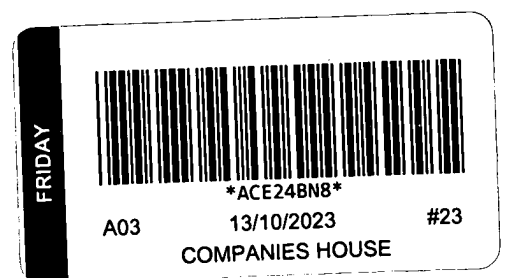


REGISTERED NUMBER: 02183639 (England and Wales)

Modus Subsea Services Limited

Strategic Report, Directors' Report and Audited Financial
Statements for the 18 Month Period Ended 30 September 2022



MODUS SUBSEA SERVICES LIMITED

Contents of the Financial Statements

for the 18 Month Period Ended 30 September 2022

Company Information	1
Strategic Report	2
Directors' Report	4
Directors' Responsibilities Statement	5
Report of the Independent Auditor	6
Statement of Comprehensive Income	9
Balance Sheet	11
Statement of Changes in Equity	12
Notes to the Financial Statements	13

MODUS SUBSEA SERVICES LIMITED

Company Information

for the 18 Month Period Ended 30 September 2022

DIRECTORS: AC Tompkins
NSC Tompkins
AJ Sheppard
T Kuwata

REGISTERED OFFICE: Beaumont House
Beaumont Street
Darlington
County Durham
DL1 5RW

REGISTERED NUMBER: 02183639 (England and Wales)

INDEPENDENT AUDITOR: Armstrong Watson Audit Limited
One Strawberry Lane
Newcastle upon Tyne
NE1 4BX

Strategic Report

for the 18 Month Period Ended 30 September 2022

The Directors present their Strategic Report for the 18 Month Period Ended 30 September 2022.

REVIEW OF BUSINESS

The Company has historically supplied a diverse range of solutions to subsea industries, centring on its provision of modular remote and autonomous underwater vehicles through four service lines: Seabed Intervention (Trenching); Work-class Remote Operated Vehicles ("ROVs"); Autonomous Underwater Vehicle Technology ("AUVs") and Managed Technical Services.

During the period, significant geopolitical developments led to the increased call for a balanced energy transition that secures the cheaper supply of energy for billions of people worldwide. The acceleration of the energy transition, along with the urgent requirements for secure and affordable energy supplies, have led to greater requirements on players in the energy market to improve sustainability, safety, efficiency and decision-making in the subsea OPEX sector.

As a result of the acceleration of this market shift, along with the continued hangover of price depression in the ROV services market following Covid-19, the Directors took the decision to strategically reposition the business to further build on its technological advances in the area of automated inspection, maintenance and repair services. This switch of focus involved the sale of the ROV fleet to enable the business to concentrate exclusively on the further development and commercial roll-out of field resident Underwater Intervention Drone ("UID") technology.

Modus' sale of the ROV assets was supported by a transformation programme to ensure that the business was set up appropriately to deliver key strategic milestones in research and development as well as commercial operations. Committing the UIDs to the transformation programme for much of the period took over 500 days of revenue earning capacity out of the company. Absorbing that in the profit and loss statement has masked what was a planned investment in a radical development which propelled the company to market prominence.

The transformation programme, and significant investment therein, was essential and enabled Modus to secure a strategically important contract award with an international energy major. Modus plans to build on this foundation to grow its offering of leading edge autonomous underwater solutions to major energy companies.

The Directors consider Adjusted EBITDA (calculated as operating profit plus depreciation and amortisation, less other income net of related costs and one-off exceptional costs) to be the key measure of performance. During the period under review, the Company experienced a decline in Adjusted EBITDA to a loss of £3.9m (2021: profit £1.7m) along with a decline in gross profit to £2.9m (2021: £5.1m). The net result of the Company fell from net loss of £0.7m in 2021 to a loss of £1.5m.

	2022	2021
	£000	£000
Operating (loss) / profit	(1,305)	(932)
Depreciation	951	1,838
Other income	(3,141)	(289)
Exceptional costs	140	1,097
Exceptional income	(550)	-
Adjusted EBITDA	<u>(3,905)</u>	<u>1,714</u>

Strategic Report

for the 18 Month Period Ended 30 September 2022

Whilst the period under review had difficulties to address, Modus remains well placed to move forward in the future. Significant investment has been made in equipment and personnel to further develop UID technology, with operations as part of a world's first contract due to go live in late 2022/early 2023 providing a showcase of Modus' abilities and highlighting it as the industry leader in UID capability.

Further UID systems will be delivered in 2023 through the strategic alliance with Kawasaki to expand Modus' fleet of UIDs and provide a platform for further growth in the significant pipeline inspection market.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company acknowledges that the relevant sector has strong competition through a variety of emerging technologies. However, the Company believes that the investments it has made during the period to reposition the business, along with the strategically important contract that was secured, places Modus at the forefront of the market. With its extensive knowledge, mature technology platform, operational IP and experience in the sector, it is our opinion that the Company will continue to grow its activities and become a leading player in the subsea IMR market. Whilst the directors are confident that their strategy to grow and remain competitive will be successful their key financial risks (see 'going concern') will also remain under review.

GOING CONCERN

Notwithstanding net current liabilities of £9,776,000 as at 30 September 2022, the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.


The Directors have prepared cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides and receipt of additional third-party financing, the Company will have sufficient resources to meet its liabilities as they fall due for that period. In making this assessment the Directors note that the result for the 18-month period and subsequent to the year-end has been disappointing and put pressure on the liquidity of the Company. The sale of the ROVs (NBV £4.9m) by the Company facilitated the repayment of some of its external debt. The remaining external debt was refinanced with a £5.0m bridging loan. This loan was initially for 6-month term but has been extended and is due for repayment on 14 December 2023.

The Directors are engaged in advanced fundraising discussions with a financial partner and are confident that investment to consolidate the strategic repositioning will be secured. In addition to this, the sale of the trenching assets continues to be discussed with interested parties. The Directors have no reason to believe that the related transactions will not be achieved at appropriate commercial terms. However, they have not been finalised as at the date of approval of these financial statements. The success of these transactions are uncertain and material to the continued going concern of the Company. This material uncertainty may cast significant doubt on the Company's ability to continue as a going concern and realise its assets and meet its obligations during the normal course of business. These financial statements include no adjustments that would result from the basis of preparation being inappropriate.

The Directors have also considered the impact of severe but plausible downside scenarios, including the possibility of delays to projects or the delivery of new vehicles. In practical terms this would make the achievement of the plan more challenging but it is the view of the Directors that there is resiliency in the pipeline of work to mitigate these risks sufficiently when taken with the aforementioned investment.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

ON BEHALF OF THE BOARD:


Ash Sheppard (Oct 12, 2023 13:34 GMT+1)

AJ Sheppard - Director
12 October 2023

MODUS SUBSEA SERVICES LIMITED

Directors' Report

for the 18 Month Period Ended 30 September 2022

The Directors present their Report with the financial statements of the Company for the 18-month period ended 30 September 2022.

PRINCIPAL ACTIVITIES

The principal activity of the Company during the year was the provision of integrated project and engineering services to the subsea sectors including the supply and operation of remote and autonomous vehicles.

DIVIDENDS

No dividends were declared or paid during the 18-month period ended 30 September 2022 (2021: *Nil*).

DIRECTORS

The Directors who held office during the period and since the period end, were as follows:

AC Tompkins	
NSC Tompkins	
M Hatta	(resigned 2 August 2023)
T Kuwata	(appointed 2 August 2023)
AJ Sheppard	(appointed 4 November 2021)
RH Edmondson	(appointed 4 November 2021, resigned 7 September 2022)
NJ Ward	(resigned 30 September 2021)
PMI Short	(resigned 31 January 2022)

POLITICAL CONTRIBUTIONS

The Company made no political donations during the period (2021: *Nil*).


STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditor is unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AUDITOR

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Armstrong Watson Audit Limited will therefore continue in office.

ON BEHALF OF THE BOARD:


Ash Sheppard (Oct 12, 2023 13:34 GMT+1)

AJ Sheppard - Director
12 October 2023

Beaumont House
Beaumont Street
Darlington
County Durham
DL1 5RW

Directors' Responsibilities Statement

for the 18 Month Period Ended 30 September 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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102").

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

Report of the Independent Auditor to the Members of Modus Subsea Services Limited

Opinion

We have audited the financial statements of Modus Subsea Services Limited ("the Company") for the 18-month period ended 30 September 2022 which comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 2. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2022 and of its loss for the period then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Material uncertainty related to going concern

We draw your attention to note 2 to the financial statements which indicates that the Company remains in negotiation with third parties for financing key to the continued financial sustainability of the Company. The Company has prepared forecasts which take account of possible downsides but assume the success of these new financing transactions. These events and conditions, along with other factors described in note 2 constitute a material uncertainty and may cast a doubt over the Company's ability to continue as a going concern.

Our opinion is not qualified in respect of this matter.

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

Other information

The other information comprises the information included in the Annual Report other than the financial statements and our Auditors' 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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Report of the Independent Auditor to the Members of Modus Subsea Services Limited

Opinion 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 period 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.

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement on page 5, 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.

Auditors' 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 Auditors' 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. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Our approach to identifying and assessing the risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, was as follows:

- the engagement partner ensured that the engagement team collectively had the appropriate competence, capabilities and skills to identify or recognise non-compliance with applicable laws and regulations;
- we identified the laws and regulations applicable to the company through discussions with directors and other management, and from our commercial knowledge and experience of the sector;

Report of the Independent Auditor to the Members of Modus Subsea Services Limited

- we focused on specific laws and regulations which we considered may have a direct material effect on the financial statements or the operations of the company;
- we assessed the extent of compliance with the laws and regulations identified above through making enquiries of management and inspecting legal correspondence; and
- identified laws and regulations were communicated within the audit team regularly and the team remained alert to instances of non-compliance throughout the audit.

We assessed the susceptibility of the company's financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:

- making enquiries of management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and
- considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations.

To address the risk of fraud through management bias and override of controls, we:

- performed analytical procedures to identify any unusual or unexpected relationships;
- tested journal entries to identify unusual transactions;
- assessed whether judgements and assumptions made in determining the accounting estimates were indicative of potential bias; and
- investigated the rationale behind significant or unusual transactions.

In response to the risk of irregularities and non-compliance with laws and regulations, we designed procedures which included, but were not limited to:

- agreeing financial statement disclosures to underlying supporting documentation;
- reading the minutes of meetings of those charged with governance; and
- enquiring of management as to actual and potential litigation and claims.

There are inherent limitations in our audit procedures described above. The more removed that laws and regulations are from financial transactions, the less likely it is that we would become aware of non-compliance. Auditing standards also limit the audit procedures required to identify non-compliance with laws and regulations to enquiry of the directors and other management and the inspection of regulatory and legal correspondence, if any.

Material misstatements that arise due to fraud can be harder to detect than those that arise from error as they may involve deliberate concealment or collusion.

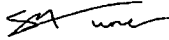
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' report.

MODUS SUBSEA SERVICES LIMITED

Report of the Independent Auditor to the Members of Modus Subsea Services Limited

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 Auditors' 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.



Simon Turner (Senior statutory auditor)
for and on behalf of
Armstrong Watson Audit Limited
Chartered Accountants & Statutory Auditors
Newcastle upon Tyne
Date: 12/10/2023

MODUS SUBSEA SERVICES LIMITED

Statement of Comprehensive Income
for the 18 Month Period Ended 30 September 2022

	<i>Note</i>	18 Months to 2022 £000	2021 £000
Turnover	<i>3</i>	14,119	13,757
Cost of sales		(11,192)	(8,686)
Gross profit		2,927	5,071
Administrative expenses		(7,783)	(5,195)
Exceptional costs	<i>4</i>	(140)	(1,097)
Exceptional income	<i>4</i>	550	-
Other operating income	<i>4</i>	3,141	289
Operating (loss) / profit	<i>4</i>	(1,305)	(932)
Interest receivable and similar income	<i>7</i>	134	52
Interest payable and similar expenses	<i>8</i>	(503)	(298)
(Loss) / profit before taxation		(1,674)	(1,178)
Tax on (loss) / profit	<i>9</i>	220	418
(Loss) / profit for the financial period		(1,454)	(760)
Total comprehensive (expense) / income for the period		(1,454)	(760)

All activities derive from continuing operations.

The notes on pages 13 to 23 form part of these financial statements


MODUS SUBSEA SERVICES LIMITED (Registered number: 02183639)

Balance Sheet

at 30 September 2022

	<i>Note</i>	2022 £000	2021 £000
FIXED ASSETS			
Tangible assets	10	15,784	14,655
CURRENT ASSETS			
Debtors	11	2,757	2,313
Cash at bank and in hand		15	1,546
		2,772	3,859
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	12	(12,548)	(8,288)
NET CURRENT LIABILITIES		(9,776)	(4,429)
TOTAL ASSETS LESS CURRENT LIABILITIES		6,008	10,226
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	13	(3,212)	(5,758)
PROVISIONS FOR LIABILITIES	14	-	(220)
NET ASSETS		2,796	4,248
CAPITAL AND RESERVES			
Called up share capital	15	1	1
Share premium account		12	12
Capital contribution reserve		2,541	2,539
Retained earnings		242	1,696
SHAREHOLDERS' FUNDS		2,796	4,248

These financial statements were approved by the Board of Directors and authorised for issue on 12 October 23 and were signed on its behalf by:


Ash Sheppard (Oct 12, 2023 13:34 GMT+1)

AJ Sheppard - Director

The notes on pages 13 to 23 form part of these financial statements

MODUS SUBSEA SERVICES LIMITED

Statement of Changes in Equity

for the 18 Month Period Ended 30 September 2022

	Called up share capital £000	Share premium account £000	Capital contribution reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 2020	1	12	2,539	2,456	5,008
Changes in equity					
Total comprehensive income	-	-	-	(760)	(760)
Balance at 31 March 2021	1	12	2,539	1,696	4,248
Changes in equity					
Total comprehensive expense	-	-	2	(1,454)	(1,452)
Balance at 30 September 2022	1	12	2,541	242	2,796

The notes on pages 13 to 23 form part of these financial statements

Notes to the Financial Statements
for the 18 Month Period Ended 30 September 2022

1 STATUTORY INFORMATION

Modus Subsea Services Limited ("the Company") is a private company, limited by shares, registered in England and Wales. The Company's registered number and registered office can be found on the Company Information page.

2 ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("*FRS 102*") and the Companies Act 2006. These financial statements have been prepared under the historical cost convention.

The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000. The accounts have been produced for a period of 18 months. As a result, the comparative information presented is not entirely comparable.

The Company's parent undertaking, Modus Subsea Group Limited (formerly Tompkins UK Limited) includes the Company in its consolidated financial statements, which are available to the public and may be obtained from Companies House, Crown Way, Cardiff CF14 3UZ. In these financial statements, the Company is considered to be a qualifying entity for the purposes of FRS 102 and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- The requirements of Section 7 Statement of cashflows; and
- Key Management Personnel compensation.

Material uncertainty in relation to going concern

Notwithstanding net current liabilities of £9,776,000 as at 30 September 2022, the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides and receipt of additional third-party financing, the Company will have sufficient resources to meet its liabilities as they fall due for that period. In making this assessment the Directors note that the result for the 18-month period and subsequent to the year-end has been disappointing and put pressure on the liquidity of the Company. The sale of the ROVs (NBV £4.9m) by the Company facilitated the repayment of some of its external debt. The remaining external debt was refinanced with a £5.0m bridging loan. This loan was initially for 6-month term but has been extended and is due for repayment on 14 December 2023.

The Directors are engaged in advanced fundraising discussions with a financial partner and are confident that investment to consolidate the strategic repositioning will be secured. In addition to this, the sale of the trenching assets continues to be discussed with interested parties. The Directors have no reason to believe that the related transactions will not be achieved at appropriate commercial terms. However, they have not been finalised as at the date of approval of these financial statements. The success of these transactions are uncertain and material to the continued going concern of the Company. This material uncertainty may cast significant doubt on the Company's ability to continue as a going concern and realise its assets and meet its obligations during the normal course of business. These financial statements include no adjustments that would result from the basis of preparation being inappropriate.

The Directors have also considered the impact of severe but plausible downside scenarios, including the possibility of delays to projects or the delivery of new vehicles. In practical terms this would make the achievement of the plan more challenging but it is the view of the Directors that there is resiliency in the pipeline of work to mitigate these risks sufficiently when taken with the aforementioned investment.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Notes to the Financial Statements
for the 18 Month Period Ended 30 September 2022

2 ACCOUNTING POLICIES (continued)

Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the rates of exchange ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the rate of exchange at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at rates of exchange ruling at the dates the fair value was determined. Exchange differences arising on translation are recognised in the operating result.

Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments in preference and ordinary shares

Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to initial recognition investments that can be measured reliably are measured at fair value with changes recognised through profit and loss. Other investments are measured at cost less impairment through profit and loss.

Notes to the Financial Statements

for the 18 Month Period Ended 30 September 2022

2 ACCOUNTING POLICIES (continued)

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Tangible fixed assets include investment property whose fair value cannot be measured reliably without undue cost or effort.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described below.

The Company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- plant and equipment 3 – 15 years
- fixtures, fittings, tools, equipment and leasehold improvements 3 – 4 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the Company expects to consume an asset's future economic benefits.

Defined contribution plans and other long-term employee benefits

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

Turnover

Turnover represents the amounts (excluding value added tax) derived from the hire, management and operation of subsea construction equipment and associated engineering and support services to customers. Turnover is recognised over the period of hire, or as the services are provided, in accordance with the terms of the agreement.

Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Operating leases

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation, in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in the profit and loss account over the term of the lease as an integral part of the total lease expense.

Notes to the Financial Statements
for the 18 Month Period Ended 30 September 2022

2 ACCOUNTING POLICIES (continued)

Finance leases

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Interest payable

Interest payable and similar expenses include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit and loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account.

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

3 ACCOUNTING ESTIMATES AND JUDGEMENTS

In the preparation of the financial statements, it is necessary for the management of the Company to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The key areas requiring the use of estimates and judgements which may significantly affect the financial statements are considered to be:

Impairment of tangible assets

During the period, the Company engaged an independent advisor, Gordon Brothers, to provide a market valuation of the principal subsea assets. There was no indication of impairment. The valuation and subsequent sale of several assets in excess of net book value, indicated that the residual value estimates were understated.

Impairment of debtors

The Company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management consider factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience.

MODUS SUBSEA SERVICES LIMITED

Notes to the Financial Statements

for the 18 Month Period Ended 30 September 2022

4 ANALYSIS OF TURNOVER

The turnover and profit before taxation are attributable to the principal activities of the Company. An analysis of turnover by geographical market is given below:

	18 Months to	
	2022	2021
	£000	£000
United Kingdom	864	5,801
Europe	10,675	5,966
Rest of World	2,580	1,990
	14,119	13,757

5 OPERATING LOSS

Operating loss is stated after charging / (crediting):

	18 Months to	
	2022	2021
	£000	£000
Depreciation of tangible fixed assets	951	1,838
Operating leases on buildings	408	269
Profit on disposal of tangible fixed assets	(2,667)	(56)
Exceptional costs	140	1,097
Exceptional income	(550)	-
Government Coronavirus Financial Assistance	(95)	(233)
Fees payable to the Company's auditor:		
for the audit of the Company's annual financial statements	44	30
for tax compliance and advisory services	-	8

Exceptional income incurred during the period includes liquidated damages relating to a supply contract.

During the period, the Company received Government financial support of £64,000 (2021: £233,000) in relation to the Coronavirus pandemic for furlough payments under the Coronavirus Job Retention Scheme ("CJRS").

MODUS SUBSEA SERVICES LIMITED

Notes to the Financial Statements
for the 18 Month Period Ended 30 September 2022

6 EMPLOYEES AND DIRECTORS

	18 Months to 2022 £000	2021 £000
Wages and salaries	6,159	3,604
Social security costs	688	392
Other pension costs (see note 16)	269	168
	7,116	4,164

The average number of employees (including directors) during the period was as follows:

	18 Months to 2022	2021
Management and administration	40	32
Projects and engineering	10	17
Offshore operations	17	19
	67	68

7 DIRECTORS' EMOLUMENTS

	18 Months to 2022 £000	2021 £000
Aggregate emoluments inclusive of benefits in kind	695	555
Pension contributions	59	50
	754	605
Number of directors accruing benefits under defined contribution pension schemes	3	3

The aggregate emoluments of the highest paid director were £249,000 (2021: £176,000) and company pension contributions of £28,000 (2021: £18,000) were made to a money purchase scheme on his behalf.

8 INTEREST RECEIVABLE AND SIMILAR INCOME

	18 Months to 2022 £000	2021 £000
Bank interest	-	2
Other interest receivable	134	50
	134	52

MODUS SUBSEA SERVICES LIMITED

Notes to the Financial Statements

for the 18 Month Period Ended 30 September 2022

9 INTEREST PAYABLE AND SIMILAR EXPENSES

	18 Months to	
	2022	2021
	£000	£000
Bank interest	165	72
Loan interest	368	211
Finance charges payable in respect of finance leases	-	15
	<u>503</u>	<u>298</u>

10 TAXATION

Analysis of the tax (credit) / charge

The tax (credit) / charge on the loss / profit for the period was as follows:

	18 Months to	
	2022	2021
	£000	£000
Current tax:		
UK corporation tax	-	(363)
Deferred tax	(220)	(55)
	<u>(220)</u>	<u>(418)</u>
Tax on (loss) / profit	<u>(220)</u>	<u>(418)</u>

UK corporation tax has been charged at 25.0% (2021: 19.0%).

Reconciliation of total tax credit included in profit and loss

The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	18 Months to	
	2022	2021
	£000	£000
(Loss) / profit before tax	(1,674)	(1,178)
Loss / profit multiplied by the standard rate of corporation tax in the UK 19.0% (2021: 19.0%)	(318)	(224)
Effects of:		
Adjustments in respect of prior periods	1	(80)
Fixed asset differences	(124)	1
Surrender of tax losses	-	52
Allowance for R&D expenditure	-	(125)
RDEC 2019	(63)	(42)
Expenses not deductible for tax purposes	10	-
Other permanent differences	6	-
Deferred tax asset not recognised	268	-
Total tax (credit) / charge	<u>(220)</u>	<u>(418)</u>

A UK corporation rate of 25.0% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Company's future current tax charge accordingly. Deferred tax assets and liabilities at 30 September 2022 have been calculated at 25.0% (2021: 19.0%).

Deferred tax losses of £1.4m for 2022, resulting in a £268k deferred tax asset, have not been recognised.

MODUS SUBSEA SERVICES LIMITED

Notes to the Financial Statements

for the 18 Month Period Ended 30 September 2022

11 TANGIBLE FIXED ASSETS

	Fixtures, fittings, tools, equipment and leasehold improvements £000	Plant and machinery £000	Total £000
Cost			
At 1 April 2021	720	20,594	21,314
Additions	96	2,106	2,202
Disposals	-	(858)	(858)
At 30 September 2022	<u>816</u>	<u>21,842</u>	<u>22,658</u>
Depreciation			
At 1 April 2021	510	6,149	6,659
Charge for the 18-month period	146	805	951
Eliminated in respect of disposals	-	(737)	(737)
At 30 September 2022	<u>656</u>	<u>6,217</u>	<u>6,873</u>
Net book value			
At 30 September 2022	<u>160</u>	<u>15,625</u>	<u>15,784</u>
At 1 April 2021	<u>210</u>	<u>14,445</u>	<u>14,655</u>

At the balance sheet date, there were no tangible fixed assets held under finance leases (2021: none).

Since the balance sheet date, plant and machinery with a NBV of £4.8m have been disposed of.

12 DEBTORS

	2022 £000	2021 £000
Trade debtors	2,127	1,883
Other debtors	198	30
Corporation tax	-	141
Other taxation and social security	113	38
Prepayments and accrued income	319	221
	<u>2,757</u>	<u>2,313</u>

MODUS SUBSEA SERVICES LIMITED

Notes to the Financial Statements
for the 18 Month Period Ended 30 September 2022

13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2022	2021
	£000	£000
Bank overdraft	3,376	3,252
Bank loans	2,089	886
Trade creditors	3,071	1,306
Amounts owed to parent undertaking	1,460	1,363
Amounts owed to related parties	-	2
Corporation Tax	83	-
Other taxation and social security	572	147
Accruals and deferred income	1,820	1,153
Other creditors	77	179
	12,548	8,288

The overdraft was secured by debenture and guarantee over the assets of the Company. Interest on the overdraft was charged at 2.8% + Bank of England variable base rate. The overdraft was refinanced post year end.

A CBILS loan for £1,500,000 was secured during the prior year. Interest was charged at 3.99% with the first 12 months interest funded by the UK Government. Monthly repayments commenced in December 2021. This loan was refinance post year end.

A bank loan was secured over the plant and machinery held by the Company. Interest was charged at 3% + Bank of England variable base rate. Repayments were made monthly throughout the period. This loan was refinanced in March 2023.

On 15 March 2023 the Company's external debt was refinanced with a £5.0m 6 month bridging facility. Interest is accrued using the SONIA rate (sterling overnight index average). This loan was subsequently extended by 3 months and the entire balance is due to be repaid on 14 December 2023.

Amounts owed to parent undertaking are due on demand and bear no interest.

14 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2022	2021
	£000	£000
Bank loans (see note 12)	3,212	5,598
Accruals and deferred income	-	160
	3,212	5,758

The maturity of obligations under terms of the bank loans is as follows:

	£000	£000
Within one year	2,089	886
Between one and five years	3,212	4,492
In more than five years	-	1,106
	5,301	6,484

MODUS SUBSEA SERVICES LIMITED

Notes to the Financial Statements

for the 18 Month Period Ended 30 September 2022

15 PROVISIONS FOR LIABILITIES

	2022	2021
	£000	£000
Deferred tax	-	220
	<u> </u>	<u> </u>
		Deferred tax
		£000
Balance at 1 April 2021		220
Credit to Statement of Comprehensive Income during the 18 month period		(220)
		<u> </u>
Balance at 30 September 2022		-
		<u> </u>

Deferred tax liabilities are attributable to the following:

	2022	2021
	£000	£000
Accelerated capital allowances	2,338	526
Unutilised tax losses	(2,327)	(302)
Other short term timing differences	(11)	(4)
	<u> </u>	<u> </u>
	-	220
	<u> </u>	<u> </u>

The Company has unrecognised deferred tax assets of £268,000 (2021: £Nil) in respect of tax losses and timing differences. The Directors have not recognised these assets as they consider that it would be imprudent to do so.

16 CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

			2022	2021
Number	Class	Nominal Value	£	£
1,247	Ordinary class A	£1	1,247	1,247
58	Ordinary class B	£1	58	58
			<u> </u>	<u> </u>
			1,305	1,305
			<u> </u>	<u> </u>

The 'A' Ordinary and 'B' Ordinary shares rank pari-passu in all respects other than that the 'B' Ordinary shares do not carry voting rights.

17 DEFINED CONTRIBUTION SCHEMES

The Company operates a defined contribution retirement benefit scheme for all qualifying employees. The total expense charged to the profit and loss in the 18-month period ended 30 September 2022 was £269,000 (2021: £168,000).

There were no outstanding or prepaid contributions at either the beginning or end of the financial period.

MODUS SUBSEA SERVICES LIMITED

Notes to the Financial Statements
for the 18 Month Period Ended 30 September 2022

18 LEASING AGREEMENTS

Minimum lease payments under non-cancellable operating leases fall due as follows:

	2022	2021
	£000	£000
Within one year	261	245
Between one and five years	194	324
	<u> </u>	<u> </u>

The operating leases relate to the lease of land and buildings.

19 CAPITAL COMMITMENTS

At the balance sheet date, the Company was contracted and committed to the purchase of fixed assets for £5,460,000 (2021: £5,460,000).

20 EVENTS AFTER THE BALANCE SHEET DATE

Between November 2022 and February 2023, the Company sold 6 ROVs with Net Book Value of £4.9m. The proceeds of these sales were used to paydown a portion of the Company's loan facilities.

In March 2023, the Company refinanced the remaining external debt, securing a 6 month £5.0m loan facility to provide bridging to the sale of the trenching assets. The facility has subsequently been extended by 3 months and is due for repayment 14 December 2023.

21 RELATED PARTY DISCLOSURES

At the balance sheet date, a trading balance of £88,000 was owed by Tompkins Investments Limited, a company controlled by AC Tompkins to the Company (2021: £2,000 debtor). During the period, the Company incurred administrative expenses of £669,000 (2021: £344,000), from Tompkins Investments Limited.

22 ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The Company is a subsidiary undertaking of Modus Subsea Group Limited. The ultimate controlling party is AC Tompkins.