Registered number: 10591225

XTERA LIMITED

UNAUDITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

XTERA LIMITED

COMPANY INFORMATION

Directors	Dr Stuart R Barnes Leigh Esmond Hadyn Frame (appointed 18 August 2020)
Registered number	10591225
Registered office	Bates House Church Road Harold Wood Essex RM3 0SD
Bankers	JP Morgan Chase Bank, N.A. P O Box 6076 Newark DE 19714 - 6076

XTERA LIMITED

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STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

Introduction

The directors present their Strategic Report for the year ended 31 December 2019.

Principal activity

Xtera provides subsea telecommunication solutions worldwide. The company offers unrepeatered and repeatered subsea connectivity, using high bandwidth undersea amplifiers, as well as a full range of turnkey services and solutions, including system design, on-shore and off-shore security, landing route and station development, and operational support.

Business review

Xtera's long term goal is to continue to invest in its world class portfolio of IP, and to build on existing contracts with customers. The company will also broaden the customer base by opening up new revenue streams, such as licensing IP.

The company's key financial and other performance indicators during the period ending December 2019 were as follows:

	2019	*2018*
	$	*$*
Turnover (continuing operations)	**6,231,296**	*11,585,109*
Operating profit	**851,925**	*2,781,107*
Total comprehensive profit for the period	**572,488**	*2,070,598*
Shareholder's surplus/(deficit)	**138,653**	*(433,835)*

The company derives a substantial majority of revenue from the sale of its products and also from the sales of support services related to the products. The company derives a substantial majority of revenue from the sale of its products and also from the sales of support services related to the products. The company's did not have turnkey sales in 2019 which has effected its results for 2019.

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Principal risks and uncertainties

The board meets monthly to evaluate the company risk. The principal risks and uncertainties facing the company are broadly Grouped as - Operational risk, Credit risk and foreign currency risk.

Operational risk

The company has put together a management incentive plan to attract and retain key personnel in the company. The company also has a management team put in place for enforcement of IP through active litigation. the company continues to invest in key technologies to ensure that its products are differentiated and create unique value in the market place.

Brexit risk

The Groups customers operate mainly in the US so the work carried out by the the Group for the customers are in the US. Expertise and staff required to undertake trading activities are sourced from US, and as the group has minimum exposure to European market directors do not believe that Brexit will have significant operational level impact. *However, the key challenge in relation to Brexit is the uncertainty surrounding regulatory and* economic environment in the UK which the directors can assess only after the position is confirmed by the UK parliament.

Exposure to credit risk:

Credit risk: The company's exposure to credit risk arises in respect of the following:

- Cash and cash equivalents
  The company's cash and cash equivalents are held mainly with JP Morgan Chase Bank NA, which is rated A+ by S&P for 2018 / 2019
- Receivables from Customers
  The company has receivables from Customers on projects and on services. The credit risk related to this is considered small due to the small credit term involved and the high quality of the customers. As of the reporting date all the receivables on the balance sheet has been recovered.

Foreign currency risk:

- The company has operations in different countries and hence has exposure to movement in different currencies. The company primarily earns revenue in US Dollars but has significant exposure to the fluctuations in GBP. Management seeks to hedge its risk long term by generating revenue in GBP.

This report was approved by the board on 4 February 2021 and signed on its behalf.

Dr Stuart R Barnes
Director

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DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their report and the financial statements for the year ended 31 December 2019.

Results and dividends

The profit for the year, after taxation, amounted to $600,957 *(2018: $1,865,991)*.

There were no dividends in the year *(2018: £Nil)*.

Directors

The directors who served during the year were:

Dr Stuart R Barnes
Carl Harring (resigned 18 August 2020)
James Mitchell (resigned 18 August 2020)
Leigh Esmond Hadyn Frame (appointed 18 August 2020)

Principal activity

The company operates in the area of subsea telecoms solutions and the supply of both un-repeatered and repeatered systems, using its high-performance optical amplifiers to deliver traffic directly inland to cities.

Future developments

It is the intention of the directors to continue to develop the activities of the company, as noted in the Strategic Report.

Going concern

A summary of the directors' considerations in respect of going concern is set out in Note 2.3.

Post balance sheet events

There have been no significant subsequent events since the year end.

Small companies note

In preparing this report, the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

This report was approved by the board on 4 February 2021 and signed on its behalf.

Dr Stuart R Barnes
Director

DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

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 the directors have elected to prepare the financial statements in accordance with UK Accounting Standards: Financial Reporting Standards 101 'Reduced Disclosure Framework'(FRS 101), and applicable laws. 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 and 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 accounting estimates that are reasonable and prudent;
- state that the financial statements comply with FRS 101, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.
- the members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476;
- the directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts

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

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

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 $	*2018 $*
Turnover	4	6,231,296	*11,585,109*
Cost of sales		(1,645,035)	*(4,105,973)*
Gross profit		4,586,261	*7,479,136*
Administrative expenses		(3,778,862)	*(4,698,029)*
Other operating income		44,526	*-*
Operating profit		851,925	*2,781,107*
Interest receivable and similar income		-	*157*
Interest payable and expenses		(66,191)	*(200,567)*
Currency (loss)/gain		(23,911)	*(542,687)*
Profit before tax		761,823	*2,038,010*
Tax on profit	8	(160,866)	*(172,019)*
Profit for the financial year		600,957	*1,865,991*
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Exchange differences on retranslation of balances at year end		(28,469)	*204,607*
		(28,469)	*204,607*
Total comprehensive income for the year		572,488	*2,070,598*

The notes on pages 9 to 26 form part of these financial statements.

All operations are continuing.

XTERA LIMITED
REGISTERED NUMBER:10591225

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note		2019 $		*2018 $*
Fixed assets					
Tangible assets	9		**101,771**		*143,589*
			101,771		*143,589*
Current assets					
Stocks	10	**64,654**		*54,399*	
Debtors	11	**1,835,555**		*10,531,051*	
Cash at bank and in hand	12	**452,251**		*389,932*	
		2,352,460		*10,975,382*	
Creditors: amounts falling due within one year	13	**(2,315,578)**		*(11,552,806)*	
Net current assets/(liabilities)			**36,882**		*(577,424)*
Total assets less current liabilities			**138,653**		*(433,835)*
Net assets/(liabilities)			**138,653**		*(433,835)*
Capital and reserves					
Called up share capital	15		**8,891**		*8,891*
Share premium	15		**880,172**		*880,172*
Retranslation reserve	15		**278,298**		*306,767*
Profit and loss account	15		**(1,028,708)**		*(1,629,665)*
			138,653		*(433,835)*

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STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2019

For the year ending 31 December 2019 the company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

No members have required the company to obtain an audit of its accounts for the year in question in accordance with section 476 of the Companies Act 2006.

The directors acknowledge their responsibility for complying with the requirements of the Act with respect to accounting records and for the preparation of accounts.

The company's financial statements have been prepared in accordance with the provisions applicable to entities subject to the small companies regime.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

4 February 2021

Dr Stuart R Barnes
Director

The notes on pages 9 to 26 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Called up share capital	Capital redemption reserve	Retranslation reserve	Retained earnings	Total equity
	$	$	$	$	$
At 1 January 2019	8,891	880,172	306,767	(1,629,665)	(433,835)
Comprehensive income for the year					
Profit for the year	-	-	-	600,957	600,957
Retranslation differences	-	-	(28,469)	-	(28,469)
At 31 December 2019	8,891	880,172	278,298	(1,028,708)	138,653

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Called up share capital	Capital redemption reserve	Retranslation reserve	Retained earnings	Total equity
	$	$	$	$	$
At 1 January 2018	8,891	880,172	102,160	(3,495,656)	(2,504,433)
Comprehensive income for the year					
Profit for the year	-	-	-	1,865,991	1,865,991
Retranslation differences	-	-	204,607	-	204,607
At 31 December 2018	8,891	880,172	306,767	(1,629,665)	(433,835)

The notes on pages 9 to 26 form part of these financial statements.

1. General information

Xtera Limited is a limited liability company incorporated in England under the Companies Act 2006. The registered office of the company is Bates House, Church Road, Harold Wood, Essex RM3 0SD, U.K.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see note 3).

The company's parent undertaking Xtera Topco Limited includes the company in its consolidated financial statements. The consolidated financial statements is prepared in accordance with International Financial Reporting Standards as adopted by the EU and Companies Act 2006.

The following principal accounting policies have been applied:

2.2 Financial reporting standard 101 - reduced disclosure exemptions

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

- A cash flow statement and related notes;
- A statement of financial position as at the beginning of the preceding period;
- Comparative period reconciliations for share capital and tangible fixed assets;
- Disclosures in respect of transactions with wholly owned subsidiaries of the Xtera Topco Limited group;
- Disclosures in respect of the compensation of Key Management Personnel;
- Disclosures in respect of capital management; and
- The effects of new but not yet effective IFRSs.

2. Accounting policies (continued)

2.3 Going concern

The accompanying financial statements as at 31 December 2019 have been prepared on a going concern basis. The Group has funded its operations through a combination of bank debt, draws on line of credit and from common stock.

The Group renegotiated its repayment obligation with its bank and secured $4m of additional Funds from its investor HIG during the year. The group has currently drawn $2m of the facility from HIG. Under the terms of the agreement with HIG, final repayment of facility is due on 22 September 2021. In an event where group is unable to repay the fund on 22 September 2021, the group has renegotiated to extend the agreement to beyond the period of 12 months from the date of this report. The group primarily relies on extended care service contracts, repairs and regular yearly equipment upgrade contracts with its customers to meet a major part of its day to day working capital requirements. The group in addition also works on securing large turnkey contracts. Turnkey contracts are key to profitability and growth of the business and provides long term working capital buffer in periods of uncertainty. The group has won a high value turnkey contract in 2020. The group has also entered into negotiations with a number of potential customers and forecasts that additional turnkey contracts will be secured and won in 2020 and in 2021. In the event that there are delays in securing these additional turnkey contracts in 2020, the director's, after considering the Group's cashflow forecasts, have concluded that the Group will still be able to meet its working capital requirements as a result of having negotiated the financial support from HIG. Xtera Limited will be financially supported by its ultimate parent entity.

2. Accounting policies (continued)

2.4 Revenue

The Group has the following revenue income:

- Turnkey contracts
- Equipment upgrade and installations contracts
- Equipment service contracts
- Equipment repair contracts

The Group has adopted IFRS 15 'Revenue from Contracts with Customers', which came into effect on 1 January 2018 and replaced IAS 18 'Revenue'. The Group has implemented the new standards using the modified retrospective approach.

The Group revised its revenue recognition policy to adopt a five-step revenue recognition in line with IFRS 15. The new revenue recognition policy is based on transfer of control rather than the transfer of risks and reward.

The Group's revised revenue recognition policy, effective for the year ended 31 December 2019 is as follows:

1. Identifying the contract with the customer
   The turnkey contracts approved by both parties formally sets out the terms, services to be provided, rights for each party, and the payment terms. The contract is deemed to have commercial substance due to the material value of the contract and associated contracted cashflows. It is deemed probable that consideration will be collected as DISA are a government division with sufficient financial backing.

   Contract 'modifications' would be simply additional costs incurred by the Group, which are paid by the customer, as obliged by the terms of the contract.

   For Equipment related sales, customers place a purchase order at an agreed price for a specified product / service which is accepted by the Group.

   Service contract revenue relates to extended warranties which are provided for additional consideration and covered by a separate contractual agreement to the good or service that they relate to. The 'contract' is approved by both parties and the terms and price are explicit in the agreement.

   The customer agrees to pay for the product / service according to set payment terms and their intention to pay is understood by the Group. The Group performs appropriate checks on the customers' ability to satisfy the consideration under the purchase order terns. Contract 'modifications' would be simply additional costs incurred by the Group, which are paid by the customer, as obliged by the terms of the contract.

2. Accounting policies (continued)

2.4 Revenue (continued)

2. Identify the performance obligations

Performance obligations identified on Turnkey contracts are as follows:
- Manufacturing of an armoured fibre optic cable system
- Manufacture of repeaters and integration of repeaters to the cable system
- Manufacturing of power feed equipment
- *Marine installation*

Performance obligations identified on Equipment upgrade and installations contracts are as follows:

- Design, manufacture and deliver optical transmission equipment installation at client location

Performance obligations on Equipment service contracts are extended warranty and technical support.

3. Determine transaction price

The Group assesses whether the priced is fixed and determinable based on the payment term associated with the transaction and whether the sales price is subject to refund or adjustment. The additional variation is not included in the transaction price on day one, but if the additional price can be identified to a specific obligation, the additional contract variation can be allocated to the specific performance obligations in the contract that resulted in additional recovery.

Any adjustment arising as a result of this reassessment will be booked into the accounts in the period in which the reassessment was made provided it related to completed performance obligations.

Collectability is assessed primarily on the creditworthiness of the customer as determined by the Group as well as the customer's payment history.

4. Allocate the transaction price across each performance

The turnkey contract notes the individual billing milestones for the performance obligations i.e. each obligation consists of certain specific milestones, which are allocated a price in the contract. So, the sum of the milestones relating to each performance obligation is the allocated transaction price.

For equipment related transactions, the contract / PO / sales invoice outlines the transaction price and how it is to be allocated across the various performance obligations.

Equipment service contract and equipment repairs consist of one obligation, so the full transaction price is allocated to that obligation.

Equipment upgrades and installation are governed by an order for each obligation i.e. the installation is ordered and invoiced separately to the design and manufacture element, and therefore the transaction price is allocated per the order.

2. Accounting policies (continued)

2.4 Revenue (continued)

5. Recognise the revenue when the performance obligations are met

Performance obligations are satisfied as follows for different revenue income and revenue recognised accordingly:

- Turnkey contracts revenue is recognised over time on a percentage complete basis.
- Equipment upgrade and installations revenue is recognised over time on a percentage complete basis.
- Equipment service contract revenue is recognised over the term of the warranty
- Equipment repair revenue is recognised at point of return to customer.

There was no impact on reported revenues for the year ended 31 Dec 2019 and prior period as a result of the adoption of IFRS 15.

2.5 Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

Raw materials: purchase cost on a first-in/first-out basis
Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing
overheads based on the normal operating capacity, but excluding borrowing costs

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.6 Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. Cost includes all costs that are directly attributable to bringing the asset into working condition for its intended use.

An item of property, plant and equipment and any significant party initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of the profit or loss when the asset is derecognised.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end. Changes in the expected useful life are accounted for by changing the depreciation period or method as appropriate on a prospective basis.

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost less estimated residual value of each asset systematically over its expected useful life, as follows:

Computer Equipment	- 5 years
Equipment	- 5 years

2. Accounting policies (continued)

2.7 Impairment of non-financial assets

The carrying amounts of such assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the statement of profit or loss to its estimated recoverable amount. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Value in use is the present value of the estimated future cash flows of the asset / unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset / unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

2.8 Current Vs Non-Current Classification

The company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All Other assets are classified as non-current. A liability is current when:

- Expected to be settled in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be settled within twelve months after the reporting period, or
- No unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The company classifies all other liabilities as non-current.

Deferred tax liabilities are classified as non-current liabilities.

2. Accounting policies (continued)

2.9 Financial instruments

Initial recognition and measurement

The company recognises a financial asset or a financial liability in the balance sheet when, it becomes a party to the contractual provisions of the instrument. On initial recognition, the company recognises all financial assets and financial liabilities at fair value. The fair value of a financial asset / liability on initial recognition is normally represented by the transaction price. The transaction price for financial assets / liabilities other than those classified at fair value through profit or loss includes the transaction costs that are directly attributable to the acquisition / issue of the financial instrument. Transaction costs incurred on acquisition of a financial asset and issue of a financial liability classified at fair value through profit or loss are expensed immediately.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets that the company intends to sell immediately or in the near term cannot be classified in this category. These assets are carried at amortised cost using the effective interest method (except for short- term receivables where interest is immaterial) minus any reduction for impairment or uncollectability. Typically trade and other receivables, cash and cash equivalents are classified in this category.

Impairment of financial assets

At the end of each reporting period, the company assesses whether its financial assets (other than those at FVTPL) are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the (Group of) financial asset(s) have been affected. Objective evidence of impairment could include significant financial difficulty of the counterparty, breach of contract, probability that the borrower will enter bankruptcy, disappearance of an active market for that financial asset because of financial difficulties, etc.

In addition, for trade receivables that are assessed not to be impaired individually, the company assesses them collectively for impairment, based on the company's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

Only for trade receivables, the carrying amount is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly or by adjusting the allowance account for trade receivables) through profit or loss. However, the reversal must not result in a carrying amount that exceeds what the amortised cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

2. Accounting policies (continued)

Derecognition of financial assets

Financial assets are derecognised when the contractual right to receive cash flows from the assets has expired; or when the company has transferred its contractual right to receive the cash flows of the financial assets, and either:

- substantially all the risks and rewards of ownership have been transferred: or
- the company has neither retained nor transferred substantially all the risks and rewards but has not retained control.

Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires.

2.10 Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, that is readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

2.11 Leasing

Operating Lease

Rentals payable under operating leases are charged as an expense in the profit or loss on a straight-line basis over the lease term. Lease incentives are recognised over the shorter of the lease term and the date of the next rent review.

Capital leases

The company leases computer equipment.

2.12 Foreign currency translation and transactions

Functional and presentation currency

Items are included in the financial statements measured using the currency of the primary economic environment in which the entity operates ("the functional currency"), which is US Dollars.

For all non-functional currency account balances, the re-measurement of such balances to the functional currency will result in either a foreign exchange transaction gain or loss which is recorded in Foreign exchange gain (loss) in the same period that the re-measurement occurred.

2.13 Dividends

Dividends to the company's ordinary shareholders are recognised as a liability of the company when approved by the company's shareholders ate the annual general meeting.

2.14 Pensions

The pension costs charged in the financial statements represent the contribution payable by the company during the year.

2. Accounting policies (continued)

2.15 Income tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current income tax

Current income tax is the expected tax payable or receivable on the taxable income or loss for the financial period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous financial years. Current income tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and associates to the extent that the company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

2.16 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

2.17 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.18 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2. Accounting policies (continued)

2.19 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Provisions for liabilities

Provisions are made where an event has taken place that gives the company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the company becomes aware of the obligation, and are measured at the best estimate at the Statement of Financial Position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of Financial Position.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

In determining the carrying amounts of certain assets and liabilities, the company makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. The company's estimates and assumptions are based on historical experience and expectation of future events and are reviewed annually. This excludes uncertainty over future events and judgements in respect of measuring financial instruments. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Deferred taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the future customer contracts; and the level of future taxable profits generated by these contracts.

(b) Revenue recognition

The company recognises revenue for some of its revenue streams over time based on percentage completion. In recognising revenue on percentage completion, the company must make estimates of work done on the contract, within the company and also by its various subcontractors. Management judgement is required to ensure that the estimates given by the subcontractors for work done are fair and accurate. Refer to note 2.4 for a detailed explanation of the accounting policy.

(c) Inventory provision

The company has a policy of reviewing its inventory and determining obsolescence based on an estimate of its usage in the future on projects that are active and in the pipeline. Management judgement is required to determine the appropriateness of such reserve.

d) Amounts due from group companies

The company's assessment of impairment in the carrying value of amounts due from group companies involves management judgement on the likely timing and value of future customer contracts, and the level of future profits generated by these contracts. In particular the carrying value of the investments in subsidiaries is highly dependent upon new turnkey contracts being secured.

4. Turnover

The company derives a substantial majority of revenue from the sale of its products and also from the sales of support services related to the products. Products revenue represents sales of long-term projects, which include sales of turnkey solutions. Services revenue consists primarily of pre-and post-implementation services for customer networking needs, including training, network planning and monitoring, on-c all support, hardware and software warranties and upgrade planning

	2019 $	2018 $
Sale of goods	3,674,368	10,848,937
Rendering of services	765,711	736,172
Internal and other sales	1,791,217	-
	6,231,296	11,585,109

5. Employees

	2019 $	2018 $
Wages and salaries	2,051,955	2,307,998
Social security costs	193,566	245,457
Other pension costs	48,276	53,582
	2,293,797	2,607,037

The average monthly number of employees, including the directors, during the year was as follows:

	2019 No.	2018 No.
Administration	25	25

6. Interest receivable

	2019 $	2018 $
Bank interest	-	157

7. Interest payable and similar expenses

	2019 $	*2018 $*
Payable to parent company	**66,191**	*200,567*

8. Taxation

	2019 $	*2018 $*
Corporation tax		
Current tax on profits for the year	**160,866**	*1,045,451*
	160,866	*1,045,451*
Foreign tax		
Foreign tax on income for the year	-	*(81,358)*
	-	*(81,358)*
Total current tax	**160,866**	*964,093*
Deferred tax		
Origination and reversal of timing differences	-	*(792,074)*
Total deferred tax	-	*(792,074)*
Taxation on profit on ordinary activities	**160,866**	*172,019*

8. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is the same as *(2018: the same as)* the standard rate of corporation tax in the UK of 19% *(2018: 19%)* as set out below:

	2019 $	*2018* *$*
Profit on ordinary activities before tax	**761,823**	*2,038,010*
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% *(2018: 19%)*	**144,746**	*387,222*
Effects of:		
Expenses not deductible for tax purposes	**25,304**	*10,637*
Utilisation of deferred tax	**(9,184)**	*(225,702)*
Different tax rates in other countries	**-**	*(138)*
Total tax charge for the year	**160,866**	*172,019*

9. Tangible fixed assets

	Equipment $	Computer equipment $	Total $
Cost or valuation			
At 1 January 2019	**170,190**	**56,073**	**226,263**
At 31 December 2019	**170,190**	**56,073**	**226,263**
Depreciation			
At 1 January 2019	**63,339**	**19,335**	**82,674**
Charge for the year	**28,545**	**13,273**	**41,818**
At 31 December 2019	**91,884**	**32,608**	**124,492**
Net book value			
At 31 December 2019	**78,306**	**23,465**	**101,771**
At 31 December 2018	*106,851*	*36,738*	*143,589*

10. Stocks

	2019 $	*2018 $*
Finished goods	**64,654**	*54,399*

Inventory is valued at cost or estimated net realizable value whichever is lower.

11. Debtors

	2019 $	*2018 $*
Due after more than one year		
Non-current other assets	**9,599**	*8,644*
	9,599	*8,644*
Due within one year		
Receivables from customers	**1,610,475**	*368,902*
Amounts owed by group undertakings	**-**	*8,740,410*
Value added tax	**58,241**	*31,467*
Advances to suppliers	**73,231**	*51,255*
Prepayments	**2,128**	*48,950*
Deferred taxation	**81,881**	*1,281,423*
	1,835,555	*10,531,051*

12. Cash and cash equivalents

	2019 $	*2018 $*
Cash at bank and in hand	**452,251**	*389,932*

13. Creditors: Amounts falling due within one year

	2019 $	*2018 $*
Trade creditors	**671,974**	*224,884*
Bills of exchange	**91,357**	*-*
Amounts owed to group undertakings	**959,568**	*9,620,880*
Other creditors	**107,027**	*1,181,942*
Accruals and deferred income	**485,652**	*525,100*
	2,315,578	*11,552,806*

Amounts due to group companies are non-interest bearing and are on terms of 30 days.

14. Deferred taxation

	2019 $	2018 $
At beginning of year	1,281,423	489,349
Credited to profit or loss	-	792,074
Utilised against group losses	(1,199,542)	-
At end of year	**81,881**	1,281,423

The deferred tax asset is made up as follows:

	2019 $	2018 $
Other timing differences	81,881	1,281,423

15. Share capital

	2019 $	2018 $
Issued and fully paid		
Called up share capital		
889,188 Ordinary shares of $0.01 each	8,891	8,891
Share premium account	880,172	880,172

Share premium

Share premium represents the excess of the proceeds for shares received over the nominal..

Retranslation reserve

Retranslation reserve represents the change in value of assets and liabilities on translation of the assets and liabilities of the company from GBP to USD. The US dollar results that arise from such translations are included in cumulative currency translation reserve..

Prior Year Earnings and Loss for the year

Includes all prior and current period retained profit and losses.

16. *Commitments under operating leases*

The company leases multiple office spaces under non-cancellable operating leases which escalate annually and expire from Fiscal years 2019 to 2022.

	2019 **$**	*2018* *$*
Not later than 1 year	**13,129**	*157,544*

The operating lease obligations represent future minimum lease payments under non-cancelable operating leases. The minimum lease payments do not include "common area maintenance" charges or real estate taxes, which are also required contractual obligations under our operating leases.

17. Post balance sheet events

There are no material post balance sheet events after 31 December 2019.

18. Controlling party

The immediate parent company is Xtera Holdings Limited, registered in the United Kingdom. The ultimate parent undertaking is H.I.G. Europe Capital Partners II LP, registered in the Cayman Islands. The financial statements of the company are consolidated in the financial statements of Xtera Topco Limited. The consolidated financial statements of Xtera Topco Limited are available from its registered office, Bates House, Church Road, Harold Wood, Essex, RM3 OSD and on Companies House website.