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ENPRO SUBSEA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE 9 MONTHS ENDED 31 DECEMBER 2018



ENPRO SUBSEA LIMITED

COMPANY INFORMATION



Directors

T G Bryce
I Donald
J Reid
S G M Robb
N H Rogerson
E Gamman
G J Herrera
D J Slattery

Company secretary

Stronachs Secretaries Limited

Registered number

SC398784

Registered office

28 Albyn Place
Aberdeen
AB10 1YL

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Introduction

The directors present the strategic report and financial statements for the period ending 31 December 2018.

Business review

The principal activity of the Company is to provide subsea production optimisation products and services to the oil and gas industry.

Enpro is a production optimisation specialist focused on delivering enhanced hydrocarbon production for customers through their patented range of products and services.

Enpro's mission is to maximise ultimate recovery from subsea wells by enabling production enhancing technologies on standard hardware while structurally reducing cost and delivering first oil faster.

The company adds value to clients through its four business streams protected by a strong patent portfolio, Flow Access Modules (FAM), Flow Intervention Services (FIS), Decommissioning (F-Decom) and Field Development (F-Dev).

The results of the company for the period are set out on page 9. The Company performed strongly during the period, particularly given the continued challenging market conditions, with a profit for the 9 months, after taxation of £1,186,254 (2018: £1,021,896). Turnover for the 9-month period was £9,843,362 (2018: £12,954,169) and a gross profit of £3,622,432 (2018: £3,879,141) was achieved.

The management team delivered the strong turnover and gross profit on the back of continued adoption of its patented products and by maintaining strong relationships with long term repeat customers.

Principal risks and uncertainties

The process of managing risk is addressed through a framework of policies and procedures and internal controls. All policies and procedures are subject to an ongoing review by management and subject to independent ISO certification. Compliance with regulation, health and safety, legal and ethical standards is a high priority for the company.

Economic and market risks together with supply chain risks are managed by establishing strong partner relationships with both clients and subcontractors. The company's success depends on its ability to win projects, deliver them safely and to client satisfaction and respond effectively to changing client needs.

Strategic risks are managed by the management team who rigorously control the tendering and pricing process ensuring all the risks and rewards are considered prior to tender.

The company's financial instruments comprise of cash and liquid resources and arrangements with trade receivables and trade payables, which arise directly from its operations. The main financial risk arises from collectability of trade receivables and the management team is highly focused in this area.

The company's success depends in part on the continued service of its key management, and on its ability to continue to attract, motivate and retain suitably qualified employees.

In the cyclical oil and gas market, there is some risk that revenue rates fall disproportionately to supply chain costs. Management ensures a flexibility in the company's full-time equivalent headcount (ranging from 40 to 50) by maintaining a reasonable proportion of contractors to staff and builds long term relationships with key partners within its supply chain.

Financial key performance indicators

The primary key performance indicators used by the company to assess its performance include turnover, gross margin and operating profit.

ENPRO SUBSEA LIMITED

STRATEGIC REPORT (CONTINUED)
FOR THE 9 MONTHS ENDED 31 DECEMBER 2018



Other key performance indicators

Non-financial key performance indicators include client adoption of its patented technologies and HSEQ metrics.

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

I Donald
Director

Date: 26th Sep 2019

**DIRECTORS' REPORT
FOR THE 9 MONTHS ENDED 31 DECEMBER 2018**



The directors present their report and the financial statements for the 9 months ended 31 December 2018.

Results and dividends

The profit for the 9 months, after taxation, amounted to £1,186,264 (2018 - £1,021,896).

There were no dividends paid during the period (2018 - £NIL).

Directors

The directors who served during the 9 months were:

T G Bryce
I Donald
J Reid
S G M Robb
N H Rogerson
E Gamman
G J Herrera
D J Slattery (appointed 15 October 2018)

Future developments

The Directors remain confident that the company will continue to expand its customer base and turnover through:

- Continued client adoption of its FAM product line.
- Commercialisation of its FIS 15k asset and service offering.
- Continued success with F-Decom, whilst developing new opportunities for application on alternative structure types.
- Focused development of the North Sea, West Africa & Gulf of Mexico regions as well as other international opportunities

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

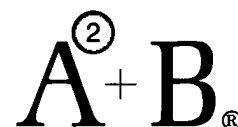
- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Post balance sheet events

There have been no significant events affecting the Company since the year end.

ENPRO SUBSEA LIMITED

DIRECTORS' REPORT (CONTINUED)
FOR THE 9 MONTHS ENDED 31 DECEMBER 2018



Auditors

The auditors, Anderson Anderson & Brown Audit LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

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

A handwritten signature in black ink, appearing to read 'I. Donald', is written over a horizontal dotted line.

I Donald
Director

Date: 26th Sept 2019

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE 9 MONTHS ENDED 31 DECEMBER 2018**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 for the Company's financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Opinion

We have audited the financial statements of Enpro Subsea Limited (the 'Company') for the 9 months ended 31 December 2018, which comprise the Statement of comprehensive income, the Balance sheet, the Statement of cash flows, the Statement of changes in equity and the related notes, 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 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 31 December 2018 and of its profit for the 9 months 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 Auditors' 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 United Kingdom, including the Financial Reporting Council'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.

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
ENPRO SUBSEA LIMITED (CONTINUED)**



Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditors' report thereon. 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.

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 9 months 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.

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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
ENPRO SUBSEA LIMITED (CONTINUED)

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.

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.

Anderson Anderson & Brown Audit LLP

Christopher Masson (Senior statutory auditor)

for and on behalf of

Anderson Anderson & Brown Audit LLP

Kingshill View
Prime Four Business Park
Kingwells
Aberdeen
AB15 8PU

Date: 26/9/19

ENPRO SUBSEA LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE 9 MONTHS ENDED 31 DECEMBER 2018



| | | 9 months ended 31 December 2018 £ | As restated 31 March 2018 £ |
|--|------|--|--------------------------------------|
| | Note | | |
| Turnover | 4 | 9,843,362 | 12,954,169 |
| Cost of sales | | (6,220,930) | (9,075,028) |
| Gross profit | | 3,622,432 | 3,879,141 |
| Administrative expenses | | (2,124,142) | (2,781,261) |
| Exceptional administrative expenses | 12 | - | (246,771) |
| Operating profit | 5 | 1,498,290 | 851,109 |
| Interest receivable and similar income | 9 | 26,052 | 1,335 |
| Interest payable and expenses | 10 | (216,032) | (68,615) |
| Profit before tax | | 1,308,310 | 783,829 |
| Tax on profit | 11 | (122,046) | 238,067 |
| Profit for the period | | 1,186,264 | 1,021,896 |

There was no other comprehensive income for 2018 (2018:£NIL).

The notes on pages 13 to 29 form part of these financial statements.

BALANCE SHEET
AS AT 31 DECEMBER 2018



| | Note | 31 December 2018 £ | As restated 31 March 2018 £ |
|---|------|-----------------------------|--------------------------------------|
| Fixed assets | | | |
| Intangible assets | 13 | 728,935 | 487,500 |
| Tangible assets | 14 | 2,183,540 | 387,982 |
| | | <u>2,912,475</u> | <u>875,482</u> |
| Current assets | | | |
| Stocks | 15 | 85,213 | - |
| Debtors: amounts falling due within one year | 16 | 7,315,589 | 7,258,933 |
| Cash at bank and in hand | 17 | 2,955,159 | 4,253,991 |
| | | <u>10,355,961</u> | <u>11,512,924</u> |
| Creditors: amounts falling due within one year | 18 | (4,303,050) | (4,683,697) |
| Net current assets | | <u>6,052,911</u> | <u>6,829,227</u> |
| Total assets less current liabilities | | <u>8,965,386</u> | <u>7,704,709</u> |
| Creditors: amounts falling due after more than one year | 19 | (3,600,000) | (3,600,000) |
| Provisions for liabilities | | | |
| Deferred tax | 21 | (74,413) | - |
| | | <u>(74,413)</u> | <u>-</u> |
| Net assets | | <u><u>5,290,973</u></u> | <u><u>4,104,709</u></u> |
| Capital and reserves | | | |
| Called up share capital | 22 | 118 | 118 |
| Share premium account | | 503,080 | 503,080 |
| Profit and loss account | | 4,787,775 | 3,601,511 |
| | | <u>5,290,973</u> | <u>4,104,709</u> |

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

26th Sept 2019

I Donald
Director

The notes on pages 13 to 29 form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
FOR THE 9 MONTHS ENDED 31 DECEMBER 2018**

| | Called up share capital | Share premium account | Profit and loss account | Total equity |
|--|----------------------------|-----------------------------|----------------------------|--------------|
| | £ | £ | £ | £ |
| At 1 April 2018 (as previously stated) | 118 | 503,080 | 3,851,461 | 4,354,659 |
| Prior year adjustment (note 23) | - | - | (249,950) | (249,950) |
| At 1 April 2018 (as restated) | 118 | 503,080 | 3,601,511 | 4,104,709 |
| Profit for the period | - | - | 1,186,264 | 1,186,264 |
| At 31 December 2018 | 118 | 503,080 | 4,787,775 | 5,290,973 |

The notes on pages 13 to 29 form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
FOR THE 9 MONTHS ENDED 31 MARCH 2018**

| | Called up share capital | Share premium account | As restated Profit and loss account | As restated Total equity |
|-------------------------------|----------------------------|-----------------------------|---|-----------------------------|
| | £ | £ | £ | £ |
| At 1 April 2017 | 101 | 166,998 | 2,579,615 | 2,746,714 |
| Profit for the year | - | - | 1,021,896 | 1,021,896 |
| Shares issued during the year | 17 | 336,082 | - | 336,099 |
| At 31 March 2018 | 118 | 503,080 | 3,601,511 | 4,104,709 |

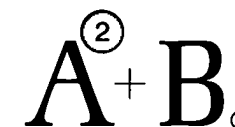
The notes on pages 13 to 29 form part of these financial statements.

**STATEMENT OF CASH FLOWS
FOR THE 9 MONTHS ENDED 31 DECEMBER 2018**

| | 31 December 2018 £ | As restated 31 March 2018 £ |
|---|-----------------------------|--------------------------------------|
| Cash flows from operating activities | | |
| Profit for the financial 9 months | 1,186,264 | 1,021,896 |
| Adjustments for: | | |
| Amortisation of intangible assets | 37,500 | 12,500 |
| Depreciation of tangible assets | 137,487 | 14,728 |
| Interest paid | 216,032 | 68,615 |
| Interest received | (26,052) | (1,335) |
| Taxation charge | 122,046 | (238,067) |
| (Increase)/decrease in stocks | (85,213) | 215,948 |
| (Increase) in debtors | (133,393) | (3,727,691) |
| (Decrease)/increase in creditors | (380,647) | 3,226,903 |
| Corporation tax received | 29,104 | - |
| Net cash generated from operating activities | 1,103,128 | 593,497 |
| Cash flows from investing activities | | |
| Purchase of intangible fixed assets | (278,935) | (500,000) |
| Purchase of tangible fixed assets | (1,933,045) | (384,445) |
| Interest received | 26,052 | 1,335 |
| Net cash from investing activities | (2,185,928) | (883,110) |
| Cash flows from financing activities | | |
| Issue of ordinary shares | - | 336,099 |
| Shares treated as debt - issued | - | 3,600,000 |
| Interest paid | (216,032) | (68,615) |
| Net cash used in financing activities | (216,032) | 3,867,484 |
| Net (decrease)/increase in cash and cash equivalents | (1,298,832) | 3,577,871 |
| Cash and cash equivalents at beginning of the period | 4,253,991 | 676,120 |
| Cash and cash equivalents at the end of the period | 2,955,159 | 4,253,991 |
| Cash and cash equivalents at the end of the period comprise: | | |
| Cash at bank and in hand | 2,955,159 | 4,253,991 |
| | 2,955,159 | 4,253,991 |

The notes on pages 13 to 29 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE 9 MONTHS ENDED 31 DECEMBER 2018**



1. General information

Enpro Subsea Limited is a private limited company incorporated in the United Kingdom. The registered office is 28 Albyn Place, Aberdeen, AB10 1YL. The principal activity of the company is the provision of engineering and product support services specific to field development and flow intervention services, within the oil and gas industry.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Going concern

The directors, having made due and careful enquiry and preparing forecasts, are of the opinion that the company has adequate working capital to execute its operations over the next 12 months. The directors, therefore, have made an informed judgement, at the time of approving the financial statements, that there is a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. As a result, the directors have continued to adopt the going concern basis of accounting in preparing the annual financial statements.

2.3 Revenue

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

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured

2. Accounting policies (continued)**2.3 Revenue (continued)**

reliably; and

- the costs incurred and the costs to complete the contract can be measured reliably.

Long term construction contracts

Profit and revenue recognition on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of total contract value which has been completed to date based on conclusion of contract milestones and taking account of costs incurred to date. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer or there is a reasonable degree of certainty that they will be accepted. Full provision is made for losses on all contracts in the year in which they are first foreseen.

Revenue recognised but not invoiced is included in prepayments and accrued income within debtors.

2.4 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to the Statement of comprehensive income on a straight line basis over the lease term.

2.5 Pensions**Defined contribution pension plan**

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

2.6 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

2.7 Interest income

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

2. Accounting policies (continued)**2.8 Finance costs**

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

2.9 Pensions**Defined contribution pension plan**

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

2.10 Share based payments

The Company has applied the requirements of FRS102 "Share based payments". The Company issues equity settled share based payments to certain employees. Equity settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity settled share based payment, where material, is expensed on a straight line basis over the vesting period, based on the Company's estimate of share expected to eventually vest.

2.11 Current and deferred taxation

The tax expense for the 9 months comprises current and deferred tax. Tax is recognised in the Statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE 9 MONTHS ENDED 31 DECEMBER 2018**

2. Accounting policies (continued)

2.12 Exceptional items

Exceptional items are transactions that fall within the ordinary activities of the Company but are presented separately due to their size or incidence.

2.13 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten to twenty years.

The estimated useful lives range as follows:

| | | |
|-------------------------|---|---------------|
| Patents | - | 10 - 20 years |
| Development expenditure | - | 10 - 20 years |
| Trademarks | - | 10 - 20 years |

2.14 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

| | | |
|---------------------|---|-----|
| Freehold property | - | 17% |
| Plant and equipment | - | 20% |
| Office equipment | - | 25% |

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of comprehensive income.

2.15 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2. Accounting policies (continued)**2.16 Debtors**

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

2.17 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Statement of cash flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

2.18 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.19 Provisions for liabilities

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

Provisions are charged as an expense to the Statement of comprehensive income in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance sheet.

2.20 Financial instruments

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in the case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of comprehensive income.

2. Accounting policies (continued)**2.20 Financial instruments (continued)**

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the Balance sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.21 Corresponding amounts

The directors considered it appropriate to reclassify certain items within the Balance sheet to better reflect the Company's asset classes in the prior year. The reclassification has had no impact on the net asset position.

2.22 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting. Dividends on shares recognised as liabilities are recognised as expenses and classified within interest payable.

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the Statement of Comprehensive Income date and the amounts reported during the year for revenue and costs. However, the nature of estimation means that actual outcomes could differ from those estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances.

The following judgements and estimates have had the most significant impact on amounts recognised in the financial statements;

Long term contracts

Profit on long term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for the contract. Revenues derived from variations on contracts are recognised only when they are first foreseen.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE 9 MONTHS ENDED 31 DECEMBER 2018**



4. Turnover

The whole of the turnover is attributable to the provision of services.

Analysis of turnover by geographical destination:

| | 9 months ended 31 December 2018 £ | 31 March 2018 £ |
|----------------|--|-----------------------|
| United Kingdom | 3,083,118 | 4,567,311 |
| Europe | 215,179 | 4,515 |
| America | 4,671,960 | 6,291,194 |
| Africa | 1,873,105 | 2,091,149 |
| | <u>9,843,362</u> | <u>12,954,169</u> |

5. Operating profit

The operating profit is stated after charging:

| | 9 months ended 31 December 2018 £ | 31 March 2018 £ |
|---|--|-----------------------|
| Research & development charged as an expense | 1,239,129 | 1,585,857 |
| Depreciation of tangible fixed assets | 137,487 | 14,728 |
| Amortisation of intangible assets, including goodwill | 37,500 | 12,500 |
| Defined contribution pension cost | 14,007 | 8,468 |
| | <u>1,428,123</u> | <u>1,621,553</u> |

6. Auditors' remuneration

Fees payable to the Company's auditor and its associates in respect of:

| | | |
|---|---------------|---------------|
| Fees payable to the Company's auditor for the audit of the Company's annual | 12,750 | 16,425 |
| | <u>12,750</u> | <u>16,425</u> |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE 9 MONTHS ENDED 31 DECEMBER 2018**

**7. Employees**

| | 9 months ended 31 December 2018 £ | 31 March 2018 £ |
|-------------------------------------|--|-----------------------|
| Wages and salaries | 208,558 | 210,319 |
| Social security costs | 19,724 | 17,090 |
| Cost of defined contribution scheme | 14,007 | 8,468 |
| | <u>242,289</u> | <u>235,877</u> |

The average monthly number of employees, including the directors, during the 9 months was as follows:

| | 9 months ended 31 December 2018 No. | 31 March 2018 No. |
|-----------|--|----------------------------|
| Directors | 6 | 5 |
| Other | 10 | 3 |
| | <u>16</u> | <u>8</u> |

8. Directors' remuneration

| | 9 months ended 31 December 2018 £ | 31 March 2018 £ |
|---|--|-----------------------|
| Directors' emoluments | 99,917 | 100,000 |
| Company contributions to defined contribution pension schemes | 14,007 | 8,468 |
| | <u>113,924</u> | <u>108,468</u> |

NOTES TO THE FINANCIAL STATEMENTS
FOR THE 9 MONTHS ENDED 31 DECEMBER 2018



9. Interest receivable

| | 9 months ended 31 December 2018 £ | 31 March 2018 £ |
|---------------------------|--|-----------------------|
| Other interest receivable | 26,052 | 1,335 |
| | <u>26,052</u> | <u>1,335</u> |

10. Interest payable and similar expenses

| | 9 months ended 31 December 2018 £ | 31 March 2018 £ |
|----------------------------|--|-----------------------|
| Bank interest payable | 32 | 3,914 |
| Preference share dividends | 216,000 | 64,701 |
| | <u>216,032</u> | <u>68,615</u> |

NOTES TO THE FINANCIAL STATEMENTS
FOR THE 9 MONTHS ENDED 31 DECEMBER 2018



11. Taxation

| | 9 months ended 31 December 2018 £ | 31 March 2018 £ |
|---|--|-----------------------|
| Corporation tax | | |
| Current tax on profits for the year | - | (42,701) |
| Adjustments in respect of previous periods | (119,052) | (28,681) |
| | <u>(119,052)</u> | <u>(71,382)</u> |
| Total current tax | <u>(119,052)</u> | <u>(71,382)</u> |
| Deferred tax | | |
| Origination and reversal of timing differences | 90,410 | (166,685) |
| Adjustments in respect of prior periods | 150,688 | - |
| Total deferred tax | <u>241,098</u> | <u>(166,685)</u> |
| Taxation on profit/(loss) on ordinary activities | <u>122,046</u> | <u>(238,067)</u> |

11. Taxation (continued)**Factors affecting tax charge for the 9 months/year**

The tax assessed for the 9 months/year is lower than (2018 - lower than) the standard rate of corporation tax in the UK of 19% (2018 - 19%). The differences are explained below:

| | 9 months ended 31 December 2018 £ | 31 March 2018 £ |
|--|--|-----------------------|
| Profit on ordinary activities before tax | 1,308,310 | 783,829 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%) | 248,579 | 148,928 |
| Effects of: | | |
| Fixed asset differences | 452 | - |
| Expenses not deductible for tax purposes | 70,954 | 27,216 |
| Additional reduction for R&D expenditure | (218,939) | (250,655) |
| Surrender of tax losses for R&D tax credit refund | - | 13,252 |
| Adjustments to tax charge in respect of prior periods | (119,052) | (28,681) |
| Adjustments to tax charge in respect of prior periods - deferred tax | 150,688 | - |
| Adjust closing deferred tax to average rate of 19.00% | (8,754) | 13,587 |
| Adjust opening deferred tax to average rate of 19.00% | (1,882) | (17,656) |
| Deferred tax not recognised | - | (150,080) |
| Other differences leading to an increase in the tax charge | - | 6,022 |
| Total tax charge for the 9 months/year | 122,046 | (238,067) |

Factors that may affect future tax charges

The UK corporation tax rate will reduce to 17% from 1 April 2020. The reduction to 17% was announced in the March 2016 Budget and was substantively enacted on 6 September 2016 and this is the rate at which deferred tax would be provided.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE 9 MONTHS ENDED 31 DECEMBER 2018



12. Exceptional items

| | 9 months ended 31 December 2018 £ | 31 March 2018 £ |
|----------------------------------|--|-----------------------|
| Fair value uplift on share award | - | 246,771 |
| | <u>-</u> | <u>246,771</u> |

During the year to 31 March 2018, 372 ordinary B shares and 480 ordinary D shares were issued as an employee share award. The value paid on shares was below that of the unrestricted market value of the shares and therefore an uplift in the share value to its fair value was required, resulting in a one-off expense to the profit and loss account.

13. Intangible assets

| | Patents £ | Development £ | Total £ |
|-----------------------|----------------|------------------|----------------|
| Cost | | | |
| At 1 April 2018 | 500,000 | - | 500,000 |
| Additions | - | 278,935 | 278,935 |
| At 31 December 2018 | <u>500,000</u> | <u>278,935</u> | <u>778,935</u> |
| Amortisation | | | |
| At 1 April 2018 | 12,500 | - | 12,500 |
| Charge for the year | 37,500 | - | 37,500 |
| At 31 December 2018 | <u>50,000</u> | <u>-</u> | <u>50,000</u> |
| Net book value | | | |
| At 31 December 2018 | <u>450,000</u> | <u>278,935</u> | <u>728,935</u> |
| At 31 March 2018 | <u>487,500</u> | <u>-</u> | <u>487,500</u> |

14. Tangible fixed assets

| | Fixtures & fittings £ | Plant and equipment £ | Office equipment £ | Total £ |
|--------------------------|-----------------------------|-----------------------------|--------------------------|------------|
| Cost or valuation | | | | |
| At 1 April 2018 | - | 364,312 | 71,420 | 435,732 |
| Additions | 36,671 | 1,873,269 | 23,105 | 1,933,045 |
| At 31 December 2018 | 36,671 | 2,237,581 | 94,525 | 2,368,777 |
| Depreciation | | | | |
| At 1 April 2018 | - | - | 47,750 | 47,750 |
| Charge for the year | 3,389 | 124,002 | 10,096 | 137,487 |
| At 31 December 2018 | 3,389 | 124,002 | 57,846 | 185,237 |
| Net book value | | | | |
| At 31 December 2018 | 33,282 | 2,113,579 | 36,679 | 2,183,540 |
| At 31 March 2018 | - | 364,312 | 23,670 | 387,982 |

15. Stocks

| | 31 December 2018 £ | As restated 31 March 2018 £ |
|----------------|-----------------------------|--------------------------------------|
| Finished goods | 85,213 | - |
| | 85,213 | - |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE 9 MONTHS ENDED 31 DECEMBER 2018**

**16. Debtors**

| | 31 December 2018 £ | As restated 31 March 2018 £ |
|--------------------------------|-----------------------------|--------------------------------------|
| Trade debtors | 3,129,556 | 4,084,454 |
| Other debtors | 283,078 | 266,170 |
| Prepayments and accrued income | 3,741,625 | 2,670,242 |
| Tax recoverable | 161,330 | 71,382 |
| Deferred taxation | - | 166,685 |
| | <u>7,315,589</u> | <u>7,258,933</u> |

17. Cash and cash equivalents

| | 31 December 2018 £ | 31 March 2018 £ |
|--------------------------|-----------------------------|-----------------------|
| Cash at bank and in hand | 2,955,159 | 4,253,991 |
| | <u>2,955,159</u> | <u>4,253,991</u> |

18. Creditors: Amounts falling due within one year

| | 31 December 2018 £ | 31 March 2018 £ |
|------------------------------------|-----------------------------|-----------------------|
| Trade creditors | 1,716,321 | 1,399,525 |
| Other taxation and social security | 13,077 | - |
| Other creditors | 293,978 | 285,912 |
| Accruals and deferred income | 2,279,674 | 2,998,260 |
| | <u>4,303,050</u> | <u>4,683,697</u> |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE 9 MONTHS ENDED 31 DECEMBER 2018**



19. Creditors: Amounts falling due after more than one year

| | 31 December 2018 £ | 31 March 2018 £ |
|-------------------------------|-----------------------------|-----------------------|
| Share capital treated as debt | 26 | 26 |
| Share premium treated as debt | 3,599,974 | 3,599,974 |
| | <u>3,600,000</u> | <u>3,600,000</u> |

20. Financial instruments

| | 31 December 2018 £ | 31 March 2018 £ |
|---|-----------------------------|-----------------------|
| Financial assets | | |
| Financial assets measured at fair value through profit or loss | 2,955,159 | 4,253,991 |
| Financial assets that are debt instruments measured at amortised cost | 3,412,634 | 4,350,624 |
| | <u>6,367,793</u> | <u>8,604,615</u> |

Financial liabilities

| | | |
|--|--------------------|--------------------|
| Financial liabilities measured at amortised cost | <u>(3,995,995)</u> | <u>(4,397,785)</u> |
|--|--------------------|--------------------|

Financial assets measured at fair value through profit or loss comprise cash at bank and in hand.

Financial assets that are debt instruments measured at amortised cost comprise trade debtors and other debtors.

Financial liabilities measured at amortised cost comprise trade creditors and accruals.

21. Deferred taxation

| | 2018 £ |
|---------------------------|-----------------|
| At beginning of year | 166,685 |
| Charged to profit or loss | (241,098) |
| At end of year | <u>(74,413)</u> |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE 9 MONTHS ENDED 31 DECEMBER 2018**



21. Deferred taxation (continued)

The deferred taxation balance is made up as follows:

| | 31 December 2018 £ | 31 March 2018 £ |
|--------------------------------|-----------------------------|-----------------------|
| Accelerated capital allowances | (113,311) | (38,519) |
| Short term timing differences | 3,402 | 3,322 |
| Tax losses carried forward | 35,496 | 201,882 |
| | <u>(74,413)</u> | <u>166,685</u> |

22. Share capital

| | 31 December 2018 £ | 31 March 2018 £ |
|---|-----------------------------|-----------------------|
| Shares classified as equity | | |
| Allotted, called up and fully paid | | |
| 3,361 Ordinary A shares of £0.01 each | 34 | 34 |
| 7,882 Ordinary B shares of £0.01 each | 79 | 79 |
| 480 Ordinary D shares of £0.01 each | 5 | 5 |
| | <u>118</u> | <u>118</u> |

| | 31 December 2018 £ | 31 March 2018 £ |
|---|-----------------------------|-----------------------|
| Shares classified as debt | | |
| Allotted, called up and fully paid | | |
| 2,630 Preference A shares of £0.01 each | <u>26</u> | <u>26</u> |

All classes of share have an equal voting right. The preference shares have priority over other share classes in respect of dividends receivable and on a return on capital up to a set hurdle of net proceeds. All other shares rank equally in respect of dividends and return on capital.

23. Prior year adjustment

A prior period adjustment has been made to reflect a correction to the opening stock valuation as at 31 March 2018, with a reduction of £301,144, together with a related adjustment to the tax charge of £43,666. The overall effect is to reduce the opening reserves and net assets by £257,478.

24. Pension commitments

The company contributes to a defined contribution pension plan. The pension cost charge represents contributions payable by the company in the 9 month period which amounted to £14,007 (2018 - £8,468). There are no amounts payable at the year end.

25. Commitments under operating leases

At 31 December 2018 the Company had future minimum lease payments under non-cancellable operating leases as follows:

| | 31 December 2018 £ | 31 March 2018 £ |
|--|-----------------------------|-----------------------|
| Not later than 1 year | 76,364 | 14,807 |
| Later than 1 year and not later than 5 years | 126,668 | 1,134 |
| | <u>203,032</u> | <u>15,941</u> |

26. Related party transactions

The Company have borrowed under fixed rate unsecured loan notes from the a selection of directors and shareholders. These loans are subject to interest at 1% above LIBOR and are repayable in full on the tenth anniversary of the loan notes being enacted, which will be 4 April 2024. The total value outstanding at the year end was £302,870 (2018 - £298,605).