NEPTUNE SUBSEA IP LIMITED

UNAUDITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

COMPANY INFORMATION

Directors	Dr Stuart R Barnes Leigh E H Frame
Registered number	10591232
Registered office	Bates House Church Road Harold Wood Essex RM3 0SD
Bankers	JPMorgan Chase Bank, N.A. P O Box 6076 Newark, DE 19714-6067

CONTENTS

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022

Introduction

The directors present their Strategic report for the year ended 31 December 2022.

Business review and future development

The loss for the period, after taxation, was $1,517,975 *(2021: profit $1,490,867)*.

Neptune Subsea IP Ltd was incorporated by HIG Capital LLC on 30th January 2017, as a subsidiary of Xtera Topco Ltd, which acquired substantially all of the assets of Xtera Communications Inc. out of Chapter 11 Bankruptcy on 14 February 2017. The main driver for the acquisition by HIG was Xtera's IP protected technology, primarily related to the wise Raman Technology that is not only differentiated and superior to that of its competitors but is delivered to a broad range of global clients at a cost-effective price point.

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

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

	2022	2021
	$	$
Turnover (continuing operations)	239,047	2,540,084
Operating profit	(1,727,460)	1,739,851
Total comprehensive income	(1,146,393)	1,563,758

The Company derives a substantial majority of revenue from the licensing of its portfolio of technologies.

Turnover for this business in the financial period 2023/2024 is expected to be significantly higher as the Company ramps up its licensing effort.

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, 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, liquidity risk and foreign currency 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 2022

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 existing facility from its investor HIG during 2023. It has sufficient liquidity as of the balance sheet date and also 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.

Coronavirus (COVID-19) risk:

The company 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.

STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

As described the operationalized of the turnkey contracts won is required to provide the organisation with sufficient liquidity to meet its liabilities as they fall due. Whilst management have a number of mitigations they could utilise the reliance on the delayed contracts are such that there is a residual material uncertainty surrounding the use of the going concern assumption.

Based on the circumstances described above, the financial statements are prepared on the assumption that the entity is a going concern.

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

DocuSigned by:
Leigh Frame
791C920DE9BA424

Leigh E H Frame
Director

Date: 12 December 2023

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022

The directors present their report and the financial statements for the year ended 31 December 2022.

Principal activity

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

Results and dividends

The loss for the period, after taxation, was $1,517,975 *(2021: profit $1,490,867).*

No dividends proposed for the year.

Directors

The directors who served during the year were:

Dr Stuart R Barnes
Leigh E H Frame

Future developments

It is the intention of the directors to continue to develop the activities of the Company as noted in the Strategic report.

Going concern

A summary of the directors' considerations in respect of going concern is set out in Note 3.1.

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.

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

DocuSigned by:
Leigh Frame
791C920DE9BA424

Leigh E H Frame
Director

Date: 12 December 2023

DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including FRS 101 'Reduced Disclosure Framework'). Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

- The members have not required the Company to obtain an audit of its accounts for the year in question in accordance with section 476;
- the directors acknowledge their responsibilities for complying with their requirements of the Act with respect to accounting records and the preparation of accounts.

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

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 $	2021 $
Turnover	4	**239,047**	*2,540,084*
Gross profit		**239,047**	*2,540,084*
Administrative expenses		**(1,752,304)**	*(762,020)*
Other operating (expenses)/income		**(214,203)**	*(38,213)*
Operating profit	5	**(1,727,460)**	*1,739,851*
Interest payable and expenses	7	**(131,400)**	*(132,626)*
Profit before tax		**(1,858,860)**	*1,607,225*
Tax on profit	8	**340,885**	*(116,358)*
Profit for the financial year		**(1,517,975)**	*1,490,867*
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Currency translation differences		**371,582**	*72,891*
		371,582	*72,891*
Total comprehensive income for the year		**(1,146,393)**	*1,563,758*

The notes on pages 12 to 28 form part of these financial statements.

NEPTUNE SUBSEA IP LIMITED
REGISTERED NUMBER:10591232

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Note		2022 $		*2021 $*
Fixed assets					
Goodwill	17		**5,805,299**		*5,805,299*
Other intangible assets	9		**499,350**		*499,350*
Current assets					
Debtors: amounts falling due within one year	10	**8,562,539**		*8,678,644*	
Cash at bank and in hand	12	**10,131**		*22,973*	
		8,572,670		*8,701,617*	
Creditors: amounts falling due within one year	11	**(13,156,932)**		*(12,139,486)*	
Net current liabilities			**(4,584,262)**		*(3,437,869)*
Total assets less current liabilities			**1,720,387**		*2,866,780*
Net assets			**1,720,387**		*2,866,780*
Capital and reserves					
Called up share capital	14		**87,054**		*87,054*
Share premium account	15		**8,618,246**		*8,618,246*
Foreign exchange reserve	15		**749,624**		*378,042*
Profit and loss account	15		**(7,734,537)**		*(6,216,562)*
			1,720,387		*2,866,780*

STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2022

The members have not required the Company to obtain an audit for the year in question in accordance with section 476 of the Companies Act 2006.

The Company was entitled to exemption from audit under section 477 of the Companies Act 2006.

The directors acknowledge their responsibilities for complying with the requirements of the Companies Act 2006 with respect to accounting records and the preparation of financial statements.

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

DocuSigned by:
Leigh Frame
791C920DE9BA424

Leigh E H Frame
Director

Date: 12 December 2023

The notes on pages 12 to 28 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

	Called up share capital	Share *premium* account	Foreign *exchange* reserve	*Profit and* loss account	Total equity
	$	$	$	$	$
At 1 January 2022	**87,054**	**8,618,246**	**378,042**	**(6,216,562)**	**2,866,780**
Comprehensive income for the year					
Loss for the year	-	-	-	(1,517,975)	(1,517,975)
Currency translation differences	-	-	371,582	-	371,582
At 31 December 2022	**87,054**	**8,618,246**	**749,624**	**(7,734,537)**	**1,720,387**

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	Called up share capital	Share premium account	Foreign exchange reserve	Profit and loss account	Total equity
	$	$	$	$	$
At 1 January 2021	**87,054**	**8,618,246**	**305,151**	**(7,707,429)**	**1,303,022**
Comprehensive income for the year					
Profit for the year	-	-	-	1,490,867	1,490,867
Currency translation differences	-	-	72,891	-	72,891
At 31 December 2021	**87,054**	**8,618,246**	**378,042**	**(6,216,562)**	**2,866,780**

The notes on pages 12 to 28 form part of these financial statements.

1. Corporate information

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

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3.2).

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

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

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 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.

As described the operationalized of the turnkey contracts won is required to provide the organisation with sufficient liquidity to meet its liabilities as they fall due. Whilst management have a number of mitigations they could utilise the reliance on the delayed contracts are such that there is a residual material uncertainty surrounding the use of the going concern assumption.

Based on the circumstances described above, the financial statements are prepared on the assumption that the entity is a going concern.

3. Summary of Significant accounting policies (continued)

3.2 Estimates and judgements

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

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

(a) Establishing useful economic lives of intangible assets
Intangible 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.

(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. The recoverability of these assets is further considered in Note 3.4.

c) 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 3.4.

d) Goodwill
The Company's assessment of fair value of goodwill 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 fair value of goodwill is highly dependent upon new turnkey contracts being secured, which is further disclosed in Note 3.4. This assessment also includes estimates which are disclosed in Note 17.

3. Summary of Significant accounting policies (continued)

3.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

The company has contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the company adjusts the transaction prices of these contracts for the time value of money.

Sale of goods

Revenue from the sale of goods is recognised on the satisfaction of performance obligations, such as the transfer of a promised good, identified in the contract between the company and the customer.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Rendering of services

Revenue from providing services is recognised in the accounting period in which the services are rendered.

For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously.

3. Summary of Significant accounting policies (continued)

3.4 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.

3.5 Impairment of non-financial assets

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

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

3. Summary of Significant accounting policies (continued)

3.6 Current vs non-current classification

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

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

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

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

The Company classifies all other liabilities as non-current.

Deferred tax assets are classified as non-current assets.

3.7 Financial instruments

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

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

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

3. Summary of Significant accounting policies (continued)

Financial instruments (continued)

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

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

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

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

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.

3.8 *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.

3.9 *Foreign currency translation and transactions*

Functional and presentation currency

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

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

3. Summary of Significant accounting policies (continued)

3.10 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.

3.11 Income tax

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

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

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

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

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

3. *Summary of Significant accounting policies (continued)*

3.12 Patents and licenses

The Company made upfront payments to purchase patents and Trademarks. The patents have been granted for a period Of 10-20 years by the relevant government agency with the option Of renewal at the end Of this period. Licences for the use of trade name 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 Company. As a result, those licences are assessed as having an indefinite useful life.

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

	Trade Name	*Patents*
Useful lives	Indefinite	Finite (4years)
Amortisation method used	No amortisation	Amortised on a straight line basis over the period of patent
Internally generated or acquired	Acquired	Acquired

3.13 Interest income

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

3.14 Finance costs

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

3. Summary of Significant accounting policies (continued)

3.15 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of financial position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

3. Summary of Significant accounting policies (continued)

3.16 Goodwill

Goodwill represents the excess of the cost of a business combination over the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Cost comprises the fair value of assets given, liabilities assumed and equity instruments issued.

When a business combination agreement provides for an adjustment to the cost of the combination which is contingent on future events, the Company includes the estimated amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably. However, if the potential adjustment is not recognised at the acquisition date but subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the cost of the combination. Changes in the estimated value of contingent consideration arising on business combinations completed as a consequence result in a change in the carrying value of the related goodwill.

Goodwill is capitalised as an intangible asset and is not amortised. Instead it is reviewed annually for impairment with any impairment in carrying value being charged to profit or loss. The Companies Act 2006 requires acquired goodwill to be reduced by provisions for depreciation calculated to write off the amount systematically over a period chosen by the directors, not exceeding its useful economic life. It has been deemed, however, the non-amortisation of goodwill is a departure, for the overriding purpose of giving a true and fair view. The effect of this departure has not been quantified because it is impracticable and, in the opinion of the directors, would be misleading.

3.17 Debtors

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

3.18 Creditors

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

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

4. Turnover

An analysis of turnover by class of business is as follows:

	2022 $	2021 $
IP Licensing	**239,047**	*2,540,084*

Analysis of turnover by country of destination:

	2022 $	2021 $
United Kingdom	**239,047**	*2,540,084*

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

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

The Group's revised revenue recognition policy, effective for the year ended 31 December 2020 is as follows:

1. Identifying the contract with the Group companies
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price across each performance obligation
5. Recognise the revenue when the performance obligations are met

There was no impact on reported revenues for the year ended 31 December 2022 and prior period as a result of the adoption of IFRS 15.

Timing of revenue recognition:

	2022 $	2021 $
Goods and services transferred over time	**239,047**	*2,540,084*

5. Operating profit

The operating profit is stated after charging:

	2022 $	2021 $
Amortisation of intangible assets, including goodwill	-	(79,974)
Exchange differences	(214,203)	38,213

6. Employees

The company had no employees during the year.

7. Interest payable and similar expenses

	2022 $	2021 $
Payable to parent Company	131,400	132,626

Interest payable to the parent company is an intercompany recharge of interest incurred by the parent on external debt.

8. Taxation

	2022 $	*2021* *$*
Corporation tax		
Total current tax	**-**	*-*
Deferred tax		
Utilisation of Group losses	**(340,885)**	*116,358*
Total deferred tax	**(340,885)**	*116,358*
Taxation on profit/(loss) on ordinary activities	**(340,885)**	*116,358*

Factors affecting tax charge for the year

The tax assessed for the year differs to the standard rate of corporation tax in the UK of 19% *(2021: 19%)*. The differences are explained below:

	2022 $	*2021* *$*
Profit on ordinary activities before tax	**(1,858,861)**	*1,607,225*
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% *(2021: 19%)*	**(353,184)**	*305,373*
Effects of:		
Utilisation of Group losses	**12,299**	*(189,015)*
Total tax income for the year	**(340,885)**	*116,358*

9. Intangible assets

	Intangible asset $
Cost	
At 1 January 2022	**2,900,000**
Disposals	**0**
At 31 December 2022	**2,900,000**
Amortisation	
At 1 January 2022	**2,400,650**
Amortisation charge for the year	**0**
On disposals	**0**
At 31 December 2022	**2,400,650**
Net book value	
At 31 December 2022	**499,350**
At 31 December 2021	*499,350*

Amortisation on intangible assets is charged to admin expenses.

Indefinite useful life

Intangible assets relate to intellectual property ("IP") that the Company owns valued at $2,400,000 and amortized over 4 years being its average useful life and also the value of its trade name valued at $500,000 with an indefinite useful life. An annual impairment review is carried out over these assets. The key inputs into the impairment review are future projected licensing fees generated from these assets and a discount factor of 9%. The impairment review indicates that the recoverable value of the assets is higher than their carrying value.

10. Debtors

	2022 $	2021 $
Amounts owed by Group undertakings	**7,639,781**	*7,385,461*
Prepayments and accrued income	**23**	*26,697*
Deferred taxation	**922,735**	*1,266,486*
	8,562,539	*8,678,644*

Amounts due by group undertakings are from the Xtera group companies for licensing IP and trade name. They are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

11. Creditors: Amounts falling due within one year

	2022 $	2021 $
Trade creditors	**125,556**	*224,543*
Amounts owed to group undertakings	**13,022,418**	*11,904,932*
Accruals and deferred income	**8,958**	*10,011*
	13,156,932	*12,139,486*

Amounts due to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

12. Cash and cash equivalents

	2022 $	2021 $
Cash at bank and in hand	**10,131**	*22,973*

13. Deferred taxation

	2022 $	*2021* *$*
At beginning of year	**1,133,305**	*1,397,890*
Deferred tax utilized	**(552,822)**	*-*
Foreign exchange movement	**1,367**	*-*
Tax Charge to P&L	**340,855**	*(131,404)*
At end of year	**922,735**	*1,266,486*

The deferred tax asset is made up as follows:

	2022 $	*2021* *$*
Tax losses carried forward	**922,735**	*1,266,486*

14. Share capital

	2022 $	*2021* *$*
Authorised, allotted, called up and fully paid		
8,705,424 *(2021: 8,705,424)* Ordinary shares of $0.01 each	**87,054**	*87,054*

There is a single class of ordinary shares. There are no restrictions on dividends and the repayment of capital.

15. Reserves

Share premium account

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

Foreign exchange reserve
Retranslation reserve represents the change in value of assets and liabilities on translation of the assets and liabilities of the Company from GBP to USD. The US dollar results that arise from such translations are included in cumulative currency translation reserve.
Profit and loss account
Includes all prior and current period retained profit and losses.

16. Ultimate parent undertaking

The immediate parent Company is Xtera Holdings Limited, registered in the United Kingdom. The ultimate parent undertaking is H.I.G. Europe Capital Partners LI LP, registered in the Cayman Islands. The financial statements of the Company are consolidated in the financial statements of Xtera Topco Limited. The consolidated financial statements of Xtera Topco Limited are available from its registered office, Bates House, Church Road, Harold Wood, Essex, RM3 0SD and on Companies House website.

17. Goodwill

	2022 $
Cost	
At 1 January 2022	**5,805,299**
At 31 December 2022	**5,805,299**

Cash generating units

Goodwill is allocated to the Company's cash generating unit as follows:

	2022 $	*2021 $*
Intangible asset - IP	**2,400,000**	*2,400,000*
Intangible asset - trade name	**500,000**	*500,000*
Purchase consideration paid	**(8,705,299)**	*(8,705,299)*
	(5,805,299)	*(5,805,299)*

The goodwill acquired has been estimated by using a discounted earnings technique. The fair value estimate is based on:

1. An assumed discount rate of 9%
2. A terminal value calculated based on pipeline forecast contracts and an R.R of 34.5% on the terminal cash flow.

The director's performed an impairment review over goodwill. The recoverable amount of the goodwill was established to be greater than the carrying amount of goodwill by preparing a discounted cash flow model to establish the value in use of the goodwill. Key assumptions within this model included future licence revenues, the securing of the new turnkey contracts during 2023 - 2026 by the wider Group and a discount rate of 9.0%. The value in use of the goodwill is the most sensitive to the wider Group assumption surrounding the securing of new turnkey contracts which is disclosed further in note 3.4 to these financial statements.