to set out how the directors have complied with their obligations in this regard. Typically these considerations are made at a Group level, which includes the operation of the Company.

Section 172 (1) (a) "The likely consequences of any decisions in the long term"

Each year, the Board undertakes an in-depth review of the Group's strategy, including the business plan for the following five years. Once approved by the Board, the plan and strategy form the basis for financial budgets, resource plans and investment decisions. Where appropriate, these decisions may cause the Board to re-evaluate the strategy and plan. The strategy and business plan determine the future strategic direction of the Company and are designed to have a long-term beneficial impact on the Company and contribute to its success.

Section 172 (1) (b) "The interests of the company's employees"

The Group and Company's employees are fundamental to the delivery of the business plan. The success of the business depends on attracting, retaining and motivating talented employees.

The Board recognises that the safety and efficiency of the Group's operations depends primarily on the performance of employees and contractors. The Group uses a mix of employees and contractors on projects. Employees and contractors have the necessary health and safety training and all personnel have the authority to halt any work they deem unsafe.

The Group is committed to regular, two-way communications between the Board and employees. This includes processes in place for consultation and feedback. The leadership teams delivers regular business briefings to employees on the Group's performance and strategy.

The Group is an equal opportunities employer, welcoming talent of all backgrounds. We know that a big part of what makes Optilan a great place to work is our inclusive culture and environment. This means all employees and contractors are treated equally, regardless of their age, disability, race, religion or belief, gender, sexual orientation, marital or civil partnership status.

Section 172 (1) (c) "The need to foster the company's business relationships with suppliers, customers and others"

Delivering the Group's strategy requires strong and mutually beneficial relationships with suppliers, customers and local government bodies, where appropriate.

The Group seeks to maintain strong, long-term, relationships with key suppliers to ensure high quality and service levels are sustained. Senior members of the management team regularly meet with key suppliers to ensure critical equipment, parts and services remain undisrupted on projects.

The Group has a number of high-profile customers in the UK and overseas. Some customers are, or have links to, local and national governments. The Board works hard to maintain all key customer relationships to ensure deadlines and service and equipment provisions are met, billing and payment is reliable and secure future projects.

Section 172 (1) (d) "The impact of the company's operations on the community and the environment"

The Group is committed to being a considerate and environmentally focussed neighbour and the Board takes its environmental responsibilities seriously. The Group routinely monitors its operations and any potential impact on the surrounding environment and wider community. The Group's employees select a local charity each year to support and then throughout the year carry out fund raising activities, culminating in a raffle of all the supplier gifts donated at Christmas. They also support other worthy causes throughout the year such as Children in Need, Comic relief and Help for Heroes.

Section 172 (1) (e) "The desirability of the company maintaining a reputation for high standards of business conduct"

The Group is committed to behave responsibility and ensure that management operates the business in a manner that is aligned with high standards of business conduct and good governance. The Board periodically reviews and approves business principles, code of conduct, ethics and compliance manuals and whistleblowing policies to ensure these standards are maintained.

Strategic report (continued)

Section 172 (1) (f) "The need to act fairly between members of the company"

The Board regularly meets with the Group's shareholders to ensure they are aware of, and supportive of, the Group's strategy and plan. The Board works to ensure all shareholders and debt holders are treated fairly such that the business' long term future is protected.

The Strategic Report was approved by order of the board



William Bayliss
Director

Dated: 25th January 2022

Address of registered office:
C/O Aztec Financial Services (UK) Limited, Forum 4
Solent Business Park, Parkway South
Whiteley, Fareham
Hampshire, PO15 7AD

Directors' report

The directors present their report and financial statements for the year ended 31 December 2020.

Proposed dividend

The Directors do not recommend the payment of a dividend (2019: *nil*)

Directors

The directors who held office during the year and up to the date of this report were as follows:

Dennis Michael O'Leary (appointed 2 September 2021)
Kenneth Brooks Davidson (appointed 2 September 2021)
Joseph Catalino, Jr. (appointed 2 September 2021)
Adrian John Bannister (appointed 23 December 2020, resigned 9 August 2021)
William John Bayliss (appointed 1 June 2020)
Richard Buckland (resigned 31 May 2020)
Timothy John Gray (resigned 31 December 2020)
Balvinder Singh Kler (resigned 31 January 2021)
Christopher Yarwood (resigned 24 February 2021)

Political and charitable contributions

The Company made nil (2019: *nil*) political or charitable contributions in the year.

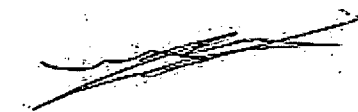
Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board



William Bayliss
Director

Dated: 25th January 2022

Address of registered office:
C/O Aztec Financial Services (UK) Limited, Forum 4
Solent Business Park, Parkway South
Whiteley, Fareham
Hampshire, PO15 7AD

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Optilan (UK) Limited

Opinion

We have audited the financial statements of Optilan (UK) Limited ("the Company") for the year ended 31 December 2020 which comprise the Profit and Loss Account and Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2.4 to the financial statements which indicates that despite mitigations, forecast headroom remains modest as a result of uncertainty around timing of cashflows from contracts and global economic uncertainty due to the COVID-19 pandemic. In addition the ability of the ultimate parent company to provide financial support will be dependent upon the success of its future capital offerings or other alternative financing arrangements. These events and conditions, along with the other matters explained in note 2.4, constitute a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Going concern basis of preparation

The directors have prepared the financial statements on the going concern basis. As stated above, they have concluded that a material uncertainty related to going concern exists.

Based on our financial statements audit work, we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Considering remuneration incentive schemes and performance targets.
- Using analytical procedures to identify any unusual or unexpected relationships.

Independent auditor's report to the members of Optilan (UK) Limited *(continued)*

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

- the risk that management may be in a position to make inappropriate accounting entries;
- the risk of bias in accounting estimates; and
- the risk that revenue is overstated or understated through recording revenues in the wrong period.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Company-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors (as required by auditing standards), and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, data protection laws, anti-bribery, employment law, regulatory capital and liquidity, and certain aspects of company legislation recognising the nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

Independent auditor's report to the members of Optilan (UK) Limited (continued)

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent auditor's report to the members of Optilan (UK) Limited *(continued)*

The purpose of our audit work and to whom we owe our responsibilities

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



Adam Craig (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
St Nicholas House
Park Row
Nottingham
NG1 6FQ

26 January 2022

Profit and Loss Account and Other Comprehensive Income
for year ended 31 December 2020


	<i>Note</i>	2020 £000	2019 £000
Turnover	3	30,811	35,032
Cost of sales		<u>(30,064)</u>	<u>(36,242)</u>
Gross profit / (loss)		747	(1,210)
Distribution costs		(15)	(9)
Administrative expenses			
- impairment of intercompany receivable	3	(1,982)	(6,042)
- depreciation	9	(398)	(405)
- other		(4,709)	(6,351)
		<u>(7,089)</u>	<u>(12,798)</u>
Operating loss			
- before impairment of intercompany receivable and depreciation		(3,977)	(7,570)
- impairment of intercompany receivable	3	(1,982)	(6,042)
- depreciation	9	(398)	(405)
		<u>(6,357)</u>	<u>(14,017)</u>
Interest receivable and similar income	6	-	530
Interest payable and similar expenses	7	(121)	(125)
Loss before taxation		<u>(6,478)</u>	<u>(13,612)</u>
Taxation	8	(318)	(572)
Loss for the financial year		<u>(6,796)</u>	<u>(14,184)</u>
Other comprehensive income			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation differences – foreign operations		(51)	(50)
Other comprehensive loss for the year, net of income tax		<u>(51)</u>	<u>(50)</u>
Total comprehensive loss for the year		<u><u>(6,847)</u></u>	<u><u>(14,234)</u></u>

Balance sheet
at 31 December 2020

	<i>Note</i>	2020 £000	2019 £000
Fixed assets			
Tangible fixed assets	9	598	732
Investments	10	47	47
		<hr/> 645	<hr/> 779
Current assets			
Stocks	11	2,462	8,537
Tax receivable		333	333
Debtors	12	18,238	31,528
Cash at bank and in hand	13	517	2,105
		<hr/> 21,550	<hr/> 42,503
Creditors: amounts falling due within one year	14	(20,896)	(37,581)
Provisions	17	(2,833)	(793)
		<hr/> (23,729)	<hr/> (38,374)
Net current (liabilities) / assets		<hr/> (2,179)	<hr/> 4,129
Total assets less current liabilities		<hr/> (1,534)	<hr/> 4,908
Creditors: amounts falling due after more than one year	15	(18)	(199)
Provisions	17	(1,001)	(415)
		<hr/> (2,553)	<hr/> 4,294
Net (liabilities) / assets		<hr/> (2,553)	<hr/> 4,294
Capital and reserves			
Called up share capital	19	50	50
Translation reserve		298	349
Profit and loss account		(2,901)	3,895
Shareholders' funds		<hr/> (2,553)	<hr/> 4,294

The notes on pages 16 to 34 form part of the financial statements.

These financial statements were approved by the board of directors on 25th January 2022 and were signed on its behalf by:


William Bayliss
Director
Company registered number: 02715788

Statement of changes in equity

	Called up share capital £000	Translation reserve £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2019	50	399	18,079	18,528
Total comprehensive income for the period				
Loss for the year	-	-	(14,184)	(14,184)
Other comprehensive income	-	(50)	-	(50)
Total comprehensive income for the period	-	(50)	(14,184)	(14,234)
Balance at 31 December 2019	50	349	3,895	4,294

	Called up share capital £000	Translation reserve £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2020	50	349	3,895	4,294
Total comprehensive income for the period				
Loss for the year	-	-	(6,796)	(6,796)
Other comprehensive income	-	(51)	-	(51)
Total comprehensive income for the period	-	(51)	(6,796)	(6,847)
Balance at 31 December 2020	50	298	(2,901)	(2,553)

Notes

(forming part of the financial statements)

1. General information

Optilan (UK) Limited (the "Company") is a company incorporated and domiciled in the UK. The registered number is 02715788 and the registered address is Forum 4, Solent Business Park, Parkway South, Whiteley, Fareham, Hampshire, England, PO15 7AD.

2. Accounting policies

2.1 Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are presented in 'Pound Sterling' (£) which is the Company's functional currency.

2.2 Basis of preparation of financial statements

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been prepared with the Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS101"). These financial statements have been prepared on the going concern basis and under the historical cost convention.

In preparing these financial statements the Company applies the recognition, measurement and disclosure requirements of the European Union endorsed International Financial Reporting Standards ("IFRSs") but makes amendments where necessary in order to comply with the Companies Act 2006, and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The preparation of financial statements in conformity with FRS 101 requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 22 below.

The Company is a wholly owned subsidiary of Optilan Group Limited and is included in the consolidated financial statements of Optilan Holdco 3 Limited which are available from Companies House. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006. The address of the ultimate parent's registered office is Forum 4, Solent Business Park, Whiteley, Fareham, Hampshire, United Kingdom PO15 7AD.

The following principal accounting policies have been applied:

2.3 Financial reporting standard 101 - reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share Based Payments
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Notes (continued)

2 Accounting policies (continued)

2.4 Going concern

Notwithstanding net current liabilities of £2,179,000 and net liabilities of £2,553,000 at 31 December 2020, and total comprehensive loss for the year then ended of £6,847,000, the financial statements have been prepared on a going concern basis, which the directors consider to be appropriate for the following reasons.

The Company is a subsidiary of Optilan Holdco 3 Limited, and is reliant upon Optilan Holdco 3 Limited, and the wider group of Companies within the Optilan Group (hereafter referred to as “the Optilan Group”), for the ongoing availability of funds in order to continue to meet its liabilities as they fall due. As detailed below, the Optilan Group has also received a letter of support from the new ultimate parent company of the Optilan Group, DarkPulse Inc..

Following certain balance sheet restructuring activities in the period subsequent to the year end, including the waiver of external bank debt and the conversion of unsecured shareholder loan notes into equity, at the date of approving the Optilan Group accounts, the Optilan Group had no secured or unsecured loans (other than lease liabilities).

The Directors of Optilan Holdco 3 Limited have prepared cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements which indicate that the Optilan Group will have sufficient funding to meet its liabilities as they fall due, albeit with minimum headroom.

The new ultimate parent company of the Optilan Group, DarkPulse Inc. has indicated its intention to continue to make available such funds as are needed by the Optilan Group, and therefore also the Company, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so. DarkPulse Inc. is actively pursuing additional sources of financing sufficient to generate enough cash flow to fund its operations, with DarkPulse Inc.’s ability to continue as a going concern being dependent upon the success of future capital offerings or alternative financing arrangements, expansion of its operations and generating sales. In the longer term it is DarkPulse’s stated intention to continue to invest additional resources for the Optilan Group’s ongoing operations, including working capital, expansion of the business and growth strategies as the two companies work to solidify joint operations.

However, continued support is dependent on the ability of the Optilan Group being able to settle its liabilities as they fall due. The Directors of Optilan Holdco 3 Limited have concluded that a material uncertainty exists over the Optilan Group’s ability to continue as a going concern as significant uncertainty exists in the timing of cash receipts on projects both in progress and due to commence, the impact of the Covid-19 pandemic on the global economy and it remains uncertain as to whether territories in which the Optilan Group operates will be subject to further restrictions, or the its suppliers or customers are subject to further disruption resulting from the pandemic.

Given the above, a material uncertainty related to these events and conditions exist which may cast significant doubt on the Company’s ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

2.5 Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Company entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Company’s presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The turnover and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve. When a foreign operation is disposed of, such that control is lost, the entire accumulated amount in the translation reserve is recycled to the Profit and Loss Account as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while still retaining control, the relevant proportion of the accumulated amount is reattributed to non-controlling interests.

Notes *(continued)*

2 Accounting policies *(continued)*

2.6 Turnover

Turnover is stated net of any sales taxes, rebates and discounts.

Turnover is recognised to represent the transfer of promised services to customers in a way that reflects the consideration expected to be received in return. Total consideration from contracts with customers is allocated to the performance obligations identified based on their standalone selling price and is recognised when those performance obligations are satisfied and the control of goods or services is transferred to the customer, either over time or at a point in time.

The Company's contracts with customers can include a number of different performance obligations. These are analysed to determine those which are capable of being distinct (which the Company assesses based on whether the customer is able to benefit from the good or service on its own), and whether they are distinct within the context of the contract. If this is the case, then a separate performance obligation is recognised for the individual good or service being provided. If the good or service is not distinct, it is combined with other goods or services to form a performance obligation. For each performance obligation, the Company determines whether the turnover should be recognised over time, or at a point in time, with the key policies adopted being as follows:

- Turnover in respect of Engineering Services is recognised over time on the basis that the customer is actively involved with the validation of the work's completion;
- Turnover in respect of Installation and Commissioning is recognised at a point in time following either valuation by the customer or completion of distinct portions of works under the contract;
- Turnover in respect of Maintenance is recognised at a point in time when the service has been delivered;
- Turnover in respect of material supply is recognised at a point in time when a distinct asset is created such that the customer can verify its existence with the supplier.

Sales are typically invoiced in the geographic area in which the customer is located. As a result, the geographic location of the invoicing undertaking is used to attribute turnover to individual countries.

Contract assets relate to the Group's right to consideration for performance obligations satisfied but where the customer has yet to be invoiced. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

Contract liabilities relate to advance consideration received from customers where the performance obligations have yet to be satisfied.

Notes *(continued)*

2 Accounting policies *(continued)*

2.7 Expenditure

Other interest receivable and similar income

Interest receivable is recognised in the profit and loss account as it accrues, using the effective interest method. Dividend income is recognised in the profit and loss account on the date that the Company's right to receive payments is declared. Foreign currency gains and losses are recognised in the profit and loss account on a net basis.

Interest payable and similar expenses

Interest payable and finance charges are recognised in the profit and loss account on an accruals basis using the effective interest method. Foreign currency gains and losses are recognised in the profit and loss account on a net basis.

2.8 Taxation

The taxation expense represents the sum of the current tax payable and deferred tax. Current tax, including UK corporation tax, is provided at the amounts expected to be paid (or received) using the tax rules and laws that have been enacted, or substantively enacted, by the reporting date.

Deferred taxation is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised on all taxable temporary differences. 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 Goodwill, or from the initial recognition (except in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, or from differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxation assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle on a net basis.

Notes (continued)

2 Accounting policies (continued)

2.9 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided to write off the cost of the assets on a straight-line basis to their residual value over their estimated useful lives at the following annual rates:

Leasehold improvements	10% of cost
Plant and equipment	15% of cost
Motor vehicles	25% of cost

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the Profit and Loss Account during the financial period in which they are incurred.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within net operating expenses in the Profit and Loss Account.

2.10 Right-of-use assets

The lease liability is initially measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate. The Company determines the borrowing rate from external financing sources and adjusts this to reflect the term of the lease and the type of assets subject to the lease. The lease term comprises the non-cancellable period of the contract, together with periods covered by an option to extend the lease where the Company is reasonably certain to exercise that option. Subsequently, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability and reducing it by the lease payments made. The lease liability is remeasured when the Company changes its assessment of whether it will exercise an extension or termination option.

Right-of-use assets are initially measured at cost, comprising the initial measurement of the lease liability, plus any initial direct costs and an estimate of asset retirement obligations, less any lease incentives. Subsequently, right-of-use assets are measured at cost, less any accumulated depreciation and accumulated impairment losses, and are adjusted for certain remeasurements of the lease liability. Depreciation is calculated on a straight-line basis over the length of the lease.

The Company has elected to apply exemptions for short-term leases and for leases which the underlying asset is low value. For these leases, payments are charged directly to the Profit and Loss Account over the term of the relevant lease.

Right-of-use assets are presented within Property, plant & equipment and lease liabilities are shown on the Balance Sheet in current liabilities and non-current liabilities depending on the length of the lease term.

Notes (continued)

2 Accounting policies (continued)

2.12 Investments

The Company's fixed asset investments are included in the Balance Sheet at cost less provision for any impairment.

2.13 Stock

Stock is stated at the lower of cost and net realisable value. Cost is based on the first-in-first-out principle and includes expenditure incurred in acquiring the inventory, production or conversion costs or other costs in bringing them to their existing location and condition. In the case of manufactured stock and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Stock includes work in progress on contracts. Work in progress represents cost incurred in excess of work performed for which the Group expects to receive turnover, such as advance material purchases and labour.

2.14 Impairment

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be reliably estimated.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment is reversed through profit and loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventory and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes (continued)

2 Accounting policies (continued)

2.14 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by the employees.

2.14 Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the loss is recognised in the Profit and Loss Account within net operating expenses. When trade receivables are uncollectible, they are written off against the allowance for doubtful receivables. Subsequent recoveries of amounts previously written off are credited against net operating expense in the Profit and Loss Account.

2.15 Cash

Cash comprises cash balances in hand and at the bank, including bank overdrafts repayable on demand.

2.16 Trade payables

Trade payables on normal terms are not interest bearing and are stated at their nominal value which is considered to be their fair value. Payables on extended terms are recorded at their fair value at the date of acquisition of the asset to which they relate. The discount to nominal value is amortised over the period of the credit term and charged to finance costs.

Deferred income relates to consideration received in advance of goods and services being delivered.

2.17 Alternative performance measures

In order to provide further information on the underlying performance of the Company, certain alternative performance measures ("APMs") have been used. The measures are not defined under IFRS and they may not be directly comparable with other companies' adjusted measures. These non-GAAP measures are not intended to be a substitute for, or superior to, any IFRS measure of performance, but have been included as the Directors consider them to be helpful measures used within a business for assessing the underlying performance of the Company's ongoing business. The Company's only APM is Adjusted EBITDA, which is defined as operating profit before impairment of intercompany receivable and depreciation, and is reconciled on the face of the Profit and Loss Account.

Notes (continued)

3 Turnover from contracts with customers

(i) Disaggregation of turnover

In the following table, turnover is disaggregated by primary geographical market, major products/service lines and timing of turnover recognition.

	2020 £000	2019 £000
Major products/service lines		
Turnover from sale of materials	13,537	19,151
Turnover from services	17,274	15,881
	<hr/>	<hr/>
Total turnover	30,811	35,032
	<hr/>	<hr/>
	2020 £000	2019 £000
Primary geographical markets		
UK	19,270	22,274
India	6	3,228
Middle East	521	2,793
Azerbaijan	26	2,321
Turkey	333	-
Africa	7,961	2,373
Other	2,694	2,043
	<hr/>	<hr/>
Total turnover	30,811	35,032
	<hr/>	<hr/>

(ii) Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	Note	2020 £000	2019 £000
Receivables	12	755	3,323
Contract Assets	12	279	2,704
Contract Liabilities	14	(5,066)	(7,308)
Provisions for onerous contracts	17	(3,834)	(1,208)

The amount of turnover recognised in current period from performance obligations satisfied (or partially satisfied) in previous periods was £nil (2019: £nil).

The amount of turnover recognised in current period that was included in the contract liability balance at the beginning of the period was £4,033,000 (2019: £2,415,000).

Notes (continued)

3 Expenses and auditor's remuneration

Included in profit/loss are the following exceptional items:

	2020 £000	2019 £000
Impairment loss on other trade receivables	-	1,943
Impairment loss on amounts owed by group undertakings	1,982	6,042
Restructuring costs	410	-
	<u> </u>	<u> </u>

Auditor's remuneration:

	2020 £000	2019 £000
Audit of these financial statements	43	48
	<u> </u>	<u> </u>

4 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of employees 2020	2019
<i>The average number of employees during the year was as follows:</i>		
Directors	4	4
Production and administration	119	151
	<u> </u>	<u> </u>
	123	155
	<u> </u>	<u> </u>

The aggregate payroll costs of these persons were as follows:

	2020 £000	2019 £000
Wages and salaries	5,900	6,807
Social security costs	776	695
Contributions to defined contribution plans	139	138
	<u> </u>	<u> </u>
	6,815	7,640
	<u> </u>	<u> </u>

5 Remuneration of directors

	2020 £000	2019 £000
Directors' remuneration	327	246
Company contributions to money purchase pension plans	34	21
	<u> </u>	<u> </u>

During the year, four (2019: four) of the directors were remunerated by Optilan Group Limited. The above remuneration represents the allocation of their services as executives of Optilan (UK) Limited. Details of their total remuneration received from Optilan Group Limited are included in the financial statements of that company.

Notes *(continued)*

6 Other interest receivable and similar income

	2020	2019
	£000	£000
Net foreign exchange gain	-	530
	<hr/>	<hr/>
Total interest receivable and similar income	-	530
	<hr/> <hr/>	<hr/> <hr/>

7 Interest payable and similar expense

	2020	2019
	£000	£000
Lease interest	72	123
Other interest payable	3	2
Net foreign exchange loss	46	-
	<hr/>	<hr/>
Total interest payable and similar expense	121	125
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

8 Taxation

Recognised in the income statement

	2020 £000	2019 £000
Current tax expense		
UK current tax on income for the period	-	-
Foreign current tax on income for the period	318	612
Adjustments in respect of prior periods	-	(40)
	<hr/>	<hr/>
Total current tax	318	572
Deferred tax charge		
Origination and reversal of temporary differences	-	-
Adjustments in respect of prior periods	-	-
	<hr/>	<hr/>
Total deferred tax	-	-
	<hr/>	<hr/>
Tax on profit or loss	318	572
	<hr/>	<hr/>

Reconciliation of effective tax rate

	2020 £000	2019 £000
Loss for the period	(6,796)	(14,184)
Total tax charge	318	572
	<hr/>	<hr/>
Loss excluding taxation	(6,478)	(13,612)
	<hr/>	<hr/>
Tax using the UK corporation tax rate of 19% (2019: 19%)	(1,231)	(2,586)
Foreign taxation	-	612
Non-deductible expenses	68	1,150
Current year losses for which no deferred tax asset was recognised	1,481	1,436
Adjustment in respect of prior periods	-	(40)
	<hr/>	<hr/>
Total tax expense	318	572
	<hr/>	<hr/>

Changes to UK corporation tax rates were substantively enacted as part of the Finance (No 2) Act 2015 on 18 November 2015 and the Finance Act 2016 on 15 September 2016. These changes included reductions to the main rate of corporation tax to 19% from 1 April 2017 and to 17% from 1 April 2020. At the Budget 2020, the Government announced that the main rate of corporation tax for 2020 and 2021 would remain at 19% and the change was substantively enacted for IFRS and UK GAAP purposes on 17 March 2020. As this change was not substantively enacted at the balance sheet date, the deferred tax balances at 31 December 2019 continue to be measured at 17%.

In the 3 March 2021 Budget, it was announced that the UK tax rate will increase to 25% from 1 April 2023 and this was substantially enacted on 24 May 2021. This will have a consequential effect on the Company's future tax charge.

The Company has an unrecognised deferred tax asset on gross taxable losses carried forward of £16,466,000. Such assets will be recognised when there is sufficient certainty over the future taxable profits of the Company.

Notes (continued)

9 Tangible fixed assets

	Leasehold Property £000	Plant and equipment £000	Motor Vehicles £000	Total £000
Cost				
Balance at 1 January 2020	1,159	1,330	295	2,784
Additions	-	264	-	264
Disposals	-	(799)	-	(799)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2020	1,159	795	295	2,249
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation and impairment				
Balance at 1 January 2020	867	1,078	107	2,052
Depreciation charge for the year	194	115	89	398
Disposals	-	(799)	-	(799)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2020	1,061	394	196	1,651
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 December 2019	292	252	188	732
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2020	98	401	99	598
	<hr/>	<hr/>	<hr/>	<hr/>

Within Plant and equipment additions is £215,000 attributable to Assets under construction which are not yet subject to depreciation.

Leasehold property and Motor vehicles contain Right of use assets accounted for under IFRS16. See note 16 for further details.

Notes (continued)

10 Investments

	Shares in group undertakings £000
<i>Cost</i>	
At 1 January 2020 and 31 December 2020	47
<i>Provisions</i>	
At 1 January 2020 and 31 December 2020	-
<i>Net book value</i>	
At 31 December 2019 and 31 December 2020	47

At 31 December 2020 the directors were satisfied that the fair value of the Company's investment in its subsidiaries was greater than its carrying value and no provision was required.

On 20 August 2020 Optilan OOO was sold for consideration of £1.

The Company has the following investments in subsidiaries:

Company	Registered office	Country of Incorporation	Class of shares held	Ownership 2020 %	2019 %
<i>Direct ownership</i>					
Optilan OOO	i)	Russia	Ordinary	-	100
Optilan India	ii)	India	Ordinary	100	100
Optilan Middle East JLT	iii)	United Arab Emirates	Ordinary	100	100
Optilan Communications & Security Systems Ltd	iv)	Turkey	Ordinary	100	100
Optilan Azerbaijan LLC	v)	Azerbaijan	Ordinary	100	100
Optilan, LLC	vi)	USA	Ordinary	100	100
<i>Indirect ownership</i>					
Telinstra DMCC	vii)	United Arab Emirates	Ordinary	100	100
Telinstra FZCO	viii)	United Arab Emirates	Ordinary	100	100
Sky Controls Limited	ix)	India	Ordinary	100	100
i) Simonov Plaza Business Centre. Leninskaya Sloboda Street 26/5. Danilovsky District. Moscow. ii) Medavakkam Tank Road, Kilpauk, Chennai, 600 010 iii) 3105 Jumeriah Bay X3 Tower, PO Box 488188 - Dubai iv) Neorama Business Center, Floor 12/No.59, Beshtepe Mah, Yasham Cad. 13 Sogutozu, Ankara v) Karat Business Centre, 201 Murtuza Street, Baku, PO Box AZ1065, Azerbaijan vi) Corporation Trust Center 1209 Orange St, Wilmington, Delaware, USA vii) 3307 Jumeriah Bay X3 Tower, PO Box 488188 - Dubai viii) Warehouse FZLIU10AF03, Jebel Ali, PO Box 61170, Dubai ix) Hosur Main Road, Bangalore, Karnataka 560068					

11 Stock

	2020 £000	2019 £000
Raw materials	150	70
Work in progress	2,312	8,467
	<u>2,462</u>	<u>8,537</u>

Notes (continued)

12 Debtors

	2020 £000	2019 £000
Trade debtors	755	3,323
Contract assets	279	2,704
Amounts owed by group undertakings	5,586	10,033
Amount owed by parent undertakings	10,141	14,718
Other debtors and prepayments	1,477	750
	<u>18,238</u>	<u>31,528</u>

13 Cash and cash equivalents/ bank overdrafts

	2020 £000	2019 £000
Cash and cash equivalents per balance sheet	517	2,105
Bank overdrafts	(123)	(660)
	<u>394</u>	<u>1,445</u>

14 Creditors: amounts falling due within one year

	2020 £000	2019 £000
Bank loans and overdrafts (note 13)	123	660
Lease liabilities	257	358
Trade creditors	4,624	10,432
Amounts owed to group undertakings	3,875	6,845
Amounts owed to parent undertakings	4,415	4,340
Contract liabilities	5,066	7,308
Taxation and social security	1,218	174
Other creditors and accruals	1,318	7,464
	<u>20,896</u>	<u>37,581</u>

Notes (continued)

15 Creditors: amounts falling due after more than one year

	2020 £000	2019 £000
Non-current liabilities		
Lease liabilities	18	199
	<u>18</u>	<u>199</u>

16 Leases

Leases as a lessee (IFRS 16)

Right-of-use assets

Right-of-use assets are presented as tangible fixed assets (see note 9):

	Leasehold property £000	Motor Vehicles £000	Total £000
Balance at 1 January 2020	288	187	475
Additions to right-of-use assets	-	-	-
Depreciation charge for the year	(192)	(88)	(280)
	<u>96</u>	<u>99</u>	<u>195</u>

Notes (continued)

17 Provisions

	Onerous contract provision £000
Balance at 1 January 2020	1,208
Provisions made during the year	2,626
Balance at 31 December 2020	3,834
Current	2,833
Non-current	1,001
	3,834

Onerous contract provisions reflect expected future losses on contracts the Company is committed to delivering. These provisions unwind against the respective contracts as a loss is realised. These provisions represent an estimate of future losses and therefore may be under or overstated as circumstances impacting the delivery of contracts change.

18 Employee Benefits

Defined contribution plans

The Company operates a defined contribution pension plan.

The total expense relating to these plans in the current year was £139,000 (2019: £138,000).

19 Capital and reserves

Share capital

	2020 £000	2019 £000
<i>Allotted called up and fully paid</i>		
49,998 Ordinary Shares of £1 each	50	50
	50	50

Translation reserve

The translation reserve comprises all foreign exchange differences arising since 1 January 2015, the transition date to Adopted IFRSs, from the translation of the financial statements of foreign operations.

Notes (continued)

20 Related parties

Transactions with key management personnel

As at 31 December 2020, Directors of the Company and their immediate relatives controlled 29% per cent of the voting shares of the ultimate parent company, Optilan Holdco 1 Limited. Following the sale to DarkPulse in August 2021, this was nil.

The compensation of key management personnel (being the directors) is set out in Note 5 to the accounts.

Transactions with other related parties

Mrs A Buckland, Mrs N Yarwood and Mrs R Kler, wives of directors of the company, are amongst partners in Our Property Partnership. During the year Our Property Partnership charged the Company rent of £252,000 (2019: £261,000).

At 31 December 2020 the amount owed to Our Property Partnership was £nil (2019: £63,000).

21 Ultimate parent company and parent company of a larger group

The Company is a wholly owned subsidiary undertaking of Optilan Group Limited. As at 31 December 2020, the ultimate parent company was Optilan Holdco 1 Limited and the ultimate controlling parties of the Company were BWE Fund 1 and BWE Fund 1A, domiciled in Guernsey. Following the sale to DarkPulse in August 2021, the ultimate parent became DarkPulse Inc., a US public company.

The only group in which these results of the Company are consolidated is that headed by Optilan Holdco 3 Limited, Forum 4, Solent Business Park, Whiteley, Fareham, Hampshire, United Kingdom PO15 7AD. No other group financial statements include the results of the Company. The consolidated results of the Optilan Holdco 3 Limited are available to the public and may be obtained from Companies House.

22 Accounting estimates and judgements

The preparation of the financial information requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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 and in any future periods impacted.

The key judgements and estimates employed in the financial statements are considered below;

Turnover recognition

Given the size and complexity of the Company's contracts, management is required to form a number of key judgements in determination of the amount of turnover and profits to record, and related balance sheet items such as contract assets, accrued income and deferred income to recognised. In particular, there is judgement in the timing of the recognition of turnover and the costs to complete a given contract, as well as in respect of work performed but not yet certified and the treatment of modifications.

Recoverability of trade debtors and contract receivables

The Company has material amounts of billed and unbilled work outstanding as at the year end. Management applies judgement on specific allowances for impairment based on the information available at the reporting date which includes assessment of current disputes with customers over commercial positions.

Notes *(continued)*

23 Events arising after the reporting date

Certain restructuring activities in the Company's parent, Optilan Holdco 3 Limited, left the Group with no secured or unsecured debt as at the approval date of these financial statements. This had no direct impact on the results of the Company.

On 9 August 2021 Optilan Holdco 3 Limited was acquired by DarkPulse Inc., a US public company.