

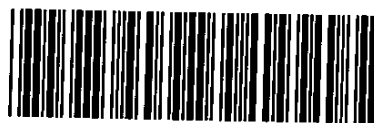
# **Xtera Topco Limited**

**Annual Report and Consolidated Financial Statements**

**For the year ended 31 December 2022**

***Registered Number: 10580604***

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# Xtera Topco Limited

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<b>CONTENTS</b>	<b>Page</b>
COMPANY INFORMATION	2
STRATEGIC REPORT	3
DIRECTORS' REPORT	8
DIRECTORS' RESPONSIBILITIES STATEMENT	9
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XTERA TOPCO LIMITED	10
CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME	14
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	15
COMPANY STATEMENT OF FINANCIAL POSITION	17
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	18
COMPANY STATEMENT OF CHANGES IN EQUITY	19
CONSOLIDATED STATEMENT OF CASH FLOWS	20
COMPANY STATEMENT OF CASH FLOWS	21
NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS	22

# Xtera Topco Limited

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## COMPANY INFORMATION

**Directors**

Stuart Robert Barnes  
Leigh Esmond Hadyn Frame  
Michael John Evangelos Pothitos  
John David Harper

**Registered number of incorporation**

10580604

**Registered Office**

Bates House  
Church Road  
Harold Wood  
Essex  
RM3 0SD

**Auditors**

Grant Thornton UK LLP  
Chartered Accountants & Statutory Auditors  
2<sup>nd</sup> Floor  
St John's House  
Haslett Avenue West  
Crawley  
RH10 IHS

**Principal Bankers**

JPMorgan Chase Bank, N.A.  
P O Box 6076  
Newark, DE 19714 – 6076

Santander UK Plc  
Victory House  
Vision Park  
Chivers Way  
Histon  
Cambridge  
CB24 9ZR

# Xtera Topco Limited

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## STRATEGIC REPORT

The directors present their Strategic Report for the period from 1 January 2022 to 31 December 2022.

Xtera provides subsea telecommunications solutions worldwide. The Group offers un-repeated and repeated 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 and future developments

The Group loss for the period, after taxation, was \$9,073,011 (2021: \$4,977,102 profit).

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 Group will also broaden the customer base by opening up new revenue streams, such as licensing IP.

As permitted under UK Company Law, the Group has opted to prepare its financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The financial statements have been prepared on an historical cost basis as applied by the Companies Act 2006. The IFRS adopted by the EU and applied by the Group and Company are those that were effective as at 31 December 2022. These have been consistently applied in the preparation of these financial statements.

The Group's key financial and other performance indicators during the period ending 31 December 2022 were as follows:

	2022	2021
	\$	\$
Turnover	4,792,716	51,146,507
Operating (loss)/profit	(9,149,511)	4,745,672
Total comprehensive (loss)/profit for the period	(9,459,667)	4,688,892
Shareholder's deficit	(11,210,292)	(1,750,625)

The Group derives a substantial majority of revenue from turnkey sales and from the sale of its products and also from the sales of support services related to the products. The operating loss during the current year was driven primarily due to a delay in getting orders realized because of the tough financial and economic environment post covid-19. The Group also won one new high value turnkey contract in later half of 2022. However, the substantial portion of the turnkey sales and its profitability will be recorded only in 2023-24, 2024-25 and 2025-26. The main driver of operating gain in 2021 was the profits from turnkey sales which achieved successful completion in 2021.

Shareholders' deficit includes retained losses of \$26,225,445 (2021: \$17,152,434).

# Xtera Topco Limited

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## STRATEGIC REPORT (continued)

### Principal risks and uncertainties

The Board has established a risk committee that meets quarterly, and which evaluates the Group's risk appetite. The principal risks and uncertainties facing the Group are broadly Grouped as – Operational risk, Competition risk, Brexit risk, Credit risk, Liquidity risk and foreign currency risk.

### Operational risk

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

### Competition risk

Xtera's IP has a competitive advantage as it increases the line's bandwidth from 36 nanometres to 100 nanometres, allowing the Group to offer nearly three times more data-carrying wavelengths, or channels, than its competitors, and at two times the distance. This also allows the Group to offer an attractive combination of higher line capacity, better noise performance and high optical power efficiency. However as with all of our products and services, our competitors continue to make investments in R&D and can offer products and services that can rival our offering or can offer better terms to customers that may undercut our business. Hence the Group has to make continuous investments in technology to retain the competitive advantage.

### Exposure to credit, and liquidity risk

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

- Cash and cash equivalents  
The Group's cash and cash equivalents are held mainly with JP Morgan Chase Bank NA, which is rated A+ by S&P for 2020
- Receivables from Customers  
The Group 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 high quality of the customers. As of the reporting date all the receivables on the balance sheet, except for some turnkey customers for which work has not yet begun have been recovered.

Liquidity risk:

- The Group renegotiated its repayment obligation with its bank and the \$4m of funds from its investor HIG during the year. It has sufficient liquidity as of the balance sheet date and has receivables that will be sufficient to meet its obligations.

Foreign Currency risk:

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

# Xtera Topco Limited

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## STRATEGIC REPORT (continued)

### COVID-19 risk

The group faced delays in 2022 in securing and delivering on customer upgrade orders. Although the Telecom industry has largely remained immune to the effects of Covid-19 because of higher demand for bandwidth from residential customers, supply chain issues because of lockdowns in major markets in 2021 have caused delays in securing and delivering on orders in 2022. As such the company was able to commit to orders from customers only with stretched delivery timelines. This has resulted in fewer orders being delivered in 2022.

While management cannot cite specific examples of adverse Covid-related impact, it assumes there were indirect effects of covid-19 causing some of our suppliers to limit product offerings or shutter their businesses altogether in 2022.

While much of the Covid-related risk has passed, the full after-effects of Covid might not yet be realized. In the event of another significant outbreak, management believes that the following may impact project execution timelines for the following reasons:

- Delays because of supply chain disruption
- Delays in access to customer sites.
- Availability of employees due to sickness
- Disruption in travel of employees and subcontractors

The management has taken following steps to mitigate these in the year 2022:

- Implemented systems and enabled seamless remote work from home for all employees and certain subcontractors of which Xtera has control.

### Going concern

The accompanying financial statements as at 31 December 2022 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, shareholder loans, and from common stock.

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 provide a long-term working capital buffer in periods of uncertainty.

The Group won a high-value turnkey contract in 2022. While there were significant delays in operationalizing the contract in 2022, the contract is fully performing and provides significant profitability for 2024 and 2025. The turnkey customer has demonstrated sufficient liquidity and financing for the project.

The Group has also entered negotiations with several potential customers and forecasts that additional turnkey contracts will be secured and won sometime in late 2023 to mid-2024. If there are additional delays in a worst case scenario, the group forecast's that it will not present any going concern issues until the end of 2024, because of the cash already generated from the turnkey contract won in 2022/23.

The Group secured a \$4m line of credit from its investor HIG during the year 2019. The group has currently drawn all \$4m of the facility from HIG. Under the terms of the agreement with HIG, final repayment of facility is due on 22 September 2024. The Group is projecting sufficient liquidity during the year 2023-24 to repay all of its debts, including its obligation to HIG, without the need to replace the financing. The Group projects that it will have no long-term debt by the end of first quarter, 2024, funding company operations organically from profits.

Based on the circumstances described above, the directors have concluded that the financial statements can be prepared on the assumption that the entity is a going concern.

# Xtera Topco Limited

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## STRATEGIC REPORT (continued)

This report was approved by the Board on 3 November 2023 and signed on its behalf by:

*Leigh Frame*

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Leigh Esmond Hadyn Frame

Director

# Xtera Topco Limited

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## DIRECTORS REPORT

The directors present their report together with the audited financial statements of the Group & Company for the year ended 31 December 2022.

### Principal activity

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

### Results and dividends

The Group loss for the period, after taxation, was \$9,073,011 (2021 of \$4,977,102 profit). No dividend is proposed for the period.

### Directors

The directors who served during the financial period were as follows:

Stuart Robert Barnes  
Leigh Esmond Hadyn Frame  
Michael John Evangelos Pothitos  
John Harper

### Subsequent events

Subsequent to yearend, the Company was able to renegotiate the final payment date of its existing facilities with HIG and Santander for an additional one year. Maturity of the facilities are now September 2024 and February 2024, respectively. See further details in Note 21.

### Future developments

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

### Matters covered in the strategic report

Information in respect of future developments, financial risk management and exposure to risks are not shown in the Directors' report because they are presented in the Strategic Report in accordance with s414c(ii) of the Companies Act 2006.

### Going concern

A summary of the directors' considerations in respect of going concern is set out in Note 3.3

### Qualifying third party indemnity provisions

Third party directors and officers insurances, a qualifying third party indemnity provision, was provided for all directors and officers of the Company during the year and at the date of approval of the financial statements under a policy in the name of the Company.

### Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Group's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.



# Xtera Topco Limited

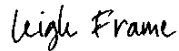
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## DIRECTORS REPORT

### Auditors

Grant Thornton UK LLP was appointed auditors during the year. Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Grant Thornton UK LLP will therefore continue in office.

This report was approved by the Board on 3 November 2023 and signed on its behalf by:



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Leigh Esmond Hadyn Frame  
Director

# Xtera Topco Limited

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## **DIRECTORS RESPONSIBILITIES STATEMENT**

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

Company law requires the directors to prepare financial statements for each financial year. Under the law, the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). Under Company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company, and of the profit or loss of the Group for that period.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies for the Group financial statements and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state that the financial statements comply with IFRS as adopted by the EU, 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 Group and Company will continue in business.

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

# Xtera Topco Limited

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XTERA TOPCO LIMITED

### Opinion

We have audited the financial statements of Xtera Topco Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2022, which comprise the Consolidated Statement of Total Comprehensive Income, the Consolidated Statement of Financial Position, the Company Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK-adopted international accounting standards and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

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

### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the group or the parent company to cease to continue as a going concern.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with group's and the parent company's business model including effects arising from macro-economic uncertainties such as inflation, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the group's and the parent company's financial resources or ability to continue operations over the going concern period.

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

# Xtera Topco Limited

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XTERA TOPCO LIMITED

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

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

### **Emphasis of matter – effects of future contracts**

We draw our attention to note 3.5 to the financial statements, which sets out the effects of future turnkey contracts. The recoverability of the deferred tax asset (\$2,576,904) included in the consolidated statement of financial position and the recoverability of the deferred tax asset (\$598,428), investment in subsidiaries (\$15,604,223) and amounts due from group companies (\$20,282,903) included in parent company's statement of financial position are based on management winning and executing turnkey contracts in the forthcoming years. The new turnkey contracts have yet to be finalised however the negotiation with some of the customers are at an advanced negotiation stage. Our opinion is not modified in respect of this matter.

### **Other information**

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

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

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

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

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

### **Matter on which we are required to report under the Companies Act 2006**

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

# Xtera Topco Limited

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XTERA TOPCO LIMITED

### Matters on which we are required to report by exception

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

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

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Company and determined that the following laws and regulations were most significant: UK-adopted international accounting standards and the Companies Act 2006, and the relevant tax compliance regulations in the UK.
- We obtained an understanding of the legal and regulatory frameworks applicable to the Company and the industry in which it operates through our general and commercial and sector experience as well as discussions with management. We obtained an understanding of how the Company is complying with those legal and regulatory frameworks by making inquiries of management and of those responsible for legal and compliance procedures. We corroborated our inquiries through our review of board minutes.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management from different parts of the business to understand where it is considered there was a susceptibility of fraud. We also considered performance targets and their propensity to influence efforts made by management to manage earnings. We considered the processes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those processes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk.

# Xtera Topco Limited

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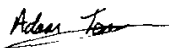
## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XTERA TOPCO LIMITED

- Our audit procedures involved:
  - evaluation of the programmes and controls established to address the risks related to irregularities and fraud;
  - testing manual journal entries, in particular, journal entries relating management estimates, entries processed by unauthorised user, and entries determined to be large or relating to unusual transactions; and,
  - identifying and testing related party transactions.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;
- The engagement leader's assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with, audit engagements of a similar nature and complexity, through appropriate training and participation;
  - knowledge of the industry in which the Group operates; and
  - understanding of the legal and regulatory requirements specific to the Group.
- We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

### Use of our report

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



Adam Terry BSc FCA  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
Crawley  
3 November 2023

# Xtera Topco Limited

## CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 DECEMBER 2022

	Notes	2022 \$	2021 \$
<b>Continuing operations:</b>			
Revenue	4	4,792,716	51,146,507
Cost of sales	5	<u>(1,715,256)</u>	<u>(35,006,632)</u>
<b>Gross profit</b>		3,077,460	16,139,875
Operating expenses		<u>(12,226,971)</u>	<u>(11,394,203)</u>
<b>Operating (loss)/profit</b>		(9,149,511)	4,745,672
Interest expense	7	(608,091)	(389,261)
Interest income		182	-
Finance charges		(129)	(53)
Currency loss		<u>(180,445)</u>	<u>(697,738)</u>
<b>(Loss)/profit before tax on continuing operations</b>		(9,937,994)	5,054,096
Income tax credit/(charge)	8	<u>864,983</u>	<u>(76,994)</u>
<b>(Loss)/profit for the period from continuing operations</b>		<u>(9,073,011)</u>	<u>4,977,102</u>
<b>Other comprehensive loss:</b>			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on retranslation of foreign subsidiaries		<u>(386,656)</u>	<u>(288,210)</u>
<b>Other comprehensive loss</b>		<u>(386,656)</u>	<u>(288,210)</u>
<b>Total comprehensive (loss)/profit for the period</b>		<u>(9,459,667)</u>	<u>4,688,892</u>
Attributable to equity holders of the parent		<u>(9,459,667)</u>	<u>4,688,892</u>

All group operations are continuing.

The accompanying notes on pages 22-44 form an integral part of these financial statements.

# Xtera Topco Limited

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	Notes	2022 \$	2021 \$
<b>Assets</b>			
Property, plant and equipment	9	1,271,578	535,155
Intangible assets	11	500,000	500,000
Right-of-use assets	10	1,263,814	206,151
Deferred tax asset	8	2,576,904	2,695,715
Other non-current assets		272,383	9,186
<b>Total non-current assets</b>		<u>5,884,679</u>	<u>3,946,207</u>
Prepayments and other receivables	13	1,349,269	876,894
Inventories	14	5,371,422	5,347,856
Contract assets	18	2,155,478	1,024,600
Trade and other receivables	15	504,365	8,231,984
Unbilled receivable	17	-	3,529,529
Cash and cash equivalents	16	840,584	7,339,365
<b>Total current assets</b>		<u>10,221,118</u>	<u>26,350,228</u>
<b>Total assets</b>		<u>16,105,797</u>	<u>30,296,435</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share Premium	19	156,043	156,043
Share Capital	19	15,448,149	15,448,149
Retranslation reserve	19	(589,039)	(202,383)
Prior Years Earnings	19	(17,152,434)	(22,129,536)
(Loss)/profit for the year	19	(9,073,011)	4,977,102
<b>Total equity</b>		<u>(11,210,292)</u>	<u>(1,750,625)</u>
<b>Liabilities</b>			
Interest bearing loans and borrowings	21	2,700,000	2,700,000
Lease liability	10	1,279,462	139,922
Deferred tax liability	8	1,123,037	1,123,037
Warranty provision	20	1,099,938	1,142,253
<b>Total non-current liabilities</b>		<u>6,202,437</u>	<u>5,105,212</u>
Trade and other payables	22	3,730,013	5,432,741
Interest bearing loans and borrowings	21	9,000,000	7,084,755
Lease liability	10, 22	108,089	155,775
Other accrued liabilities	22	2,304,502	5,712,665
Accrued compensation and benefits	22	738,306	639,027
Deferred revenue	23	5,207,961	7,886,822
Warranty provision	20	24,781	30,063
<b>Total current liabilities</b>		<u>21,113,652</u>	<u>26,941,848</u>
<b>Total liabilities</b>		<u>27,316,089</u>	<u>32,047,060</u>
<b>Total equity and liabilities</b>		<u>16,105,797</u>	<u>30,296,435</u>



# Xtera Topco Limited

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022 (continued)**

The financial statements were approved by the board on 3 November 2023 and signed on its behalf by:

*Leigh Frame*  
.....  
**Leigh Esmond Hadyn Frame**  
**Director**

The accompanying notes on pages 22-44 form an integral part of these financial statements.

# Xtera Topco Limited

## COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	Notes	2022 \$	2021 \$
<b>Assets</b>			
Investment in subsidiary	12	15,604,223	15,604,223
Deferred tax assets		598,428	668,752
<b>Total non-current assets</b>		<u>16,202,651</u>	<u>16,272,975</u>
Prepayments and other receivables	13	67	103,791
Intercompany receivable		20,282,903	19,583,841
Cash and cash equivalents	16	96,311	31,364
<b>Total current assets</b>		<u>20,379,281</u>	<u>19,718,996</u>
<b>Total assets</b>		<u>36,581,932</u>	<u>35,991,971</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share Premium	19	156,043	156,043
Share capital	19	15,448,149	15,448,149
Retranslation reserve	19	(442,240)	(859,578)
Prior Years Earnings	19	(2,543,373)	(2,776,123)
Profit / (loss) for the Year	19	(808,401)	232,750
<b>Total equity</b>		<u>11,810,178</u>	<u>12,201,241</u>
<b>Liabilities</b>			
Interest bearing loans and borrowings	21	2,700,000	2,700,000
<b>Total non-current liabilities</b>		<u>2,700,000</u>	<u>2,700,000</u>
Trade and other payables	22	291,932	291,213
Interest bearing loans and borrowings	21	9,000,000	7,084,755
Intercompany payable		10,671,886	12,047,461
Other accrued liabilities	22	2,102,217	1,633,434
Accrued compensation and benefits	22	5,719	33,867
<b>Total current liabilities</b>		<u>22,071,754</u>	<u>21,090,730</u>
<b>Total liabilities</b>		<u>24,771,754</u>	<u>23,790,730</u>
<b>Total equity and liabilities</b>		<u>36,581,932</u>	<u>35,991,971</u>

The financial statements were approved by the board on 3 November 2023 and signed on its behalf by:

*Leigh Frame*

.....  
**Leigh Esmond Hadyn Frame**  
**Director**

The accompanying notes on pages 22-44 form an integral part of these financial statements.

# Xtera Topco Limited

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2022

	<b>Called up share capital</b>	<b>Share premium account</b>	<b>Retained earnings</b>	<b>Retranslation reserve</b>	<b>Total</b>
	\$	\$	\$	\$	\$
Balance at 1 January 2022	156,043	15,448,149	(17,152,434)	(202,383)	(1,750,625)
<b>Comprehensive income for the year</b>					
Loss attributable to equity holders	-	-	(9,073,011)	-	(9,073,011)
Retranslation reserve	-	-	-	(386,656)	(386,656)
<b>Balance at 31 December 2022</b>	<b>156,043</b>	<b>15,448,149</b>	<b>(26,225,445)</b>	<b>(589,039)</b>	<b>(11,210,292)</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2021

	<b>Called up share capital</b>	<b>Share premium account</b>	<b>Retained earnings</b>	<b>Retranslation reserve</b>	<b>Total</b>
	\$	\$	\$	\$	\$
Balance at 1 January 2021	156,043	15,448,149	(22,129,536)	25,827	(6,499,517)
<b>Comprehensive income for the year</b>					
Profit attributable to equity holders	-	-	4,977,102	-	4,977,102
Retranslation reserve	-	-	-	(228,210)	(228,210)
<b>Balance at 31 December 2021</b>	<b>156,043</b>	<b>15,448,149</b>	<b>(17,152,434)</b>	<b>(202,383)</b>	<b>(1,750,625)</b>

The accompanying notes on pages 22-44 form an integral part of these financial statements.

# Xtera Topco Limited

## COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2022

	Called up share capital	Share premium account	Retained earnings	Retranslation reserve	Total
	\$	\$	\$	\$	\$
Balance at 1 January 2022	156,043	15,448,149	(2,543,373)	(859,578)	12,201,241
<b>Comprehensive income for the year</b>					
Loss attributable to equity holders	-	-	(808,401)	-	(808,401)
Retranslation reserve	-	-	-	417,338	417,338
<b>Balance at 31 December 2022</b>	<u>156,043</u>	<u>15,448,149</u>	<u>(3,351,774)</u>	<u>(442,240)</u>	<u>11,810,178</u>

## COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2021

	Called up share capital	Share premium account	Retained earnings	Retranslation reserve	Total
	\$	\$	\$	\$	\$
Balance at 1 January 2021	156,043	15,448,149	(2,776,123)	(936,944)	11,891,125
<b>Comprehensive income for the year</b>					
Profit attributable to equity holders	-	-	232,750	-	232,750
Retranslation reserve	-	-	-	77,366	77,366
<b>Balance at 31 December 2021</b>	<u>156,043</u>	<u>15,448,149</u>	<u>(2,543,373)</u>	<u>(859,578)</u>	<u>12,201,241</u>

The accompanying notes on pages 22-44 form an integral part of these financial statements.

# Xtera Topco Limited

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2022

	Notes	2022 \$	2021 \$
<b>Cash flows from operating activities</b>			
(Loss)/profit from operations before tax		(9,937,994)	5,054,096
Adjustments to reconcile loss before tax to net cash flows:			
Depreciation of property, plant and equipment	9	307,819	250,055
Amortisation and impairment of intangible assets	11	-	439,990
Amortisation of right-of-use assets	10	286,304	79,974
Net foreign exchange differences		(138,948)	(989,022)
Finance costs-net	7	608,038	389,261
<b>Operating cash flows before changes in working capital</b>		<u>(8,874,781)</u>	<u>5,224,354</u>
Decrease/(increase) in trade and other receivables		8,463,705	(9,023,268)
(Decrease)/increase in trade and other payables		(1,702,728)	4,449,866
(Decrease)/increase in deferred revenue		(2,678,861)	4,973,097
Increase in inventories		(23,566)	(4,003)
Increase in prepaid expenses		(472,375)	-
Increase in contract assets		(1,136,160)	(231,166)
Decrease in other assets		3,266,332	-
Decrease in other liabilities		(3,351,199)	-
<b>Net cash flows from operating activities</b>		<u>(6,509,633)</u>	<u>5,388,880</u>
<b>Cash flows from financing activities</b>			
Interest paid	7	(607,909)	(343,082)
Lease payments		(252,113)	(508,983)
Proceeds from borrowings		1,915,116	-
<b>Net cash flows from financing activities</b>		<u>1,055,094</u>	<u>(852,065)</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant & equipment	9	(1,044,242)	(186,041)
Other long term assets		-	362,704
<b>Net cash outflow from investing activities</b>		<u>(1,044,242)</u>	<u>176,663</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<u>(6,498,781)</u>	<u>4,713,478</u>
Cash and cash equivalents at beginning of financial period		<u>7,339,365</u>	<u>2,625,887</u>
<b>Cash and cash equivalents at end of financial period</b>		<u>840,584</u>	<u>7,339,365</u>

The accompanying notes on pages 22-44 form an integral part of these financial statements.

## Xtera Topco Limited

### COMPANY STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2022

	Notes	2022 \$	2021 \$
<b>Cash flows from operating activities</b>			
(Loss)/profit from operations before tax		(808,401)	(431,137)
Net foreign exchange differences		487,662	77,366
Finance costs-net	7	215,997	41,506
<b>Operating cash flows before changes in working capital</b>		<u>(104,742)</u>	<u>(312,265)</u>
(Increase)/decrease in trade and other receivables		(595,338)	103,257
(Decrease)/increase in trade and other payables		(934,221)	196,128
<b>Net cash flows from operating activities</b>		<u>(1,634,301)</u>	<u>(12,880)</u>
<b>Cash flows from financing activities</b>			
Interest paid		(215,997)	(41,506)
Proceeds from borrowings		1,915,245	-
<b>Net cash flows from financing activities</b>		<u>1,699,248</u>	<u>(41,506)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		64,947	(54,386)
Cash and cash equivalents at beginning of financial period		31,364	85,750
<b>Cash and cash equivalents at end of financial period</b>	19	<u>96,311</u>	<u>31,364</u>

The accompanying notes on pages 22-44 form an integral part of these financial statements.

# Xtera Topco Limited

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## NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2022

### 1. Corporate Information

Xtera Topco Limited (formerly Neptune Subsea Acquisitions 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. Statement of compliance and basis of preparation

The consolidated and Company's financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and the Companies Act 2006. The financial statements, which are presented in US Dollars (the Group's functional currency) have been prepared under the historical cost convention.

The Company has opted to use the exemption under the provisions of Section 408 of the Company's Act 2006 and hence is not presenting its statement of total comprehensive income.

### 3. Summary of Significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

#### 3.1 New standards effective from 1 January 2022 relevant to the Group and Company

There are certain amendments to accounting standards that are mandatorily effective for periods starting 1 January 2022. The application of these amendments had no significant impact on the Group's and Company's financial statements.

#### 3.2 New standards and interpretations not yet applied

Certain amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the Group and the Company. These standards are not expected to have a material impact on the entity in the current or future reporting periods on foreseeable future transactions.

#### 3.3 Going concern

The accompanying financial statements as at 31 December 2022 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, shareholder loans, and from common stock.

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 provide a long-term working capital buffer in periods of uncertainty.

The Group won a high-value turnkey contract in 2022. While there were significant delays in operationalizing the contract in 2022, the contract is fully performing and provides significant profitability for 2024 and 2025. The turnkey customer has demonstrated sufficient liquidity and financing for the project.

The Group has also entered negotiations with several potential customers and forecasts that additional turnkey contracts will be secured and won sometime in late 2023 to mid-2024. If there are additional delays in a worst case scenario, the group forecast's that it will not present any going concern issues until the end of 2024, because of the cash already generated from the turnkey contract won in 2022/23.

The Group secured a \$4m line of credit from its investor HIG during the year 2019. The group has currently drawn all \$4m of the facility from HIG. Under the terms of the agreement with HIG, final repayment of facility is due on 22 September 2024. The Group is projecting sufficient liquidity during the year 2023-24 to repay all of its debts, including its obligation to HIG, without the need to replace the financing. The Group projects that it will have no long-term debt by the end of first quarter, 2024, funding company operations organically from profits.

Based on the circumstances described above, the directors have concluded that the financial statements can be prepared on the assumption that the entity is a going concern.

# Xtera Topco Limited

## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2022 (Continued)

### 3.4 Estimates and judgements

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

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. The Group'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) Establishing useful economic lives of intangible assets and other long-term assets other than Goodwill*

Intangible assets and other tangible long-term assets, comprise a significant portion of the total assets. The annual depreciation and amortisation charge depends primarily on the estimated useful economic lives of each type of asset and estimates of residual values. The directors regularly review these assets useful economic lives and change them as necessary to reflect current thinking on remaining lives in light of prospective economic utilisation and physical condition of the assets concerned. Changes in assets' useful lives can have a significant impact on depreciation and amortisation charges for the period. Detail of the useful economic lives is included in the accounting policies notes 3.18 and 3.19.

#### *(b) 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.

#### *(c) Warranty provision*

The accounting for future warranty claims are based on a reasonable estimate, derived from history of actual cost of warranty claims and calculating the relationship between costs incurred and revenue or units sold. This information can be applied to current sales level that can form the basis for a justification of the amount that can be accrued as a warranty reserve. The accrual is made in the same reporting period in which the related product sales are recorded. Detail of the warranty provisions are provided in note 19.

#### *(d) Revenue recognition*

The Group recognises revenue for some of its revenue streams over time based on percentage completion. In recognising revenue on percentage completion, the group must make estimates of work done on the contract, within the Group 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 3.17 for a detailed explanation of the accounting policy.

#### *(e) Inventory provision*

The Group 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. Detail of the inventory provisions are provided in note 14.



# Xtera Topco Limited

## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2022 (Continued)

### *f) Investments in subsidiaries*

The company's assessment of impairment in the carrying value of its investment in subsidiaries 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, which is further disclosed in note 3.5.

### *g) 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, which is further disclosed in note 3.5.

### **3.5 Effects of future turnkey contracts**

The Group won a turnkey contract in 2022 with a total value of \$119 Million. However, there were significant delays in operationalizing the contract, as the customer changed the design and expanded the turnkey system by bringing in new investors. The amended turnkey contract has now doubled in value to \$238 million. Work on this amended contract began only in July of 2023. Further the Group has also entered negotiations with a number of potential customers and are at an advanced stage of negotiation to secure those contracts. In the opinion of the Directors, because of those advanced negotiations, several additional turnkey contracts will be secured in 2023/2024. However, given that these additional turnkey contracts have yet to be fully secured, we have considered whether an impairment charge should be recognised against assets whose carrying value are supported by the future cashflows generated from those turnkey contracts, namely investments in subsidiaries (2022 and 2021: \$15,604,223) and amounts due from group companies recorded under the parent company (2022: \$20,282,903, 2021: 19,583,841) and deferred tax assets recorded under the group (2022: \$2,576,904, 2021: \$2,695,715) and parent company (2022: \$598,428, 2021: \$668,752). The directors have produced a discounted cash flow analysis that shows that providing we enter new turnkey contracts during 2023/2024 there will be sufficient headroom and therefore no impairment charge against those assets should be recognised. Given our history of securing turnkey contracts and the fact that we are significantly advanced in negotiations with the potential new customers, the directors are of the opinion that the Group will secure new turnkey contracts during 2023/2024 and that as a result, no impairment charge is necessary against the carrying value of the investments in subsidiaries and amounts due from group companies.

### **3.6 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 part 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, and Software	5 years
Fixtures and Fittings, and Equipment	3- 5 years

# Xtera Topco Limited

## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2022 (Continued)

### 3.7 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 (CGU). 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 Groups of assets. If this is the case, recoverable amount is determined for the CGU 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 CGUs 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.

### 3.8 Investments in subsidiaries

Investments in subsidiary companies are held at historical cost less any provision for impairment.

### 3.9 Current Vs Non-Current Classification

The Group 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 Group classifies all other liabilities as non-current. Deferred tax liabilities are classified as non-current liabilities.

### 3.10 Financial instruments

#### *Initial recognition and measurement*

The Group 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 Group 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.

The Group recognises financial assets using settlement date accounting, thus an asset is recognised on the day it is received by the Group and derecognised on the day that it is delivered by the Group.

# Xtera Topco Limited

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## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2022 (Continued)

### *Financial assets at amortised cost*

The group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows; and,
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

### *Impairment of financial assets*

At the end of each reporting period, the Group 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 Group assesses them collectively for impairment, based on the Group'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.

### *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.

### **3.11 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.

# Xtera Topco Limited

## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2022 (Continued)

### 3.12 Leases

#### *Identification of leases*

For any new contracts, the Group considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

#### *Measurement of right-of-use asset and lease liability*

At lease commencement date, the Group recognises a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Group depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

On the other hand, the Group measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability is reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been presented separately as right-of-use assets and lease liabilities.

### 3.13 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.

The functional currency for the Group's foreign subsidiaries is the local currency in which the entity is located. The financial statements of all subsidiaries with a functional currency other than the United States Dollar ("U.S. Dollar") have been translated into U.S. Dollars. All assets (except long lived assets and investment in subsidiaries, which are translated at historical rates) and liabilities (except the term loans and equity which are translated at historical rates) of foreign operations are translated into U.S. Dollars using period-end exchange, and the statement of operations is translated at average exchange rates during the respective period. The U.S. Dollar results that arise from such translation, as well as exchange gains and losses on intercompany balances of a long-term investment nature, are included in the cumulative currency translation adjustments in accumulated other comprehensive loss in stockholders' equity. 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.

# Xtera Topco Limited

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## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2022 (Continued)

### *Group companies*

On consolidation, the assets and liabilities of foreign operations are translated into US Dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

### **3.14 Dividends**

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

### **3.15 Pensions**

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

### **3.16 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 Group 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.

### **3.17 Revenue**

The Group has the following revenue income:

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

# Xtera Topco Limited

## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2022 (Continued)

The Group's revenue recognition policy is as follows:

### 1. Identifying the contract with the customer

The Group determines whether a contract with customer exists by evaluating whether the following gating criteria are present:

- (i) the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
- (ii) each party's rights regarding the goods or services to be transferred or performed can be identified;
- (iii) the payment terms for the goods or services to be transferred or performed can be identified;
- (iv) the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
- (v) collection of the consideration in exchange of the goods and services is probable.

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 customer's ability to satisfy the consideration under the purchase order terms. 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. Identify the performance obligations

A contract includes promises to transfer goods or services to a customer. If those goods or services are distinct, the promises are performance obligations and are accounted for separately. A good or service is distinct if the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

Each turnkey contract is reviewed to identify separate performance obligations.

Performance obligations identified on Equipment upgrade and installations contracts are the 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.

# Xtera Topco Limited

## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2022 (Continued)

### 4. Allocate the transaction price across each performance obligation

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. 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.

### 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.

The Group presents a contract asset when it performs services or delivers goods to a customer before the customer pays consideration or before payment is due. A contract asset is the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer. This is presented as 'Contract assets' in the statement of financial position.

### 3.18 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. The Group has acquired customer contracts, trade name and IP as part of the asset purchase agreement from the bankruptcy of Xtera Communications Inc.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The Group has classified value of customer contracts and IP with a finite useful life.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the CGU level. The Group has classified trade name as an intangible asset with an indefinite useful life.

The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

# Xtera Topco Limited

## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2022 (Continued)

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

### 3.19 Patents and licences

The Group made upfront payments to purchase patents and licences. The patents have been granted for a period of 10 years by the relevant government agency with the option of renewal at the end of this period. Licences for the use of intellectual property are granted for periods ranging between five and ten years depending on the specific licences. The licences may be renewed at little or no cost to the Group. As a result, those licences are assessed as having an indefinite useful life.

A summary of the policies applied to the Group's intangible assets is, as follows:

	Licences	Patents	Development costs
Useful lives	Indefinite	Finite (10 years)	Finite (20 years)
Amortisation method used	No amortisation	Amortised on a straight line basis over the period of the patent	Amortised on a straight line basis over the period of expected future sales from the related project
Internally generated or acquired	Acquired	Acquired	Internally generated

### 3.20 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.

## 4. Revenue

The Group 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-haul products, 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-call support, hardware and software warranties and upgrade planning.

	2022	2021
	\$	\$
Sale of goods	4,025,687	14,498,707
Rendering of services	767,029	36,647,800
	<u>4,792,716</u>	<u>51,146,507</u>



# Xtera Topco Limited

## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2022 (Continued)

The amount of revenue recognised over time is as follows:

	2022	2021
	\$	\$
Services	767,029	2,664,457
Turnkey contract goods and services	-	45,555,521
	<u>767,029</u>	<u>48,219,978</u>

The remaining revenue relates to the sale of goods which is recognised at a point in time.

### 5. Cost of Sales

	2022	2021
	\$	\$
Materials & installation:		
-Turnkey	-	33,511,996
-Upgrade	1,417,585	1,040,398
-Service	117,827	136,466
Others	179,844	317,772
	<u>1,715,256</u>	<u>35,006,632</u>

### 6. Operating expenses

#### 6.1. Employee expenses & directors' emoluments

	2022	2021
	\$	\$
<b>Employee benefits expense</b>		
Wages and salaries	6,396,543	6,441,055
Social security costs	540,769	527,149
Other pension costs	59,677	62,628
	<u>6,969,990</u>	<u>7,030,832</u>
	2022	2021
	\$	\$
<b>Directors' emoluments</b>		
Short term benefits (including basic salary)	358,945	599,040
Long term benefits (including post-employment benefits)	-	4,741
	<u>358,945</u>	<u>603,781</u>

The highest paid director received total remuneration of \$215,385 (2021: \$270,170).

#### 6.1.1 Employees

The average numbers of employees (including the directors) during the year were:

	2022	2021
	No.	No.
Sales and marketing	3	3
Administration	39	39
Business development	4	4
	<u>46</u>	<u>46</u>

# Xtera Topco Limited

## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2022 (Continued)

### 6.2 Auditor's fees

	2022	2021
	\$	\$
<i>Fees payable to the Groups auditors:</i>		
For the audit of Group's annual financial statements	130,246	122,000
For the preparation of financial statements Group and the subsidiaries	6,765	15,375
	<u>137,011</u>	<u>137,375</u>

### 7. Interest expense

	2022	2021
	\$	\$
On loans and borrowings	476,677	337,467
On lease liabilities	131,414	51,794
	<u>608,091</u>	<u>389,261</u>

### 8. Income Taxes

#### Statement of Comprehensive Income

(a) The major components of income tax expense for the period 31 December 2022 are:

	2022	2021
	\$	\$
<i>Current income tax:</i>		
Current income tax (credit)/charge	<u>(736,086)</u>	<u>1,169,091</u>
<i>Deferred tax:</i>		
Deferred tax assets	<u>(128,897)</u>	<u>(1,092,097)</u>
	<u>(864,983)</u>	<u>76,994</u>
Income tax (credit)/charge reported in the profit or loss	<u>(864,983)</u>	<u>76,994</u>

(b) A reconciliation between tax expense and the product of accounting profit multiplied by the UK standard rate of tax for the period ended 31 December 2021 is as follows:

	2022	2021
	\$	\$
Profit/(loss) before tax from continuing operations	<u>(9,937,994)</u>	<u>5,054,096</u>
At the Standard rate of tax rate of 19.00%	<u>(1,888,219)</u>	<u>960,278</u>
Effects of:		
Expenses not deductible for tax purposes	-	9,281
Non-taxable income	(12,881)	(10,681)
Unrecognised tax losses	1,236,010	228,339
Utilisation of deferred tax	(102,630)	(1,092,097)
Different tax rates in other countries	(97,263)	(18,126)
Current income tax (credit)/charge for the period	<u>(864,983)</u>	<u>76,994</u>

# Xtera Topco Limited

## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2022 (Continued)

### Statement of Financial Position

	2022	2021
	\$	\$
Tax losses	2,572,819	2,695,716
Deferred tax asset	2,572,819	2,695,716
Other timing differences	(1,123,037)	(1,123,037)
Deferred tax liability	(1,123,037)	(1,123,037)
	2022	2021
	\$	\$
Current tax payable	41,905	886,685

### (c) Factors that may affect future tax charges

In the Spring Budget 2021, the UK Government announced that from 1 April 2023, the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

### 9. Property, plant and equipment – Group

	Fixtures and Fittings	Equipment	Computer Equipment	Software	Leasehold Improvement	Total
	\$	\$	\$	\$		\$
<b>Cost</b>						
1st January 2022	70,636	1,384,776	564,889	167,268	-	2,187,569
Additions	9,046	55,514	51,004	-	928,677	1,044,241
Disposals	-	(364,187)	-	-	-	(364,187)
At 31 December 2022	79,682	1,076,103	615,893	167,268	928,677	2,867,623
<b>Depreciation</b>						
1st January 2022	(69,947)	(988,429)	(455,256)	(138,782)	-	(1,652,414)
Charge for year	(1,647)	(196,779)	(42,212)	(28,486)	(38,695)	(307,819)
Disposals for the year	-	364,187	-	-	-	364,187
At 31 December 2022	(71,594)	(821,021)	(497,467)	(167,268)	(38,695)	(1,596,045)
<b>Net Book Value</b>						
At 31 December 2022	8,088	255,082	118,426	-	889,983	1,271,578
At 31 December 2021	689	396,347	109,633	28,486	-	535,155

# Xtera Topco Limited

## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2022 (Continued)

### 10. Leases – Group

The Group has leases for office properties. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the statement of financial position as a right-of-use asset and a lease liability.

#### 10.1 Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the period are shown below.

	2022	2021
	\$	\$
Cost at beginning of year	1,506,096	1,506,096
Additions	1,343,967	-
Write-off	(1,506,096)	-
Cost at end of year	1,343,967	1,506,096
	2022	2021
	\$	\$
Accumulated amortisation at beginning of year	1,299,945	859,955
Amortisation	286,304	439,990
Write-off	(1,506,096)	-
Accumulated amortisation at end of year	80,153	1,299,945
Net carrying amount	1,263,814	206,151

#### 10.2 Lease liabilities

Lease liabilities are presented in the statement of financial position are as follows:

	2022	2021
	\$	\$
Current	108,089	139,922
Non-current	1,279,462	155,275
	1,387,551	295,197

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities is as follows:

2022	Within 1 year	1 to 5 years	After 5 years	Total
Lease payments	225,036	818,361	1,023,783	2,067,180
Finance charges	(116,947)	(384,209)	(178,473)	(679,629)
	108,089	434,152	845,310	1,387,551
2021	Within 1 year	1 to 5 years	After 5 years	Total
Lease payments	152,416	155,921	-	308,377
Finance charges	(12,494)	(646)	-	(13,180)
	139,922	155,275	-	295,197

# Xtera Topco Limited

## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2022 (Continued)

### 11. Intangible assets – Group

	\$
<b>Cost</b>	
At 1 January 2022 and 31 December 2022	<u>3,100,000</u>
<b>Depreciation</b>	
At 1 January 2022 and 31 December 2022	<u>2,600,650</u>
<b>Net Book Value</b>	
At 31 December 2022	<u>500,000</u>
At 31 December 2021	<u>500,000</u>

Intangible assets relate to intellectual property and customer list that the Group owns valued at \$2,400,000 and \$200,000, respectively, and amortised over 4 years being its average useful life and also the value of its trade name valued at \$500,000 an indefinite useful life.

### 12. Investment in subsidiaries - Company

	\$
<b>Cost</b>	
31 December 2022 and 2022	<u>15,604,223</u>
<b>Net book values</b>	
31 December 2022 and 2022	<u>15,604,223</u>

The directors' have performed an impairment review of all investment in subsidiaries as one cash generating unit across the wider Group as all subsidiaries operate collectively to complete the Xtera Group's contracts and are therefore inter-dependent on one another. The key inputs into the impairment review are future projected cashflows generated from these assets and a discount factor of 15%. The impairment review indicates that the recoverable value of the assets is higher than their carrying value. Based on the directors' assessment the recoverable value of the investment in subsidiaries is greater than their carrying value. However, the directors' note that there is significant judgements included in their assessment of the recoverable amount, which are further disclosed in note 3.5.

The Company holds 20% or more of the share capital of the following companies;

Company	Country of Incorporation or Registration	Nature of business	Share class	Proportion of shares held
Neptune Subsea Canada Ltd	Canada	Subsea Optical	Ordinary	100%
Xtera Holdings Ltd	UK	Intermediary Holding Co	Ordinary	100%
Xtera Ltd	UK	Subsea Optical	Ordinary	100%
Neptune Subsea IP Ltd	UK	IP Company	Ordinary	100%
Xtera Brazil Participacoes Ltda	Brazil	Subsea Optical	Ordinary	100%
Xtera Inc.	United States	Subsea Optical	Ordinary	100%

# Xtera Topco Limited

## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2022 (Continued)

Xtera Holdings Ltd has direct interest of Xtera Topco Ltd, all other subsidiaries above are indirectly owned.

Registered office address:

1. Xtera Topco Ltd, Xtera Holdings Ltd, Xtera Ltd and Neptune Subsea Holdings Ltd -: Bates House, Church Road, Harold Wood, Essex RM3 0SD
2. Xtera Inc-: 500 W Bethany Drive Suite 100 Allen Texas 75013
3. Xtera Brazil Participacoes Ltda -: na Avenida, Ataulfo De Paiva, Leblon Rio De Janeiro, Brazil
4. Neptune Subsea Canada Ltd-: 96 Third Avenue, Ottawa, ON K1S 2J8

### Parental guarantees to subsidiary undertakings

For the year ended 31 December 2022, Xtera Topco Limited has provided a guarantee in respect of all liabilities due by its United Kingdom incorporated subsidiary companies thus entitling them to exemption from audit under section 479A of Companies Act 2006 relating to subsidiary companies.

### 13. Prepayments and other receivables

	2022	2021
	\$	\$
<b>Group</b>		
Advances to suppliers	1,108,048	387,913
Value added Tax	161	126,104
Other Prepayments	241,060	362,877
	<u>1,349,269</u>	<u>876,894</u>
<b>Company</b>		
Prepayments and accrued income	<u>67</u>	<u>103,791</u>

### 14. Inventories – Group and company

	2022	2021
	\$	\$
Raw materials	1,184,916	1,004,503
Finished goods	5,505,273	5,662,119
	<u>6,690,188</u>	<u>6,666,622</u>
Inventory provision	<u>(1,318,766)</u>	<u>(1,318,766)</u>
Inventory net of provision	<u>5,371,422</u>	<u>5,347,856</u>

The inventory is valued at cost or estimated net realisable value whichever is lower. As product moves through its life cycle, the Group makes an estimation of reserves will be required to reflect estimated net realisable value of the product. As at 31 December 2022 reserve for obsolescence of amounted to \$1,318,766 (2021: \$1,318,766).

# Xtera Topco Limited

## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2022 (Continued)

### 15. Trade and other receivables – Group

	2022	2021
	\$	\$
Receivables from Customers	<u>504,365</u>	<u>8,231,984</u>
Analysis of receivables from customers by remaining maturity:		
- On demand	311,251	3,649,886
- 3 months or less	62,570	3,638,518
- 1 year or less but over 3 months	<u>130,544</u>	<u>943,580</u>
	<u>504,365</u>	<u>8,231,984</u>

Receivables from customers represents trade receivables that are falling due within the next 180 days. Management has assessed the recoverability of its receivables as at yearend and has not identified any balances that are not recoverable and therefore no provision has been made.

The receivable from customers increased during the year due to billings issued to new turnkey contracts secured during the year.

### 16. Cash and cash equivalents

	2022	2021
	\$	\$
<b>Group</b>		
Cash at bank	<u>840,584</u>	<u>7,339,365</u>
<b>Company</b>		
Cash at bank	<u>96,311</u>	<u>31,364</u>

### 17. Unbilled receivable

	2022	2021
	\$	\$
<b>Group</b>		
Unbilled receivable	<u>-</u>	<u>3,529,529</u>

Unbilled receivable relates to amounts not yet invoiced on the NO-UK project which was completed in 2021. The invoices were issued in 2022.

# Xtera Topco Limited

## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2022 (Continued)

### 18. Contract assets

	2022	2021
	\$	\$
<b>Group</b>		
Contract assets	<u>2,155,478</u>	<u>1,024,600</u>

Contract assets increased from the prior year due to commencement of work on some upgrade projects.

No loss on allowance was recognised by the group in terms of its contract assets for the year ended 31 December 2022.

### 19. Share capital and reserves – Group and Company

	2022	2021
	\$	\$
<b>Issued and fully paid</b>		
Called up share capital		
15,604,316 Ordinary shares of \$0.01 each	156,043	156,043
Share premium account	<u>15,448,149</u>	<u>15,448,149</u>
	<u>15,604,192</u>	<u>15,604,192</u>

#### Share premium

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

One Ordinary share of GBP 1 was issued at par on incorporation of the Company. On 10 February 2017, the share was redenominated to nominal value of \$1.25. On the same date the Ordinary share of \$1.25 was subdivided into 125 Ordinary shares of \$0.01 each. On 14 February 2017, 15,604,191 Ordinary shares were issued at a price of \$1 each (total nominal value \$156,042), giving rise to share premium of \$0.99 per share. The share premium account at 31 December 2022 amounted to \$15,448,149 (2021: 15,448,149).

#### Retranslation reserve

The retranslation reserve represents the difference arising from translation of the balances of assets and liabilities of subsidiaries change in value of assets and liabilities on translation from local currency to reported currency.

#### Prior Years Earnings and Loss for the year

Includes all prior and current period retained profit and losses.

### 20. Warranty provision

	2022	2021
	\$	\$
Short term	24,781	30,063
Long term	<u>1,099,938</u>	<u>1,142,253</u>
	<u>1,124,719</u>	<u>1,172,316</u>

The Group has a policy (based on historical analysis) of reserving 2.5% to 3.5% of the cost of equipment for the warranty reserve. Analysis of warranty provision is based on warranty period at the year end.



# Xtera Topco Limited

## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2022 (Continued)

### 21. Interest bearing loans and borrowings – Group and Company

	2022	2021
	\$	\$
<b>Current</b>		
Bank loan – secured	5,000,000	5,001,795
Shareholder loans	4,000,000	2,082,960
	<u>9,000,000</u>	<u>7,084,755</u>
<b>Non-current</b>		
Bank loan - secured	2,700,000	2,700,000
	<u>2,700,000</u>	<u>2,700,000</u>
Analysis of outstanding bank loans by remaining maturity		
- less than 1 year	5,000,000	7,084,755
- between 1 and 2 years	6,700,000	2,700,000
- between 2 and 5 years	-	-
	<u>11,700,000</u>	<u>9,784,755</u>

In February 2017 the Group obtained a revolving credit facility from Santander UK Plc. The borrowings under the line of credit bear interest rates at LIBOR + 3 %. All Borrowings are collateralized by the Group's receivable and inventory. Borrowings under this line of credit are subject to certain restrictions on indebtedness, dividend payments, financial guarantees, business combinations and other related items. The outstanding balance as of 31 December 2022 was \$5.0m (2021: \$5.0m). Subsequent to yearend, the loan was renegotiated extending the deadline to September 2024, however, this has been assessed to be a non-adjusting event, and as such, the loan remains to be classified as current for presentation purposes.

In February 2017, the Group obtained a term loan from Square 1 Bank for \$5.46 Million as defined in the loan and security agreement. Borrowings under the line of credit bear interest rate of LIBOR + 5%. The Group's obligations under the loan and security agreement are secured by a security interest on the IP and the stock or share capital of all subsidiaries. The outstanding balance on the line of credit was \$2.7 million as of 31 December 2022 (2021: \$2.7 million).

The shareholder loan relates to the existing facility with HIG Europe Capital Partners II, L.O. which has a balance of \$4m as at 31 December 2022 (2021: \$2m). The balance matures in February 2023. The utilised loan facility was renegotiated post year end extending the deadline to February 2024. Nonetheless, this is classified as a non-adjusting event and as such, the loan is still classified as current in the 31 December 2022 financial statements.

The loan and security agreement contains customary conditions to borrowing, events of default, and covenants limiting the Group's ability to merge or consolidate with other entities, acquire or dispose of assets, make investments, incur debt and pay dividends, in each case subject to exceptions.

# Xtera Topco Limited

## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2022 (Continued)

### 22. Trade and other payables

	2022	2021
	\$	\$
<b>Group</b>		
Amounts due to related company (note 25)	1,989,938	1,638,353
Trade creditors	3,730,013	5,432,741
Lease liability	108,089	155,775
Other accrued liabilities	314,564	4,074,312
Accrued compensation	738,306	639,027
	<u>6,880,910</u>	<u>11,940,208</u>
<b>Company</b>		
Amounts due to related company (note 25)	1,989,938	1,638,353
Trade creditors	291,934	222,968
Other accrued liabilities	112,279	63,326
Accrued compensation	5,719	33,867
	<u>2,399,870</u>	<u>1,958,514</u>

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

### 23. Deferred revenue – Group

	2022	2021
	\$	\$
Deferred revenue	<u>6,012,961</u>	<u>7,886,822</u>

Deferred revenue is recorded when cash has been received from the customer and the arrangement does not qualify for revenue recognition under the revenue recognition policies adopted by the Group. Costs incurred for projects not completed are deferred and recorded as a cost upon recognition of the related revenue. For the period ended 31 December 2022, the Group received cash on contracts, from customers, that was pending completion.

### 24. Ultimate parent undertaking

The immediate parent Company is H.I.G. Europe - Neptune, Ltd, registered in the Cayman Islands. The ultimate parent undertaking is H.I.G. Europe Capital Partners II LP, registered in the Cayman Islands.

# Xtera Topco Limited

## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2022 (Continued)

### 25. Related party transactions

Entity with Significant influence over the Company	Year	2022 Amount owed to related parties	2021 Amount owed to related parties
		\$	\$
HIG Europe Capital Partners Management fee	2022	351,585	-
HIG Europe Capital Partners Management fee	2021	220,692	220,692
HIG Europe Capital Partners Management fee	2020	300,000	300,000
HIG Europe Capital Partners Management fee	2019	297,130	297,130
HIG Europe Capital Partners Management fee	2018	577,870	577,870
HIG Europe Capital Partners Management fee	2017	134,852	134,852
HIG Europe Capital Partners Investment banking fee	2017	107,809	107,809
		<u>1,989,938</u>	<u>1,638,353</u>

The transactions with HIG are for management services performed and were at arm's length.

### 26. Key management personnel compensation in the Group

	2022	2021
	\$	\$
Short term benefits (Including Basic Salary)	1,276,619	1,620,882
Long term benefits (including post employment benefits)	32,556	13,271
	<u>1,309,175</u>	<u>1,634,153</u>

The amounts disclosed above are the amounts recognised as an expense during the reporting period related to key management personnel.

### 27. Risk management

The Group assumes a variety of risks in its ordinary business activities. The risks which have been identified by the Senior Management Team can be broadly classified as Operational Risk (including Regulatory Compliance Risk), Liquidity Risk, Credit Risk and Foreign Currency Risk. The role of Risk Management is to ensure that the Group continues to take controlled and appropriate levels of risk in order to protect stakeholder's interests.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and to continually monitor these risks and limits. The Group modifies and enhances its risk management practices on an ongoing basis to reflect changes in markets, products and evolving best practice.

Risk management is a dynamic process and is part and parcel of the job of each member of staff. Primary responsibility for risk management lies with line management. Within the Group, line management is supported by the Compliance and Finance teams which provide advice on standards, policies, limits and measurement methods.

# Xtera Topco Limited

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## NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2022 (Continued)

### 27.1 Liquidity risk

Liquidity risk is the risk that the Group may be unable to meet the payment obligations associated with its financial liabilities that are settled by delivering cash and other financial assets.

The objective of liquidity management is to ensure that, at all times, the Group holds sufficient funds to meet its contracted and contingent commitments to its customers and counterparties.

To effectively manage liquidity risk, the Group:

- Has internal control processes and contingency plans for managing liquidity risk
- Maintains cash balances with highly-rated counterparties

### 27.2 Credit risk

This is the risk that a customer or counterparty will be unable or unwilling to meet a commitment that it has entered into and that the Group is unable to recover the full amount that it is owed.

The Group is exposed to credit risk in respect of its cash balances and trade receivables. The Group manages its credit risk in respect of bank deposits by placing funds with financial institutions of systemic importance. These exposures are monitored on an ongoing basis.

### 27.3 Operational risk

Operational risk is deemed to be the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit and market risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The objective of the Group is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.

This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions
- Requirements for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures (Risk Framework)
- Requirements for reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards

Compliance with these standards is supported by a programme of ongoing review by senior management and control functions within the Group.

# Xtera Topco Limited

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## **NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2022 (Continued)**

### **27.4 Foreign currency risk**

Transactional foreign exchange risk arises from foreign currency transactions, assets and liabilities.

Foreign currency cash and cash equivalent balances for the Group are managed on an ad-hoc basis when balances are deemed to be material.

The Group has operations in different countries and hence has exposure to movements in different currencies. The Group primarily earns revenue in US Dollars but also has significant exposure to the fluctuations in GBP. The management seeks to hedge its risk long term by generating revenue in GBP.

### **28. Post balance sheet events**

Subsequent to yearend, the Company was able to renegotiate the final payment date of its existing facilities with HIG and Santander for an additional one year. Maturity of the facilities are now September 2024 and February 2024, respectively. See further details in Note 21.