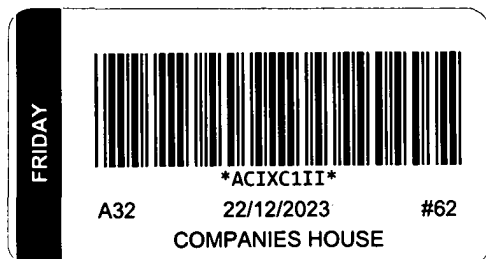


Company registration number: 5874602

M Subs Ltd

Financial statements

31 December 2022



M Subs Ltd

Contents

	Page
Directors and other information	1
Strategic report	2 - 4
Directors report	5 - 6
Independent auditor's report to the members	7 - 10
Statement of income and retained earnings	11
Statement of financial position	12
Statement of cash flows	13
Notes to the financial statements	14 - 26

M Subs Ltd

Directors and other information

Directors	Mr B Phaneuf Mr R J Shaw Mr P D Barretto Mrs L S Wyatt
Company number	5874602
Registered office	42 Sisna Park Road Plymouth Devon PL6 7FH
Business address	42 Sisna Park Road Plymouth Devon PL6 7FH
Auditor	Franklins Accountants Ltd Astor House 2 Alexandra Road Mutley Plain Plymouth PL4 7JR

M Subs Ltd

Strategic report Year ended 31 December 2022

Business review

The company's main activity is the design, manufacture and operation of manned and unmanned marine vehicles for military and commercial markets. The focus has traditionally been in the submersible sector however there are now opportunities within the surface vehicle sector.

The company continues to invest heavily in the development of knowledge and expertise in AI and the implementation of AI software and systems in marine applications.

During the year ended 31st December 2022 the company has continued to perform well. The company continues to work on the current long-term contracts for the Dry Combat Submersibles. The contract to deliver 3 separate boats has been delayed however progress is being made.

Alongside these long-term construction contracts the company undertakes other project work with a number of organisations. These relationships and partnerships are being developed to ensure the long-term success of the company. During 2022 the company continued to work with the Royal Navy securing a contract in late 2022 to build a new crewless robotic submarine.

During 2022 M Subs continued to support the Mayflower Autonomous Ship. A fully autonomous, AI powered marine vessel. M Subs has been the lead on this ambitious project which was planned to tie in with the Mayflower 400 celebrations. The project has helped the company expand its expertise in the field of navigational AI within the surface vehicle sector. The project has been developed in partnership with IBM.

The company continues to work with numerous partners to develop new projects and systems enhancing the company's future abilities.

During 2022 the company granted a £550k mortgage to a local company to purchase a building. The loan is secured against the freehold of the building. A third of this loan was repaid to M Subs in 2023 with the remainder repayable 3 years from the date of the initial advance.

The success and level of profitability for the long-term contracts is still uncertain. These contracts are projected to over run the perceived time line and this may impact the final profitability by increasing the ongoing costs of supporting the contracts. The company however has positive cashflow from these contracts and significant cash reserves at the year end.

The contract for DCS1 the first boat of the three was finalised and signed off. This contract was completed with an expected level of final profitability however changes in the method for delivery of DCS2 & DCS3 mean that the profitability of these two open contracts cannot be guaranteed at the year end.

Business KPIs

Gross turnover increased from £6.69m(21) to £7.22m an 8.0% increase

Gross profit increased to £2.84m(22) from £2.21m(21) an 28.52% increase

Gross Profit percentage has increased from 33.0%(21) to 39.3%(22)

Pre tax net profit has increased from £685k(21) to £1,077k(22)

Retained profit increased from £5.829m(21) to £7.277m(22)

M Subs Ltd

Strategic report (continued) Year ended 31 December 2022

Principal risks and uncertainties

The company faces some normal business risks currently these include

COVID 19

The company has not been significantly adversely affected by the pandemic. However, the general risks associated with supply chain disruption and staff absences increases the risk regarding completion of certain contracts within the budgeted time frames.

The risks relating to COVID have been mitigated with significant forward planning, working closely with the established suppliers to make sure that disruptions are kept to a minimum.

Comprehensive staff policies around COVID have been in place to minimise the risk to staff and the risk that an isolated case would cause a company wide issue.

Exposure to foreign economies

The company's main customer is based in the United States. This causes a significant foreign exchange risk. These risks are compounded as some of the key materials suppliers are based in the Euro Zone. The operation in different jurisdictions and contracts in multiple currency's has the potential to add significant risk. Foreign currency risks are managed by using GB Pound Sterling as the functional currency for the majority of the contracts. Certain Euro elements are managed with careful use of a Euro current account allowing some cash to be kept in that currency to avoid variance from short term exchange rate fluctuations.

Long term contracts

The long term fixed price incentive contracts have the potential to be unprofitable or onerous. If costs within the company increase significantly then there is the potential that the profit budgeted at inception will not be realised. This would obviously harm the financial performance of the business.

The company manages and mitigates this with a detailed contract planning, budgeting and negotiation process. There is a dedicated project management team who set up detailed costings

There are terms built into the contract to allow for some variations to be recovered.

New long term contracts are based on a burdened cost basis and so there is less risk at the outset of the contract.

Financial instruments

The company has a normal level of exposure to price, credit, liquidity and cash flow risks arising from trading activities which are largely conducted in sterling, with the few Euro transactions being conducted with cash reserves held in a Euro denominated bank account to minimise exposure to short term foreign currency fluctuations. The company does not enter into any hedging agreements.

During 2022 the company has granted a secured mortgage of £550k to a local company to purchase a building. This loan bears a market rate of interest.

M Subs Ltd

Strategic report (continued) Year ended 31 December 2022

Future developments

The current committed contracts will continue into 2023/24. The company operates in a developing industry and are world leaders in the design and manufacture of marine vehicles. The company has built up a significant competitive advantage within the industry and has numerous possibilities for future contracts. This along with the significant cash reserves and risk management strategies. In late 2022 the company secured a large contract with the Royal Navy to supply a crewless robotic submarine. The total contract value for this at inception is £15.4m over a multi-year period.

The company continues to develop its knowledge in the field of AI with multiple areas of their core business benefitting from this new technology.

Research and development

The company is currently undertaking significant amounts of research and development in various areas to enhance the overall ability of the company to meet the demands in such a fast-moving sector in which it operates. During 2022 the company invested £2.95m in research and development which qualifies as R and D under the SME scheme for HMRC. The R and D claim creates a loss which can be surrendered to HMRC for a repayable tax credit.

This report was approved by the board of directors on 20 December 2023 and signed on behalf of the board by:



Mr P D Barretto
Director

M Subs Ltd

Directors report Year ended 31 December 2022

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

Directors

The directors who served the company during the year were as follows:

Mr B Phaneuf
Mr R J Shaw
Mr P D Barretto
Mrs L S Wyatt

Dividends

The directors do not recommend the payment of a dividend.

Future developments

The current committed contracts will continue into 2023/24. The company operates in a developing industry and are world leaders in the design and manufacture of marine vehicles. The company has built up a significant competitive advantage within the industry and has numerous possibilities for future contracts. This along with the significant cash reserves and risk management strategies.

In late 2022 MSubs agreed a £15.4m multi year contract with the Royal Navy to design and build an new robotic submarine.

Financial instruments

The company has a normal level of exposure to price and credit risk. Liquidity and cash flow risks arising from trading activities and long-term contracts are managed with careful contract drafting resulting in positive cash flow. Foreign exchange risk is minimal. The vast majority of the companies' transactions are denominated in GB Pounds Sterling. The small number of Euros transactions are completed using a cash held in Euros reducing the short term risks due to exchange fluctuations. The company does not enter into any hedging transactions.

Events after the end of the reporting period

Particulars of events after the reporting period are detailed in note 25 to the financial statements.

M Subs Ltd

**Directors report (continued)
Year ended 31 December 2022**

Directors responsibilities statement

The directors are responsible for preparing the strategic report, 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). 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 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 judgments and accounting estimates that are reasonable and prudent; and
- 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.

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as they are aware, there is no relevant audit information of which the company's auditor is unaware; and
- they have taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

The auditor is deemed to have been re-appointed in accordance with section 487 of the Companies Act 2006.

This report was approved by the board of directors on 20 December 2023 and signed on behalf of the board by:



Mr P D Barretto
Director

M Subs Ltd

Independent auditor's report to the members of M Subs Ltd Year ended 31 December 2022

Opinion

We have audited the financial statements of M Subs Ltd (the 'company') for the year ended 31 December 2022 which comprise the statement of income and retained earnings, statement of financial position, statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 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 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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.

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

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

Other Information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. 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.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

M Subs Ltd

Independent auditor's report to the members of M Subs Ltd (continued) Year ended 31 December 2022

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report has 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 where 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 the 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, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

M Subs Ltd

**Independent auditor's report to the members of
M Subs Ltd (continued)
Year ended 31 December 2022**

The extent to which the audit was considered capable of detecting 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 the director and other management, and from our knowledge of the industry SAA operates in.
We focused on specific laws and regulations relevant to the entity that may have a material impact on the financial statements including the Companies Act 2006, taxation legislation and data protection.
We assessed the extent of compliance with the above legislation through discussions with management and review of specific correspondence.
We assessed the susceptibility of the company's financial statements to material misstatement, including obtaining and understanding of how fraud might occur by.
Making enquires of management as to where they considered there was a susceptibility to fraud, their knowledge of actual or suspected or alleged fraud
Considering the internal controls in place to reduce the risk of fraud or non compliance with laws and regulations
To address the risk of fraud through management bias and override of controls, we.
Performed preliminary 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.
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.
Enquiring of management as to actual or potential litigation and claims.

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. we also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

M Subs Ltd

**Independent auditor's report to the members of
M Subs Ltd (continued)
Year ended 31 December 2022**

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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.



Mr Peter Franklin (Senior Statutory Auditor)

For and on behalf of
Franklins Accountants Ltd
Chartered Accountants and Statutory Auditors
Astor House
2 Alexandra Road
Mutley Plain
Plymouth
PL4 7JR

20 December 2023

M Subs Ltd

**Statement of income and retained earnings
Year ended 31 December 2022**

	Note	2022 £	2021 £
Turnover	4	7,224,272	6,690,432
Cost of sales		(4,388,691)	(4,484,079)
Gross profit		2,835,581	2,206,353
Administrative expenses		(1,790,484)	(1,523,113)
Operating profit	5	1,045,097	683,240
Other interest receivable and similar income	8	32,651	3,694
Interest payable and similar expenses	9	(631)	(2,330)
Profit before taxation		1,077,117	684,604
Tax on profit	10	371,102	187,429
Profit for the financial year and total comprehensive income		<u>1,448,219</u>	<u>872,033</u>
Retained earnings at the start of the year		5,828,794	4,956,762
Retained earnings at the end of the year		<u>7,277,013</u>	<u>5,828,795</u>

All the activities of the company are from continuing operations.

The notes on pages 14 to 26 form part of these financial statements.

M Subs Ltd

**Statement of financial position
31 December 2022**

		2022		2021	
	Note	£	£	£	£
Fixed assets					
Intangible assets	12	-		-	
Tangible assets	13	2,638,577		2,496,152	
Investments	14	24,803		60	
			2,663,380		2,496,212
Current assets					
Debtors	15	1,499,254		2,830,970	
Investments	16	554,927		-	
Cash at bank and in hand		5,948,661		4,449,280	
		8,002,842		7,280,250	
Creditors: amounts falling due within one year	17	(3,389,109)		(3,947,567)	
Net current assets			4,613,733		3,332,683
Total assets less current liabilities			7,277,113		5,828,895
Net assets			7,277,113		5,828,895
Capital and reserves					
Called up share capital	21		100		100
Profit and loss account	22		7,277,013		5,828,795
Shareholders funds			7,277,113		5,828,895

These financial statements were approved by the board of directors and authorised for issue on 20 December 2023, and are signed on behalf of the board by:



Mr P D Barretto
Director

Company registration number: 5874602

The notes on pages 14 to 26 form part of these financial statements.

M Subs Ltd

**Statement of cash flows
Year ended 31 December 2022**

	2022	2021
	£	£
Cash flows from operating activities		
Profit for the financial year	1,448,219	872,033
<i>Adjustments for:</i>		
Depreciation of tangible assets	142,063	132,695
Other interest receivable and similar income	(32,651)	(3,694)
Interest payable and similar expenses	631	2,330
Gain/(loss) on disposal of tangible assets	-	(1,122)
Tax on profit	(371,102)	(187,429)
Accrued expenses/(income)	(4,564)	22,441
<i>Changes in:</i>		
Stocks	-	277,477
Trade and other debtors	1,705,414	(1,792,987)
Trade and other creditors	(553,894)	225,631
Cash generated from operations	<u>2,334,116</u>	<u>(452,625)</u>
Interest paid	(631)	(2,330)
Interest received	32,651	3,694
Tax paid	(2,598)	56,475
Net cash from/(used in) operating activities	<u><u>2,363,538</u></u>	<u><u>(394,786)</u></u>
Cash flows from investing activities		
Purchase of tangible assets	(284,487)	(328,510)
Proceeds from sale of tangible assets	-	3,333
Cash advances and loans granted	(24,743)	-
Secured cash loan granted	(554,927)	-
Net cash used in investing activities	<u><u>(864,157)</u></u>	<u><u>(325,177)</u></u>
Cash flows from financing activities		
Payment of finance lease liabilities	-	(39,202)
Net cash used in financing activities	<u><u>-</u></u>	<u><u>(39,202)</u></u>
Net increase/(decrease) in cash and cash equivalents	1,499,381	(759,165)
Cash and cash equivalents at beginning of year	4,449,280	5,208,445
Cash and cash equivalents at end of year	<u><u>5,948,661</u></u>	<u><u>4,449,280</u></u>

M Subs Ltd

Notes to the financial statements Year ended 31 December 2022

1. General information

The company is a private company limited by shares, registered in England. The address of the registered office is 42 Sisna Park Road, Plymouth, Devon, PL6 7FH.

2. Statement of compliance

These financial statements have been prepared in compliance with FRS 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

3. Accounting policies

Basis of preparation

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial assets and liabilities and investment properties measured at fair value through profit or loss.

The financial statements are prepared in sterling, which is the functional currency of the entity.

Going concern

The directors have examined the adverse effects of the COVID 19 pandemic and the affect that this is expected to have on the company. These are detailed in the Strategic Report. The directors are confident that the company will continue to trade as a going concern for a period of at least 12 months from the approval of these financial statements and therefore have prepared them on a going concern basis.

Consolidation

The company has taken advantage of the exemption from preparing consolidated financial statements contained in Section 402 of the Companies Act 2006 on the basis that its subsidiaries are excluded from consolidation on the grounds that their inclusion is not material for the purpose of giving a true and fair view.

Judgements and key sources of estimation uncertainty

Key sources of estimation uncertainty

The accounting policy for the recognition of revenue from construction contracts is shown as part of Note 3 to the financial statements.

The basis of the deferral of contract income is based on an estimation for the percentage of completion of these long-term construction contracts.

Accounting estimates and assumptions are made concerning the future and, by their nature, will rarely equal the related actual outcome. The key assumptions and other sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

The directors have taken a prudent approach to the recognition of revenue under the long-term contracts. These contracts carry a risk of being onerous and the planned final profit margin per the inception agreement is not guaranteed. The directors have reviewed the projected build timetable and expected future costs and are of the opinion that the delays already occurring along with increasing costs mean that they are unable to measure the contract profitability reliably. Therefore, the revenue recorded in the 2022 financial year represents the burdened costs incurred that are recoverable under the signed contract terms and conditions.

M Subs Ltd

Notes to the financial statements (continued) Year ended 31 December 2022

Turnover

Turnover is measured at the fair value of the consideration received or receivable for goods supplied and services rendered, net of discounts and Value Added Tax.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have transferred to the buyer (usually on despatch of the goods); the amount of revenue can be measured reliably; it is probable that the associated economic benefits will flow to the entity; and the costs incurred or to be incurred in respect of the transactions can be measured reliably.

When the outcome of a transaction involving the rendering of services can be reliably estimated, revenue from the rendering of services is measured by reference to the stage of completion of the service transaction at the end of the reporting period.

When the outcome of a transaction involving the rendering of services cannot be reliably estimated, revenue is recognised only to the extent that it is probable the expenses recognised will be recovered.

Taxation

The taxation expense represents the aggregate amount of current and deferred tax recognised in the reporting period. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in capital and reserves. In this case, tax is recognised in other comprehensive income or directly in capital and reserves, respectively.

Current tax is recognised on taxable profit for the current and past periods. Current tax is measured at the amounts of tax expected to pay or recover using the tax rates and laws that have been enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

Foreign currencies

Foreign currency transactions are initially recorded in the functional currency, by applying the spot exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the reporting date, with any gains or losses being taken to profit or loss.

Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful life of that asset as follows:

If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new estimates.

M Subs Ltd

Notes to the financial statements (continued) Year ended 31 December 2022

Tangible assets

Tangible assets are initially recorded at cost, and are subsequently stated at cost less any accumulated depreciation and impairment losses.

Any tangible assets carried at revalued amounts are recorded at the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

An increase in the carrying amount of an asset as a result of a revaluation, is recognised in other comprehensive income and accumulated in capital and reserves, except to the extent it reverses a revaluation decrease of the same asset previously recognised in profit or loss. A decrease in the carrying amount of an asset as a result of revaluation is recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in capital and reserves in respect of that asset. Where a revaluation decrease exceeds the accumulated revaluation gains accumulated in capital and reserves in respect of that asset, the excess shall be recognised in profit or loss.

Depreciation

Depreciation is calculated so as to write off the cost or valuation of an asset, less its residual value, over the useful economic life of that asset as follows:

Freehold property	- 50 year
Plant and machinery	- 15% reducing balance
Fittings fixtures and equipment	- 15% reducing balance
Motor vehicles	- 25% reducing balance

If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of tangible assets, the depreciation is revised prospectively to reflect the new estimates.

Investment property

Investment property is measured initially at cost, which includes purchase price and any directly attributable expenditure. Investment property is revalued to its fair value at each reporting date and any changes in fair value are recognised in profit or loss.

Fixed asset investments

Fixed asset investments are initially recorded at cost, and subsequently stated at cost less any accumulated impairment losses. Listed investments are measured at fair value with changes in fair value being recognised in profit or loss.

Impairment

A review for indicators of impairment is carried out at each reporting date, with the recoverable amount being estimated where such indicators exist. Where the carrying value exceeds the recoverable amount, the asset is impaired accordingly. Prior impairments are also reviewed for possible reversal at each reporting date.

When it is not possible to estimate the recoverable amount of an individual asset, an estimate is made of the recoverable amount of the cash-generating unit to which the asset belongs. The cash-generating unit is the smallest identifiable group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

M Subs Ltd

Notes to the financial statements (continued) Year ended 31 December 2022

Construction contracts

Where the outcome of construction contracts can be reliably estimated, contract revenue and contract costs are recognised by reference to the stage of completion of the contract activity as at the period end.

Where the outcome of construction contracts cannot be estimated reliably, revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable, and contract costs are recognised as an expense in the period in which they are incurred.

The entity uses the percentage of completion method to determine the amounts to be recognised in the period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred for work performed to date do not include costs relating to future activity, such as for materials or prepayments.

Financial instruments

A financial asset or a financial liability is recognised only when the company becomes a party to the contractual provisions of the instrument.

Basic financial instruments are initially recognised at the transaction price, unless the arrangement constitutes a financing transaction, where it is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Debt instruments are subsequently measured at amortised cost.

Where investments in non-convertible preference shares and non-puttable ordinary shares or preference shares are publicly traded or their fair value can otherwise be measured reliably, the investment is subsequently measured at fair value with changes in fair value recognised in profit or loss. All other such investments are subsequently measured at cost less impairment.

Other financial instruments, including derivatives, are initially recognised at fair value, unless payment for an asset is deferred beyond normal business terms or financed at a rate of interest that is not a market rate, in which case the asset is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Other financial instruments are subsequently measured at fair value, with any changes recognised in profit or loss, with the exception of hedging instruments in a designated hedging relationship.

Financial assets that are measured at cost or amortised cost are reviewed for objective evidence of impairment at the end of each reporting date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss immediately.

For all equity instruments regardless of significance, and other financial assets that are individually significant, these are assessed individually for impairment. Other financial assets are either assessed individually or grouped on the basis of similar credit risk characteristics.

Any reversals of impairment are recognised in profit or loss immediately, to the extent that the reversal does not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised.

Defined contribution plans

Contributions to defined contribution plans are recognised as an expense in the period in which the related service is provided. Prepaid contributions are recognised as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

When contributions are not expected to be settled wholly within 12 months of the end of the reporting date in which the employees render the related service, the liability is measured on a discounted present value basis. The unwinding of the discount is recognised in finance costs in profit or loss in the period in which it arises.

M Subs Ltd

Notes to the financial statements (continued)
Year ended 31 December 2022

4. Turnover

Turnover arises from:

	2022	2021
	£	£
Rendering of services	5,787,918	4,385,491
Construction contracts	1,436,354	2,304,941
	<u>7,224,272</u>	<u>6,690,432</u>

The whole of the turnover is attributable to the principal activity of the company wholly undertaken in the United Kingdom.

5. Operating profit

Operating profit is stated after charging/(crediting):

	2022	2021
	£	£
Depreciation of tangible assets	142,063	132,695
(Gain)/loss on disposal of tangible assets	-	(1,122)
Impairment of trade debtors	400	-
Foreign exchange differences	(556)	560
Fees payable for the audit of the financial statements	11,000	10,400
Non audit related accountancy services	8,850	8,600
Tax compliance services	2,000	3,800
Tax consultancy services	-	1,100
Operating lease rentals	42,535	70,700
Qualifying research and development	<u>2,953,267</u>	<u>1,504,200</u>

M Subs Ltd

Notes to the financial statements (continued)
Year ended 31 December 2022

6. Staff costs

The average number of persons employed by the company during the year, including the directors, amounted to:

	2022	2021
Production staff	60	59
Administrative staff	5	9
	65	68

The aggregate payroll costs incurred during the year were:

	2022	2021
	£	£
Wages and salaries	2,858,286	2,935,245
Social security costs	58,395	55,673
Other pension costs	204,780	94,822
	3,121,461	3,085,740

7. Directors remuneration

The directors aggregate remuneration in respect of qualifying services was:

	2022	2021
	£	£
Remuneration	438,477	438,630
	438,477	438,630

The number of directors who accrued benefits under company pension plans was as follows:

	2022	2021
	Number	Number
Defined contribution plans	4	5
	4	5

Remuneration of the highest paid directors in respect of qualifying services:

	2022	2021
	£	£
Aggregate remuneration	228,695	206,099
Company contributions to pension plans in respect of qualifying services	21,000	11,183
	249,695	217,282

M Subs Ltd

Notes to the financial statements (continued)
Year ended 31 December 2022

8. Other interest receivable and similar income

	2022	2021
	£	£
Loans and receivables	4,927	-
Bank deposits	25,126	3,636
Other interest receivable and similar income	2,598	58
	<u>32,651</u>	<u>3,694</u>

9. Interest payable and similar expenses

	2022	2021
	£	£
Other interest payable and similar expenses	<u>631</u>	<u>2,330</u>

10. Tax on profit

Major components of tax income

	2022	2021
	£	£
Current tax:		
UK current tax income	<u>(371,102)</u>	<u>(187,429)</u>
Tax on profit	<u>(371,102)</u>	<u>(187,429)</u>

Reconciliation of tax income

The tax assessed on the profit for the year is lower than (2021: lower than) the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%).

	2022	2021
	£	£
Profit before taxation	<u>1,077,117</u>	<u>684,604</u>
Profit multiplied by rate of tax	204,652	130,075
Effect of capital allowances and depreciation	(1,991)	(5,054)
Research and development enhancement	(192,803)	(125,021)
Current year R and D tax credit	<u>(380,960)</u>	<u>(187,429)</u>
Tax on profit	<u>(371,102)</u>	<u>(187,429)</u>

Factors affecting future tax expense

At the 31st December 2022 the company has tax losses to carry forward of £661,166 to offset against future trading profits. Due to these tax losses the company has not recognised a deferred tax provision.

M Subs Ltd

Notes to the financial statements (continued)
Year ended 31 December 2022

11. Earnings per share

Basic earnings/(loss) per share

The earnings/(loss) and weighted average number of shares used in the calculation of basic earnings/(loss) per share are as follows:

	2022	2021
	£	£
Profit for the year attributable to the owners of the company	1,448,219	872,033
	<u> </u>	<u> </u>

Diluted earnings/(loss) per share

The earnings/(loss) and weighted average number of shares used in the calculation of diluted earnings/(loss) per share are as follows:

	2022	2021
	£	£
Earnings/(loss) used in calculation of basic earnings/(loss) per share	1,448,219	872,033
	<u> </u>	<u> </u>

12. Intangible assets

	Goodwill	Total
	£	£
Cost		
At 1 January 2022 and 31 December 2022	<u>28,821</u>	<u>28,821</u>
Amortisation		
At 1 January 2022 and 31 December 2022	<u>28,821</u>	<u>28,821</u>
Carrying amount		
At 31 December 2022	<u> </u>	<u> </u>
At 31 December 2021	<u> </u>	<u> </u>

M Subs Ltd

Notes to the financial statements (continued)
Year ended 31 December 2022

13. Tangible assets

	Freehold property	Long leasehold property	Plant and machinery	Fixtures, fittings and equipment	Motor vehicles	Total
	£	£	£	£	£	£
Cost						
At 1 January 2022	2,055,156	-	657,471	611,720	47,235	3,371,582
Additions	-	169,064	5,983	25,440	84,000	284,487
At 31 December 2022	<u>2,055,156</u>	<u>169,064</u>	<u>663,454</u>	<u>637,160</u>	<u>131,235</u>	<u>3,656,069</u>
Depreciation						
At 1 January 2022	138,356	-	403,778	303,815	29,481	875,430
Charge for the year	27,671	-	38,951	50,002	25,438	142,062
At 31 December 2022	<u>166,027</u>	<u>-</u>	<u>442,729</u>	<u>353,817</u>	<u>54,919</u>	<u>1,017,492</u>
Carrying amount						
At 31 December 2022	<u>1,889,129</u>	<u>169,064</u>	<u>220,725</u>	<u>283,343</u>	<u>76,316</u>	<u>2,638,577</u>
At 31 December 2021	<u>1,916,800</u>	<u>-</u>	<u>253,693</u>	<u>307,905</u>	<u>17,754</u>	<u>2,496,152</u>

Investment property

Included within the above is investment property measured at fair value as follows:

At 1 January 2022	£ 206,690
Additions	169,064
At 31 December 2022	<u>375,754</u>

Investment property consists of one freehold and one long leasehold residential property owned for long term capital protection and appreciation. They are held at fair market value. The properties were purchased in 2021 and 2022. There has been no formal external revaluation of these properties since purchase but the directors have reviewed the value of the properties in the accounts and are confident that there is no material difference to open market value at the 31st December 2022. The directors as suitably qualified to make this assertion as they have sufficient knowledge of the local market conditions for similar properties.

M Subs Ltd

Notes to the financial statements (continued)
Year ended 31 December 2022

14. Investments

	Shares in group undertakings	Loans to group undertakings	Total
	£	£	£
Cost			
At 1 January 2022	60	-	60
Additions	-	24,743	24,743
At 31 December 2022	60	24,743	24,803
Impairment			
At 1 January 2022 and 31 December 2022	-	-	-
Carrying amount			
At 31 December 2022	60	24,743	24,803
At 31 December 2021	60	-	60

The subsidiary investment represents the 60% ownership of Marine AI Ltd. Marine AI is a company developing complementary expertise in the design and implementation of AI software and systems for the marine sector. During 2022 Marine AI incurred some expenditure which was financed by an interest free loan from M Subs Ltd totalling £24,743. Marine AI does not have any revenue to December 2022. The company have taken advantage of S 402 of the Companies Act 2006 on the basis that the accounts show a true and fair view without the consolidation of Marine AI.

Investments in group undertakings

	Registered office	Class of share	Percentage of shares held
Subsidiary undertakings			
Marine AI Ltd	42 Sisna Park Road Estover Plymouth PL6 7FH	Ordinary Shares	60

M Subs Ltd

Notes to the financial statements (continued)
Year ended 31 December 2022

15. Debtors

	2022	2021
	£	£
Trade debtors	228,895	2,215,835
Prepayments and accrued income	104,496	95,778
Other debtors	1,165,863	519,357
	<u>1,499,254</u>	<u>2,830,970</u>

Other debtors include £172k VAT refund due, £861k of R and D credits receivable along with a £125k loan to Marine AI NZ a connected company 51% owned by Mr B Phaneuf and registered in New Zealand.

16. Investments

	2022	2021
	£	£
Other investments	554,927	-
	<u>554,927</u>	<u>-</u>

The current asset investment is a mortgage granted to a local property company. The loan is secured with a legal charge over the freehold property. The loan bears a fixed market rate of interest 3%. £185k of the loan has been repaid in July 2023 with the remaining balance repayable 3 years from the start of the agreement.

17. Creditors: amounts falling due within one year

	2022	2021
	£	£
Trade creditors	133,288	82,021
Accruals and deferred income	460,340	992,808
Social security and other taxes	84,509	160,202
Amounts owed to customers on construction contracts	2,518,845	2,694,578
Other creditors	192,127	17,958
	<u>3,389,109</u>	<u>3,947,567</u>

18. Provisions

There are no provisions as at 31st December 2021

19. Deferred tax

Due to the b/fwd tax losses no deferred tax liability has been recognised in these accounts.

M Subs Ltd

Notes to the financial statements (continued)
Year ended 31 December 2022

20. Employee benefits

The amount recognised in profit or loss in relation to defined contribution plans was £204,780 (2021: £94,822).

21. Called up share capital
Issued, called up and fully paid

	2022		2021	
	No	£	No	£
Ordinary shares shares of £ 1.00 each	100	100	100	100
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

22. Reserves

The profit and loss reserve consists entirely of distributable retained earnings.

23. Analysis of changes in net debt

	At 1 January 2022	Cash flows	At 31 December 2022
	£	£	£
Cash and cash equivalents	4,449,280	1,499,381	5,948,661
Current asset investments	-	554,927	554,927
	<u>4,449,280</u>	<u>2,054,308</u>	<u>6,503,588</u>

24. Operating leases

The company as lessee

The total future minimum lease payments under non-cancellable operating leases are as follows:

	2022 £	2021 £
Not later than 1 year	48,500	48,500
Later than 1 year and not later than 5 years	29,270	77,770
	<u>77,770</u>	<u>126,270</u>

The following relate to two commercial rental premises rented on short term agreements.

M Subs Ltd

Notes to the financial statements (continued) Year ended 31 December 2022

25. Events after the end of the reporting period

Since the 31st December 2022 there has been some continued disruption due to Covid 19 related restrictions. The company has been able to continue to trade as usual. There have been some immaterial additional costs related to employee protection however these are relatively small. The directors have implemented successful strategies to mitigate these COVID specific risks.

On 30th January 2023 Mr B Phaneuf transferred his 51% shareholding in Marine AI (NZ) Ltd a company registered in New Zealand to M Subs Ltd at par. Marine AI (NZ) is a trading company.

26. Related party transactions

During the year the M Subs Ltd invoiced Submergence Group LLC a total of £4,358,180.23 for services and in relation to long term construction projects. Submergence Group LLC owns 100% of M Subs Ltd.

Submergence Group LLC invoiced MSubs a total of £24,289.65 for services rendered during the financial year.

During the financial year M Subs Ltd invoiced Promare a US non-profit corporation and charity a total of £218,163 for the design, build and support of the Mayflower Autonomous Ship. Promare shares a number of key management personnel with Submergence Group and M Subs Ltd.

M Subs Ltd has loaned Marine AI a total of £24,743.37 at the year end. This loan is interest free and repayable on demand.

M Subs Ltd has loan Marine AI NZ, a company registered in New Zealand a total of £125,000 at the year end. This company is 51% owned by Mr B Phaneuf at 31st December 2022. This loan is interest free and repayable on demand.

27. Controlling party

The company is controlled by Submergence Group LLC (shareholder). Submergence Group LLC is controlled by Mr G Cook and Mr B Phaneuf.