

Tekmar Energy Limited

Annual report and financial statements

Registered number 06294325

30 September 2022



Tekmar Energy Limited
Annual report and financial statements
30 September 2022

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Strategic report

The directors present their Strategic Report and financial statements for the year ended 30 September 2022. The comparative period is the 18-months ended 30 September 2021. The directors have changed the company's year end to better align with sales cycle of the group.

Principal activity

Tekmar Energy (Company), is a global market leader in protection systems for subsea cable, umbilical and flexible pipe. Tekmar Energy has been trusted to protect billions of Euros worth of assets in the offshore wind, oil & gas, wave, tidal and interconnector markets since 1985.

Market review

The global market for offshore wind, the Group's core market, continues to strengthen as energy markets are aligned to the commitment of the United Nation's global coalition for net-zero emissions by 2050. Most notably:

- Global capacity is forecast to reach over 268GW (installed or underway) by 2030, from a commissioned capacity of 55.4GW today, with current visibility of over 300 projects in development.^{(1), (2)}
- Considering growing energy security concerns triggered by Russia's invasion of Ukraine, the market's mid-term outlook could be revised upwards again.
- Over 45% of projects entering construction by 2032 will be in the UK, US and China, markets where Tekmar is already active and well-positioned to benefit from future growth.⁽¹⁾
- The global operation and maintenance (O&M) market continues to scale up and is now valued at £11.8bn per year by 2030, offering significant growth potential for the Group.⁽¹⁾
- In the last six months, the emerging floating wind market outlook has grown to 14.1GW, installed or underway by 2030, and 63GW by 2035, motivated by a requirement to cut carbon emissions and reduce dependency on Russian energy.⁽¹⁾

Adjacent offshore energy markets are strengthening, reflecting a stronger oil price. Most notably:

- Brent spot price has reached a ten year high of \$127 per barrel⁽³⁾.
- Upturn expected in UK North Sea activity due to short-term anxiety of supply. UK regulators are looking to hold oil and gas licencing rounds for new fields, and the UK government looking to fast track investment.

Operational review

In our interim results of Tekmar Group plc announced in June 2022, we highlighted that we see 2022 and 2023 as transition years for Tekmar as we stabilise the business to navigate short term industry and economic headwinds ahead of benefiting from the attractive mid to long term structural growth drivers offered across our core offshore wind and broader energy markets.

The results for the year to 30 September 2022 should be seen in the context of this business transition. The results show an improved financial performance in the second half, with increased revenue and margin percentage supporting a positive position at the Adjusted EBITDA level. This highlights the operating leverage we have in our business and that our business improvement initiatives are impacting key metrics. We recognise there is continued work ahead on the path to securing a sustained level of profitability and related cash generation for the business. We are confident the business will deliver on this objective, and that the industry outlook supports this. The level of our enquiry book is a positive indicator of supportive market trends but it is taking time to see these enquiries convert to contract awards and contract starts.

As we manage the business through this transition period, we continue to focus on managing cashflows and improving profitability through our business improvement programs and securing and delivering high quality contracts with commercial discipline.

We are developing a more integrated, engineering-led offering to meet the maturing requirements of the offshore wind industry

The strategy we are executing is anchored on the group maintaining and strengthening our market leadership position, particularly in the offshore wind industry – an industry which needs to grow from the current 55.4GW of global offshore wind capacity to 268GW by 2030.

We are developing our customer value proposition in line with evolving market requirements as the industry matures, with these requirements including more complex installations and an emerging and growing opex requirement. We are doing this by offering differentiated and integrated engineering-led solutions that add value to our customers. The success of this approach is highlighted by a number of recently awarded significant contract wins. These contract awards highlight Tekmar's continued position as a trusted partner alongside strengthening the business through diversification and regional expansion.

Recent contract awards of particular note include:

- the extension of our partnership with DEME Offshore, announced in December 2022, to design, manufacture and supply CPS for the Dogger Bank C offshore wind farm in the UK, which is set to become the world's largest offshore wind farm by capacity. This builds on the initial contract award to provide CPS for the Dogger Bank A and B projects announced in December 2021;
- the award of a design and build launch and recovery (LAR) system, further extending our capabilities as a leader within this niche market (announced in January 2023)

These recent contract wins are important indicators of an improving market outlook for new projects, as the industry emerges from the lag in offshore wind capacity investment we have highlighted with previous results announcements. Industry analysts highlight visibility on over 300 projects for construction by 2030 as the industry invests US\$520bn to build over 200GW of new offshore wind capacity by 2030. Additionally, the offshore wind market is a maturing industry with installations and ongoing maintenance becoming more technically complex and challenging. This is positive for Tekmar as we are using our expertise to provide the industry leading solutions in our field, complementing our wider group strategy and offering. It can, however, also lead to extended timelines for securing contracts as clients assess the impact of technology transition and the changing value proposition from a product-led approach to a more holistic integrated solutions and services led approach. This continues to be a feature of the current market environment, with extended contract negotiation timeframes remaining a feature of our commercial discussions.

We are currently 18 months into a programme of business wide improvement initiatives in areas such as engineering discipline, project risk management, contract negotiations and sales effectiveness, supply chain strategy and operational excellence. These initiatives are all in support of our defined wider group strategy including to strengthen our integrated, engineering-led offering and gross margin stabilisation and improvement. In support of the business improvement programme, Tekmar Group is one of a select group of offshore wind supply chain companies currently being supported by the Offshore Wind Growth Partnership (OWGP) via their Sharing in Growth (SiG) business transformation programme. The SiG programme is aimed at promoting growth and profitability within the UK Offshore Wind Supply Chain through business excellence across a range of disciplines.

We continue to work with industry partners to assess and address the industry wide issues relating to legacy cable installations installed at off-shore windfarms. As we have previously highlighted, the precise cause of the issues are not clear and could be as a result of a number of factors, such as the absence of a second layer of rock to stabilise the cables. Tekmar remains committed to working with relevant installers and operators, including directly with customers who have highlighted this issue, to investigate the root cause and assist with identifying potential remedial solutions. Whilst this consumes company resource and senior management attention, it is consistent with our responsible approach to supporting the industry to resolve these legacy issues. In addition, we are embedding the industry learnings to support our superior technical offering for new installations alongside using our expertise and capability to support clients across the wider lifecycle of offshore wind projects, supporting our aim to diversify into the opex market.

We continue to target a strategic partner to strengthen the balance sheet and provide additional headroom to accelerate organic growth and complementary M&A

As we manage the group through the transition period, a key priority for the Board remains balance sheet stability and cash. Tekmar Group plc completed the equity fundraise in March 2022 and, in addition, have implemented a number of internal steps to improve cash management. We updated shareholders in October 2022 on cash collection in the second half of FY22, with a net improvement in cash of over £2.0m since 31 March 2022. Post the period-end, the Group extended the maturity dates of its banking facilities, which includes a CBILs loan of £3.0m, currently available to 31 October 2023, and a trade loan facility of up to £4.0m that can be drawn against supplier payments. This facility is currently available to July 2023, aligning with the annual review date of the banking facilities.

Whilst the Group meets its day-to-day working capital requirements through the availability of these banking facilities, the Board continues to consider that the Group would benefit from investment to provide additional balance sheet strength and support its opportunities for growth. In line with previous announcements, the Board is continuing to explore exclusive discussions with a potential strategic partner. The proposal being considered represents a strategic investment from a global institutional investor in the energy sector, which would provide funding for the Company to follow an ambitious plan for growth, both organically and by acquisition.

Financial key performance indicators

Although in the period, compared to LTM to Sep21, revenue has fallen by 20%, gross margin has increased, and remained stable from the 18m to Sep21. Cost increases in the LTM to Sep21 were mainly as a result of Covid-19 and significant work has been carried out to improve margins and profitability within Tekmar Energy Limited. This has been reflected by an over decrease in loss before tax of 32%.

	(Audited)	(Unaudited)	(Audited)
	12m to	LTM to Sep	18m to
	Sep 22	21	Sep 21
Revenue	£12.3m	£15.6m	£23.8m
Gross profit	£1.1m	£0.3m	£2.5m
Gross margin	9%	2%	11%
Adjusted EBITDA	£(2.1)m	£(3.5)m	£(3.8)m
Adjusted EBITDA return	(17)%	(23)%	(16)%
(Loss) / Profit before tax	£(3.5)m	£(4.9)m	£(5.9)m

Adjusted EBITDA is calculated as Loss before tax (3.5m), adjusted for depreciation (£0.9m) and amortisation (£0.2m).

Section 172 Statement

The Directors consider that they have acted in good faith in the way they consider would be most likely to promote the success of the company for the benefit of its members as a whole, having regard to decisions taken during the year ended 30 September 2022, in particular the strategic growth plan which includes the continuing organic growth within Tekmar Energy accompanied by the accelerated growth from product development and expanding our regional reach

This strategy is designed to have a long-term beneficial impact on the Company for both its shareholders and employees. The detail supporting the Company's strategy is driven by the business plans within Tekmar Energy and its subsidiary companies.

Tekmar Energy's ultimate parent company is Tekmar Group plc which owns 100% of Tekmar Energy. Approximately 80% of the shares in Tekmar Group PLC are held by 15 institutional shareholders. To ensure the Board maintain a good understanding of their interests, and keep these shareholders informed regarding the strategy and objectives of the Group, the CEO and other directors communicate regularly and meet at least bi-annually. The Board recognises its responsibility to act fairly between all shareholders of the Company and ensures up-to-date information is available on the Group Investor website and has recently launched a new Group website (www.tekmargroup.com) which brings together the Group's portfolio of companies on to one site, promoting a greater understanding of the breadth of our product and service offering, which supports the global offshore wind, oil and gas, interconnectors, telecommunications, marine civils, and wave and tidal sectors.

Employees are fundamental to the delivery of the business plan. We regularly provide our people with information on matters of concern to them, consulting them regularly, so that their views can be factored in when making decisions that are likely to impact them. Employee involvement in the Company is encouraged, as achieving a shared awareness of the part that all employees play in the financial and economic factors affecting the Company plays a major role in its performance.

We have a Business Integrity Policy that communicates the expected business behaviours of all employees and this policy incorporates guidance on employee's responsibilities should they become aware of inappropriate business behaviours or any similar concern. The Company recognises its responsibility to employ disabled persons in suitable employment and gives full and fair consideration to such persons, including any current employee who becomes disabled, having regard to their aptitudes and abilities. Where practicable, disabled employees receive treatment equal to all other employees in respect of their eligibility for training, career development and promotion. As the Board of Directors, our intention is to behave responsibly and ensure that management operate the business in a responsible manner, operating within the high standards of business conduct and good governance and in doing so, will contribute to the delivery of the plan.

Strategic report (continued)**Principal risks and uncertainties**

Risk	Description	Impact	Mitigation
Macroeconomic environment	<p>General economic conditions: This risk relates to the group's exposure to short-term macroeconomic conditions in our sector such as inflation, cost increases and supply chain logistics. The factors driving the market changes can be outside of the Group's control and difficult to forecast.</p> <p>Covid-19: In FY22, the group continued to face economic and operational risks associated with the impact of Covid-19.</p>	<p>The group has experienced increased supply chain costs and general cost inflation driven by increased fuel costs related in part to the Russia-Ukraine conflict. These Macroeconomic changes have the potential to reduce the financial resources available to the Group.</p>	<p>The group cannot control the market conditions in which it operates. The group has implemented effective cost initiatives, enhanced controls surrounding pricing and gross margin management.</p> <p>The group continues to monitor any business disruption caused by Covid-19 and is prepared to implement mitigating actions inline with recommended business practices.</p> <p>Evaluation: The board continues to closely monitor the increased risks macroeconomic risks which are mitigated by enhanced controls.</p>
Systems and processes	<p>The board continues to closely monitor the increased risks macroeconomic risks which are mitigated by enhanced controls.</p>	<p>Systems failures could lead to an inability to meet customers' needs and lead to reputational damage. The loss of sensitive information could lead to significant damage with an associated risk of fines.</p>	<p>The Group predominantly outsources provision of IT services to a suitably qualified third-party, whose competence and service are regularly reviewed. This is supplemented by in-house resource to focus on effective and consistent IT systems and processes across the Group. Regular staff training is offered or mandated, depending upon the nature of the training, to ensure that all staff maintain awareness of their responsibilities with respects to IT security, with particular focus on cyber-security.</p> <p>Evaluation: no change</p>

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<p>Access to capital</p>	<p>Linked to Macroeconomic environment, access to capital is a significant factor in our plans to grow the business. There is uncertainty in relation to how, when and to what extent developments will impact on the markets we operate in, the wider economy, levels of investor activity and confidence and exchange rates.</p>	<p>Without access to sufficient finance the company may struggle to undertake all aspects of its growth plan, such as the acquisition strategy and accelerated growth.</p>	<p>The business has ongoing relationships with banks and other financial institutions that offer the required level of support. The Group has strengthened its cash position with the extension on banking facilities and the equity fundraise. Cash flow forecasts are updated and discussed regularly, with analysis prepared at both a subsidiary and Group level. As noted in the basis of preparation of the financial statements, there is a risk that bank facilities are not renewed. The business has a strong relationship with Barclays and as a result, management are confident that bank facilities will continue to be available to the group for the foreseeable future.</p> <p>Evaluation: no change</p>
<p>Project Timings and delay to contract awards</p>	<p>The project-based, contractual nature of the Group's business, coupled with its concentrated customer base, leads to a revenue profile that is inherently uneven over the year. Most contract awards and associated revenues are dependent on large capital projects within the energy sector, the timing of which is out of the business' control.</p>	<p>There is an associated risk that the fulfilment of any contract, together with its revenue, may fall outside the financial period that was originally forecast. This, in turn, may have a material adverse impact on the Group's reported financial performance for the specific period.</p>	<p>The business has produced a 5-year strategic plan that includes an assessment on project timing and the revenue streams macro climate. The wider Group portfolio offers a mix of project timings due to new markets and regions.</p> <p>Evaluation: no change</p>

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<p>Technology and competition</p>	<p>The risk of new competitors leading to a reduction in pricing. Design changes could lead to technology obsolescence and subsequently reduced volume of sales.</p>	<p>Reduced volume of sales. Increase in capital expenditure to develop new products. Resulting in a reduction in the Group's financial performance.</p>	<p>The business undergoes a detailed technology readiness level (TRL) programme when developing new products, which includes an assessment of competition and what our ultimate value proposition would be. Significant investment is made in the continuous development of existing products to ensure they keep pace with current market trends. Our more diversified product portfolio allows us to offer a unique proposition to customers.</p> <p>Evaluation: no change</p>
<p>Recruitment and Retention of Key People</p>	<p>The business may fail to attract, develop and retain key individuals with the skillsets required to maintain a successful business and culture, particularly within engineering and leadership.</p>	<p>A major impact on Tekmar Group's ability to fulfil its contractual obligations. Adverse impact on the future growth aspirations for the Group.</p>	<p>Key KPI's are reviewed monthly by the Executive and Board.</p> <p>In addition, the People Strategy has been developed to focus on the retention and development of talent.</p> <p>Annual appraisal assessments are undertaken and a skills matrix and succession plan developed from this, including risk mitigation plans.</p> <p>Annual review of remuneration and benefits to ensure we are consistent across the Group and are competitive in the relevant region. Executives and senior management incentive plan in place.</p> <p>Regular pulse surveys to invite feedback on a range of issues over the period.</p> <p>Evaluation: no change</p>

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<p>Risk of claims and failure to meet contractual obligations</p>	<p>The Group enters contracts that contain terms that, in some cases, contain wide reaching indemnities and warranties. These terms are commonplace in the subsea industry and do not unfairly prejudice the Group, nor do they put the Group in a materially worse position than its competitors. These warranties and indemnities lead to an inherent risk that the Group's liability for any breach could be extensive, especially if these are given on an uncapped basis.</p>	<p>A major impact on the business' ability to fulfil its contractual obligations. Adverse impact on the future growth strategy for the business.</p>	<p>Contracts are reviewed extensively prior to signing, and the likelihood of risks assessed by legal and technical teams. Uncapped liabilities are kept to a minimum and only agreed to for areas of the contract that Directors believe are very low risk. Where possible the Group insures against risks to minimise the potential financial impact. There is a strong focus across the Group on high quality project execution which is regularly reviewed under independent ISO certification where appropriate.</p> <p>Evaluation: no change</p>
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Financial Management risk	<p>Price Risk: The Group's key products are reliant on key components including Polyurethane (PU), Cast Iron and concrete. There is an inherent risk that price increases outside of Groups control can have an impact of the trading conditions and environment in which the Group operates.</p> <p>Interest Rate Risk: The current economic position within the UK has led the Bank of England to increase the base interest rate. Current economic outlook suggests that borrowing rates are likely to continue to increase in the short term. An increase in in interest rates will lead to higher annual borrowing costs for the Group.</p> <p>Exchange Rate Risk: The Group's continued expansion into international markets increases the Group's exposure to risks associated with changes in foreign currency exchange rates on sales and operations. The proportion of revenue denominated in currencies other than pound sterling is expected to increase. Exchange rate variations could have an impact on the Groups reported financial results.</p> <p>Credit Risk: The ability of the Group along with its key stakeholders, customers and suppliers to avoid default on credit is key to future growth strategy of the business.</p>	<p>Without access to sufficient finance the company may struggle to undertake all aspects of its growth plan, such as the acquisition strategy and accelerated growth.</p>	<p>The business has ongoing relationships with banks and other financial institutions that offer the required level of support. The Group has strengthened its cash position with the extension on banking facilities. Cash flow forecasts are updated and discussed regularly, with analysis prepared at both a subsidiary and Group level.</p> <p>Exchange Rate Risk: Where revenues are generated in international markets, with contracts denominated in non-sterling currencies, the Group aims to create a natural hedge by matching the currency of the supply chain to the currency of the revenue stream. Where natural hedges are not available or do not sufficiently cover the exposure, management will consider the use of forward currency contracts to mitigate exchange rate risks.</p> <p>Enhanced due diligence is undertaken at the contracting stage to understand the price impacts of a particular contract, detailed financial project reviews are undertaken with multiple key suppliers underpinning the core of the Group's supply chain.</p> <p>Evaluation: Increased risk due to economic environment, monitor.</p>
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By order of the board

Leanne Wilkinson
L Wilkinson

Director

29 September 2023

Directors' report

The directors present their Directors' report and financial statements for the year ended 30 September 2022.

Proposed dividend

The directors do not recommend the payment of a dividend (2021: £nil).

Directors

The directors who held office during the year and up to the date of approval of these accounts were as follows:

S Hurst	<i>(Resigned 30 November 2021)</i>
A Macdonald	
D Bulmer	<i>(Resigned 31 March 2023)</i>
R Edmondson	<i>(Resigned 29 October 2021)</i>
L Wilkinson	
A Bell	

Business review and future developments

A review of the performance of the Company during the year, including principal risks and uncertainties, key performance indicators and comments on future developments, is presented in the Strategic Report.

Political contributions

The Company made no political donations or incurred any political expenditure during the year.

Disclosure of information to auditor

The directors confirm that:

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

Research and development

The business continuously invests in research and development activity. The highlight during the financial year was the continued development of the 10th generation TekLink product.

Financial instruments

The directors have detailed the company's financial risk management objectives and policies in the strategic report (Page 5). The business holds foreign currency forward contracts to manage exposure to contracts denominated in foreign currencies. As at 30 September 2022 the business held contracts with a value of £160,000 Liability (2021: £37,000 Asset).

Going concern

Tekmar Energy Limited meets its day-to-day working capital requirements through its reliance on the group for funding and as such has confirmation of parental support from Tekmar Group PLC. The group has available banking facilities which includes a CBILs loan of £3.0m currently available to 31 October 2024 and a trade loan facility of up to £4.0m that can be drawn against supplier payments, currently available to 31 July 2024. The latter is provided

Directors' report (continued)

with support from UKEF due to the nature of the business activities both in renewable energies and in driving growth through export lead opportunities. The Group held £3.7m of cash at 31 March 2023 including full draw down of the £3.0m CBILS loan and a further £4.0m of the trade loan facility. There are no financial covenants that the Group must adhere to in either of the bank facilities.

The Directors have prepared cash flow forecasts to 30 September 2024. The base case forecasts include assumptions for annual revenue growth supported by current order book, known tender pipeline, and by publicly available market predictions for the sector. The forecasts also assume a retention of the costs base of the business with increases of 5% on salaries and a cautious recovery of gross margin on contracts. These forecasts show that the Group is expected to have a sufficient level of financial resources available to continue to operate on the assumption that the two facilities described are renewed. Within the base case model management have not modelled anything in relation to the matter set out in note 22 Contingent Liabilities, as management have assessed there to be no present obligation.

The Directors have sensitised their base case forecasts for a severe but plausible downside impact. This sensitivity includes reducing revenue by 15% for the period to 30 September 2024, including the loss or delay of a certain level of contracts in the pipeline that form the base case forecast, and a 10% increase in costs across the Group as a whole for the same period. The base case and sensitised forecast also includes discretionary spend on capital outlay. In addition, the Directors note there is further discretionary spend within their control which could be cut, if necessary, although this has not been modelled in the sensitised case given the headroom already available. These sensitivities have been modelled to give the Directors comfort in adopting the going concern basis of preparation for these financial statements. Further to this, a 'reverse stress test' was performed to determine at what point there would be a break in the model, the reverse stress test included reducing revenue by 20% and increasing overheads by 15% against the base case. The inputs applied to the reverse stress are not considered plausible.

Facilities – Within the base case scenario, the group would have sufficient cash to continue to operate if the facilities were repaid as they fall due. Within the severe but plausible case, management have assumed the renewal of both the CBILS loan and trade loan facility in October 2024 and July 2024 respectively. In the event of the Group achieving the severe but plausible scenario only, the Group would be unable to repay the facilities as they fall due and would therefore aim to take a number of co-ordinated actions designed to avoid the cash deficit that would arise.

Following the recent strategic investment into the parent company (Tekmar Group PLC) a further avenue of funding could be available to the group in the form of the Convertible Loan Notes (CLN) facility from the group's largest shareholder, which is in place. SCF has agreed that the Group may request to draw down against the CLN facility, subject to the relevant approvals required by the terms of the CLN (including investment committee approval), to support the working capital of the Group if the need arises, due to banking facilities not being renewed. The availability of this funding is contingent on the approval requirements of the CLN terms and is therefore not certain.

The Directors are confident, based upon the communications with the team at Barclays, the historical strong relationship and recent bank facility renewal in July 2023, that these facilities will be renewed and will be available for the foreseeable future. However, as the renewal of the two facilities in October 2024 and July 2024 are yet to be formally agreed and the Group's severe but plausible case forecasts rely on their renewal, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's and parent company's ability to continue as a going concern.

The Directors are satisfied that, taking account of reasonably foreseeable changes in trading performance and on the basis that the bank facilities are renewed, these forecasts and projections show that the Group is expected to have a sufficient level of financial resources available through current facilities to continue in operational existence and meet its liabilities as they fall due for at least the next 12 months from the date of approval of the financial statements and for this reason they continue to adopt the going concern basis in preparing the financial statements.

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on pages 1 to 9.

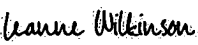
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Directors' report (continued)

Auditor

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

By order of the board

L Wilkinson
Director 
29 September 2023

Innovation House
Centurion Way
Darlington
DL3 0UP

Directors' responsibilities statement in respect of the annual report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, comprising FRS 101 'Reduced Disclosure Framework').

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financials 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 responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the Members of Tekmar Energy Limited

Opinion

We have audited the financial statements of Tekmar Energy Limited (the 'company') for the year ended 30 September 2022, which comprise Profit and Loss account and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity 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 Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2022 and of its loss for the 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.

Material uncertainty related to going concern

We draw attention to note 1.2 in the financial statements, which indicates at the reporting date, the company relies on the group for funding. The Group meets its day-to-day working capital requirements through use of its available banking facilities which includes a CBI's loan of £3.0m repayable on 31 October 2024 and a trade loan facility of up to £4.0m that can be drawn against supplier payments, currently available to 31 July 2024. In the event of the Group achieving the severe but plausible scenario only, the Group would be unable to repay the facilities as they fall due. As stated in note 1.2, these events or conditions, along with the other matters as set forth in note 1.2, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

Our responsibilities

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

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors' section of this report.

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Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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.

Matters on which we are required to report by exception

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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.

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Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (United Kingdom Generally Accepted Accounting Practice and the Companies Act 2006) and the relevant tax regulations.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
 - journal entries that increased revenues or that reclassified costs from the income statement to the balance sheet
 - potential management bias in determining accounting estimates
 - transactions with related parties.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team including consideration of the engagement team's:
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the industry in which the client operates
 - understanding of the legal and regulatory requirements specific to the entity including:
 - the provisions of the applicable legislation
 - guidance issued by relevant authorities that interprets those rules
 - the applicable statutory provisions.
- Team communications in respect of potential non-compliance with laws and regulations and fraud included the potential for fraud in revenue recognition through manipulation.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the entity's operations, including the nature of its revenue sources, products and services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement
 - the applicable statutory provisions
 - the entity's control environment, including the applicable policies and procedures.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulation is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The engagement partner's assessment of the appropriateness of the collective competence and capabilities of the engagement team including consideration of the engagement team's:
 - understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the industry in which the company operates; and
 - understanding of the legal and regulatory requirements specific to the company.
- We had team communications in respect of potential non-compliance with laws and regulations and fraud included the potential for fraud.

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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 auditor's report.

Use of our report

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

Grant Thornton UK LLP

Victoria McLoughlin BA FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Leeds
29 September 2023

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Profit and Loss Account and Other Comprehensive Income
for the year ending 30 September 2022

	Note	12 months ending 30 Sep 2022 £'000	18 months ending 30 Sep 2021 £'000
Turnover	2	12,333	23,781
Cost of sales		(11,189)	(21,275)
Gross profit		1,144	2,506
Administrative expenses	3	(4,354)	(8,149)
Other operating income		-	2
Operating (loss)		(3,210)	(5,641)
Interest receivable and similar income	6	-	5
Interest payable and similar expenses	7	(311)	(287)
(Loss) before taxation		(3,521)	(5,923)
Tax on (loss)	8	(28)	278
(Loss) for the financial year		(3,549)	(5,645)
Other comprehensive income		-	-
Total comprehensive income		(3,549)	(5,645)

All results derive from continuing operations.

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Balance Sheet
at 30 September 2022

	Note	30 Sep 2022		30 Sep 2021	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	9		913		921
Tangible assets	10		1,677		1,919
Investments	11		200		200
			2,790		3,040
Current assets					
Stocks	12	1,712		3,027	
Debtors	13	11,434		17,156	
Cash at bank and in hand		2,733		897	
			15,879		21,080
Creditors: amounts falling due within one year	14	(7,685)		(9,575)	
			8,194		11,505
Net current assets			10,984		14,545
Total assets less current liabilities			10,984		14,545
Creditors: amounts falling due after more than one year	15		-		-
			10,984		14,545
Net assets			10,984		14,545
Capital and reserves					
Called up share capital	18		-		-
Profit and loss account			10,984		14,545
			10,984		14,545
Shareholders' funds			10,984		14,545

These financial statements were approved by the Board of Directors on 29 September 2023 and were signed on its behalf by:

Lianne Wilkinson

L Wilkinson
Director

Company registered number: 06294325

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Statement of Changes in Equity

	Called up Share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2020	-	20,091	20,091
Loss for the period	-	(5,645)	(5,645)
Total comprehensive income for the year	-	(5,645)	(5,645)
Share based payment expense	-	99	99
Total transactions with owners, recognised directly in equity	-	99	99
Balance at 30 September 2021	-	14,545	14,545
Balance at 1 October 2021	-	14,545	14,545
Loss for the period	-	(3,549)	(3,549)
Total comprehensive income for the period	-	(3,549)	(3,549)
Share based payment expense	-	(12)	(12)
Total transactions with owners, recognised directly in equity	-	(12)	(12)
Balance at 30 September 2022	-	10,984	10,984

Notes

(forming part of the financial statements)

1 Accounting policies

Tekmar Energy Limited (the "Company") is a private company incorporated, domiciled and registered in England in the UK. The registered number is 06294325 and the registered address is Innovation House, Centurion Way, Darlington, DL3 0UP.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK adopted International Accounting Standards ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The financial statement present information about the company as an individual undertaking and not about its group. The company has not prepared group accounts as it is exempt from the requirement to do so by section 400 of the Companies Act 2006, as a subsidiary undertaking of Tekmar Group plc.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Certain disclosures regarding revenue;
- Comparative period reconciliations for share capital, tangible fixed assets, intangible assets and investment properties;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of Tekmar Group plc include equivalent disclosures the Company has taken the exemption under FRS101 available in respect of IFRS 2 – Share based payments, in respect of Group settled share based payments.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 21.

1.1 *Measurement convention*

The financial statements are prepared on the historical cost basis.

1.2 *Going concern*

Tekmar Energy Limited meets its day-to-day working capital requirements through its reliance on the group for funding and as such has confirmation of parental support from Tekmar Group PLC. The group has available banking facilities which includes a CBILs loan of £3.0m currently available to 31 October 2024 and a trade loan facility of up to £4.0m that can be drawn against supplier payments, currently available to 31 July 2024. The latter is provided with support from UKEF due to the nature of the business activities both in renewable energies and in driving growth through export lead opportunities. The Group held £3.7m of cash at 31 March 2023 including full draw down of the £3.0m CBILS loan and a further £4.0m of the trade loan facility. There are no financial covenants that the Group must adhere to in either of the bank facilities.

Notes (continued)

1 Accounting policies (continued)

The Directors have prepared cash flow forecasts to 30 September 2024. The base case forecasts include assumptions for annual revenue growth supported by current order book, known tender pipeline, and by publicly available market predictions for the sector. The forecasts also assume a retention of the costs base of the business with increases of 5% on salaries and a cautious recovery of gross margin on contracts. These forecasts show that the Group is expected to have a sufficient level of financial resources available to continue to operate on the assumption that the two facilities described are renewed. Within the base case model management have not modelled anything in relation to the matter set out in note 22 Contingent Liabilities, as management have assessed there to be no present obligation.

The Directors have sensitised their base case forecasts for a severe but plausible downside impact. This sensitivity includes reducing revenue by 15% for the period to 30 September 2024, including the loss or delay of a certain level of contracts in the pipeline that form the base case forecast, and a 10% increase in costs across the Group as a whole for the same period. The base case and sensitised forecast also includes discretionary spend on capital outlay. In addition, the Directors note there is further discretionary spend within their control which could be cut, if necessary, although this has not been modelled in the sensitised case given the headroom already available. These sensitivities have been modelled to give the Directors comfort in adopting the going concern basis of preparation for these financial statements. Further to this, a 'reverse stress test' was performed to determine at what point there would be a break in the model, the reverse stress test included reducing revenue by 20% and increasing overheads by 15% against the base case. The inputs applied to the reverse stress are not considered plausible.

Facilities – Within the base case scenario, the group would have sufficient cash to continue to operate if the facilities were repaid as they fall due. Within the severe but plausible case, management have assumed the renewal of both the CBILS loan and trade loan facility in October 2024 and July 2024 respectively. In the event of the Group achieving the severe but plausible scenario only, the Group would be unable to repay the facilities as they fall due and would therefore aim to take a number of co-ordinated actions designed to avoid the cash deficit that would arise.

Following the recent strategic investment into the parent company (Tekmar Group PLC) a further avenue of funding could be available to the group in the form of the Convertible Loan Notes (CLN) facility from the group's largest shareholder, which is in place. SCF has agreed that the Group may request to draw down against the CLN facility, subject to the relevant approvals required by the terms of the CLN (including investment committee approval), to support the working capital of the Group if the need arises, due to banking facilities not being renewed. The availability of this funding is contingent on the approval requirements of the CLN terms and is therefore not certain.

The Directors are confident, based upon the communications with the team at Barclays, the historical strong relationship and recent bank facility renewal in July 2023, that these facilities will be renewed and will be available for the foreseeable future. However, as the renewal of the two facilities in October 2024 and July 2024 are yet to be formally agreed and the Group's severe but plausible case forecasts rely on their renewal, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's and parent company's ability to continue as a going concern.

The Directors are satisfied that, taking account of reasonably foreseeable changes in trading performance and on the basis that the bank facilities are renewed, these forecasts and projections show that the Group is expected to have a sufficient level of financial resources available through current facilities to continue in operational existence and meet its liabilities as they fall due for at least the next 12 months from the date of approval of the financial statements and for this reason they continue to adopt the going concern basis in preparing the financial statements.

1.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Notes (continued)**1 Accounting policies (continued)****1.4 Financial instruments****(i) Recognition and initial measurement**

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement*Financial assets***(a) Classification**

On initial recognition, a financial asset is classified as measured at: amortised cost or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost are measured at FVTPL. This includes all derivative financial assets.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

(b) Subsequent measurement and gains and losses

Financial assets at FVTPL - these assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Notes (continued)**1 Accounting policies (continued)*****Financial liabilities and equity***

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments. To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Derivative financial instruments and hedging***Derivative financial instruments***

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(iv) Impairment

The company recognises loss allowances for expected credit losses (ECL) on financial assets measured at amortised cost, and contract assets (as defined in IFRS 15).

The company measures loss allowances at an amount equal to lifetime ECL, except for bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Notes *(continued)***1** **Accounting policies** *(continued)***1.5** **Tangible assets**

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

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

- Right of use assets life of lease – straight line
- Leasehold improvements life of lease – straight line
- Containers and racking 4 years – straight line
- Plant and machinery 6 years – reducing balance
- Production tooling 3 years – straight line
- Fixtures and Fittings 4 years – straight line
- Motor Vehicles 4 years – reducing balance
- Computer equipment 4 years – straight line

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

The company has applied IFRS 16 for this set of financial statements. At inception of a contract, the company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to restore the underlying asset, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liabilities. The lease liability is initially measured at the present value of lease payments that were not paid at the commencement date, discounted using the company's incremental borrowing rate. The lease liability is measured at amortised cost using the effective interest method. If there is a remeasurement of the lease liability, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded directly in profit or loss if the carrying amount of the right of use asset is zero. The company has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less or leases of low value assets. These lease payments are expensed on a straight-line basis over the lease term.

Notes (continued)**1 Accounting policies (continued)****1.6 Intangible assets***Research and development*

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

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials and direct labour. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Capitalised development costs 2-5 years
- Software 3 years

1.7 Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle.

1.8 Impairment of non-financial assets excluding stocks and deferred tax assets

The carrying amounts of the Company's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

1.9 Employee benefits*Defined contribution plans*

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

Notes *(continued)***1 Accounting policies** *(continued)***1.10 Turnover**

Revenue (in both the subsea and offshore wind markets) arises from the supply of subsea protection solutions and associated equipment, principally through fixed fee contracts. To determine whether to recognise revenue in line with IFRS 15, the company follows a 5-step process as follows:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when / as performance obligation(s) are satisfied

Revenue is measured at transaction price, stated net of VAT and other sales related taxes.

Revenue is recognised either at a point in time, or over time as the company satisfies performance obligations by transferring the promised services to its customers as described below.

i) Fixed-fee contracted supply of subsea protection systems

For the majority of revenue transactions, the company enters into individual contracts for the supply of subsea protection solutions, generally for a specific project in a particular geographic location. Each contract generally has one performance obligation, to supply subsea protection solutions. All contracts meet one or more of the criteria within step 5 for recognition over time, including the right to payment for the work completed, including profit, should the customer terminate. An assessment is made as to the most accurate method to estimate stage of completion which in the majority of performance obligations is on an inputs basis (costs incurred as a % of total forecast costs).

There are also contracts which include the manufacture of a number of separately identifiable products. In such circumstances, as the deliverables are distinct, each deliverable is deemed to meet the definition of a performance obligation in its own right and do not meet the definition under IFRS of a series of distinct goods or services given how substantially different each item is. Revenue for each item is stipulated in the contract and revenue is recognised over time as one or more of the criteria for over time recognition within IFRS 15 are met. Generally for these items, an input method of estimating stage of completion is used as this gives the most accurate estimate of stage of completion.

In all cases, any advance billings are deferred and recognised as the service is delivered.

ii) Manufacture and distribution of ancillary products and equipment

The company has a number of revenue transactions which are generally contracted with customers using purchase and sales orders. There is generally one performance obligation for each order and the transaction price is specified in the order. Revenue is recognised at a point in time as the customer gains control of the products, which tends to be on delivery. There is no variable consideration.

Accounting for revenue is considered to be a key accounting judgement which is further explained in note 21.

Notes (continued)**1 Accounting policies (continued)****1.11 Expenses****Interest receivable and interest payable**

Interest payable and similar expenses include interest payable and finance leases recognised in profit or loss using the effective interest method.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established.

1.12 Taxation

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.13 Provisions and contingent liabilities

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent liability is a disclosure in the notes to the financial statements only.

As part of our normal contractual terms, warranties are issued to customers. No provision is recognised in relation to this due to there being no history of claims in this area.

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Notes (continued)

2 Turnover from contracts with customers

Disaggregation of revenue

In the following tables, revenue is disaggregated by primary geographical market and by the timing of revenue recognition.

	12m ending 30 Sep 2022 £000	18m ending 30 Sep 2021 £000
Primary geographical markets		
United Kingdom	3,875	9,374
Germany	1,230	-
Turkey	499	-
Greece	409	-
Europe – Other	1,639	6,664
USA	582	-
China	2,500	3,832
Japan	561	-
Philippines	534	-
Middle East - Other	426	1,812
Rest of the world	78	2,099
Total	12,333	23,781
Timing of revenue recognition		
Revenue recognised over time	6,644	19,929
Revenue recognised at a point in time	5,689	3,852
Total	12,333	23,781

Notes (continued)

3 Expenses and auditor's remuneration

Included in profit/loss are the following:

	12m ending 30 Sep 2022 £000	18m ending 30 Sep 2021 £000
Depreciation of owned tangible fixed assets	861	1,493
Amortisation of owned intangible fixed assets	247	354
Impact of foreign exchange differences	(85)	(85)
	<u> </u>	<u> </u>

Auditor's remuneration:

	12m ending 30 Sep 2022 £000	18m ending 30 Sep 2021 £000
Audit of these financial statements	17	17

Amounts receivable by the Company's auditor and its associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's parent, Tekmar Group PLC.

4 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	12m ending 30 Sep 2022	18m ending 30 Sep 2021
Directors	4	5
Sales	6	6
Administration	14	10
Technical	13	23
Production	36	46
	<u> </u>	<u> </u>
	74	90
	<u> </u>	<u> </u>

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Notes (continued)

4 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	12m ending 30 Sep 2022 £000	18m ending 30 Sep 2021 £000
Wages and salaries	2,462	4,344
Social security costs	271	436
Contributions to defined contribution plans	119	206
Share based payments	(13)	122
	<u>2,839</u>	<u>5,108</u>

5 Directors' remuneration

	12m ending 30 Sep 2022 £000	18m ending 30 Sep 2021 £000
Directors' remuneration	140	497
Amounts receivable under long term incentive schemes	-	81
Company contributions to money purchase pension plans	7	19
	<u>147</u>	<u>597</u>

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director in the year was £129k (2021: £296k), and company pension contributions of 79k (2021:£9k) were made to a money purchase scheme on his behalf.

	Number of directors	
	12m ending 30 Sep 2022	18m ending 30 Sep 2021
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	1	3
	<u>1</u>	<u>3</u>

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Notes (continued)

6 Interest receivable and similar income

	12m ending 30 Sep 2022 £000	18m ending 30 Sep 2021 £000
Bank Interest	-	5
	<u>-</u>	<u>5</u>
	<u>-</u>	<u>5</u>

7 Interest payable and similar expense

	12m ending 30 Sep 2022 £000	18m ending 30 Sep 2021 £000
Bank Interest	106	175
Lease interest	8	8
Net loss on financial instruments measured at FVTPL	197	104
	<u>311</u>	<u>287</u>
	<u>311</u>	<u>287</u>

8 Taxation

Recognised in the profit and loss account

	12m ending 30 Sep 2022 £000	18m ending 30 Sep 2021 £000
<i>Current tax</i>		
Current tax on income for the period	(108)	(235)
Adjustments in respect of prior periods	(59)	3
	<u>(167)</u>	<u>(232)</u>
Total current tax	(167)	(232)
<i>Deferred tax</i>		
Origination and reversal of timing differences	204	(46)
Effect of changes in tax rate	(9)	-
	<u>195</u>	<u>(46)</u>
Total deferred tax	195	(46)
Tax on (Loss) / Profit	<u>28</u>	<u>(278)</u>

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Notes (continued)

8 Taxation (continued)

Taxation (continued)

Reconciliation of effective tax rate

	12m ending 30 Sep 2022 £000	18m ending 30 Sep 2021 £000
(Loss) for the year	(3,549)	(5,645)
Total tax (credit) / charge	28	(278)
	<hr/>	<hr/>
(Loss) excluding taxation	(3,521)	(5,923)
Tax using the UK corporation tax rate of 19% (2021: 19%)	(669)	(1,125)
Non-deductible expenses	(2)	(7)
Enhanced R&D expenditure credit	(212)	(212)
Effect of tax rate change	(8)	-
Fixed asset timing differences	14	-
Capitalised revenue expenditure	(45)	-
Deferred tax movements	204	-
Over provided in prior years	(59)	3
Impact of unrecognised deferred tax assets	805	-
Group relief surrendered	-	1,063
	<hr/>	<hr/>
Total tax charge / (credit)	28	(278)
	<hr/>	<hr/>

Notes (continued)

9 Intangible assets

	Product development £000	Computer Software £000	Total £000
Cost			
Balance at 1 October 2021	2,526	112	2,638
Additions	239	-	239
	<u> </u>	<u> </u>	<u> </u>
Balance at 30 September 2022	2,765	112	2,877
	<u> </u>	<u> </u>	<u> </u>
Amortisation and impairment			
Balance at 1 October 2021	1,623	94	1,717
Amortisation for the period	240	7	247
	<u> </u>	<u> </u>	<u> </u>
Balance at 30 September 2022	1,863	101	1,964
	<u> </u>	<u> </u>	<u> </u>
Net book value			
At 1 October 2021	903	18	921
	<u> </u>	<u> </u>	<u> </u>
At 30 September 2022	902	11	913
	<u> </u>	<u> </u>	<u> </u>

The amortisation charge is recognised in Administrative expenses in the profit and loss account.

The remaining amortisation periods for software and product development are 6 months to 55 months (2021: 6 months to 60 months).

Notes (continued)**10 Tangible assets**

	Leasehold improvements £000	Containers and racking £000	Plant and machinery £000	Production tooling £000	Motor vehicles £000	Fixtures and fittings £'000	Computer equipment £000	Right of use asset £000	Total £000
Cost									
Balance at 1 October 2021	903	1,192	2,584	2,706	11	23	395	722	8,536
Additions	3	3	175	88	-	4	14	332	619
Balance at 30 September 2022	906	1,195	2,759	2,794	11	27	409	1,054	9,155
Depreciation and impairment									
Balance at 1 October 2021	903	1,098	1,438	2,172	11	10	335	650	6,617
Depreciation charge for the period	1	44	160	310	-	6	34	306	861
Balance at 30 September 2022	904	1,142	1,598	2,482	11	16	369	956	7,478
Net book value									
At 1 October 2021	-	94	1,146	534	-	13	60	72	1,919
At 31 September 2022	2	53	1,161	312	-	11	40	98	1,677

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Notes (continued)

11 Investments

	30 Sep 2022 £000	30 Sep 2021 £000
Cost		
At start of period	200	200
At end of period	<u>200</u>	<u>200</u>

The company has the following investments in subsidiaries:

	Aggregate of capital and reserves £000	Profit or loss for the year £000	Country of incorporation	Class of shares held	Ownshi p 2021 %	Ownership 2020 %
Tekmar Marine Technology Company Limited	105	119	China	Ordinary shares	100	100
Tekmar Polyurethanes Limited	-	-	England and Wales	Ordinary shares	100	100

The registered office of Tekmar Polyurethanes Limited is Innovation House, Centurion Way, Darlington, DL3 0UP. The registered office of Tekmar Marine Technology Company Limited is Room 120, 4F, No. 1277 Beijing West Road, Jing'an District, Shanghai.

12 Stocks

	30 Sep 2022 £000	30 Sep 2021 £000
Raw materials	1,356	1,668
Work in progress	262	1,104
Finished goods	94	255
	<u>1,712</u>	<u>3,027</u>

During the year ended 30 September 2022 £11,357k of inventories were recognised in cost of sales (18M 2021: £19,332k).

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13 Debtors

	30 Sep 2022 £000	30 Sep 2021 £000
Trade debtors	1,907	3,209
Amounts recoverable on contracts	1,360	2,578
Amounts owed by group undertakings	7,832	10,710
Other debtors	111	415
Corporation tax asset	-	-
Deferred tax asset (see Note 16)	27	51
Derivative asset	-	37
Prepayments	197	156
	<u>11,434</u>	<u>17,156</u>

All amounts are due within one year.

14 Creditors: amounts falling due within one year

	30 Sep 2022 £000	30 Sep 2021 £000
Trade creditors	2,256	4,076
Amounts owed to group undertakings	3,403	4,028
Taxation and social security	83	87
Other creditors	30	22
Accruals and deferred income	1,540	1,301
IFRS 16 lease liability	18	37
Deferred tax liability (note 16)	195	24
Derivative liability	160	-
	<u>7,685</u>	<u>9,575</u>

During the period the company made total cash payments of £311,000 (2021: £587,000) in relation to lease liabilities. The IBR rate applied was 3.25%

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Notes *(continued)*

15 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

	30 Sep 2022 £000	30 Sep 2021 £000
Creditors falling due after more than one year		
IFRS 16 lease liability	-	-
	<u> </u>	<u> </u>
Creditors falling due within less than one year		
IFRS 16 lease liability	18	37
	<u> </u>	<u> </u>

Terms and debt repayment schedule

	Currency	Nominal interest rate	Carrying amount 2022 £000	Carrying amount 2021 £000
IFRS 16 lease liability	GBP	3.25%	18	37
			<u> </u>	<u> </u>

Payments relating to the leases which form the IFRS 16 liability will be made until July 2023.

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Notes (continued)

16 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	30 Sep	30 Sep	30 Sep	30 Sep	30 Sep	30 Sep
	2022	2021	2022	2021	2022	2021
	£000	£000	£000	£000	£000	£000
Accelerated capital allowances	-	-	(196)	(24)	(196)	(24)
Other	27	51	-	-	27	51
Tax liabilities	27	51	(196)	(24)	(169)	27

Movement in deferred tax during the year

	1 Oct	Recognised	Recognised	30 Sep
	2021	in income	in equity	2022
	£000	£000	£000	£000
Accelerated capital allowances	(24)	(172)	-	(196)
Other	51	(24)	-	27
	27	(196)	-	(169)

	1 April	Recognised	Recognised	30 Sep
	2020	in income	in equity	2021
	£000	£000	£000	£000
Accelerated capital allowances	(37)	13	-	(24)
Other	18	33	-	51
	(19)	46	-	27

Notes (continued)

17 Capital and reserves

Share capital

	2022	2021
	£	£
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	46	46
	46	46

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Dividends

No dividends were declared or paid during the period (2021: £nil).

Other comprehensive income

All other comprehensive income related to share based payment expenses and was reflected in the profit and loss account.

18 Employee Benefits

Share based payments

The share-based payment charges presented in the accounts of Tekmar Energy Limited relate to a recharge of the relevant charges from Tekmar Group PLC in respects of the equity settled share-based payment plans discussed below.

The Tekmar Group plc IPO Plan ("IPO Plan")

As part of the admission to trading on AIM in June 2018, the Group granted a total of 1,750,000 share options to key executives. 250,000 of the share options granted relate to employees who are employed by Tekmar Energy Limited. All of the options granted are subject to service conditions, being continued employment with the Group until the end of the vesting period. The options include certain performance conditions which must be met, based upon earnings per share and total shareholder return targets for the financial year ending March 2020. The awards became exercisable on 20 June 2021 to the extent that the performance conditions have been satisfied.

The options were granted with an exercise price equal to the nominal value of the share (£0.01).

The Tekmar Group Share Incentive Plan ("SIP")

The SIP is an all-employee ownership plan under which eligible employees may be awarded free and/or matching shares. The SIP operates through a UK-resident trust (the "SIP Trust"). On 13 September 2018 Tekmar Group PLC issued 42,691 shares of £0.01 each, 39,907 shares relate to employees who are employed by Tekmar Energy Limited. The shares will be held in trust for a minimum holding period of 3 years and there is a forfeiture period of 3 years during which employees who participated in the SIP will lose their Award if they resign or are dismissed from their employment.

The Tekmar Group plc Long Term Incentive Plan ("LTIP")

The LTIP is a discretionary executive share plan under which the Board may, within certain limits and subject to any applicable performance conditions, grant to eligible employees nil or nominal cost options, options with a market value exercise price, conditional or restricted awards. All employees are eligible for selection to participate in the plan. No awards have been granted under the LTIP.

The Tekmar Group plc Retention Plan ("Retention")

The retention is a discretionary executive share plan under which the Board may, within certain limits and subject to any applicable service conditions, grant to eligible employees nil or nominal cost options, options with a market value exercise price, conditional or restricted awards. All employees are eligible for selection to participate in the plan.

Notes (continued)

The Tekmar Group plc Save as you earn Plan ("SAYE")

The SAYE is an all-employee ownership plan under which eligible employees are invited to subscribe for options over the Company's shares which may be granted at a discount of up to 20%. On 31 March 2022 the Company launched a further SAYE plan (SAYE 2022) and options over 550,393 shares were granted to 21 staff. There is a

19 Employee Benefits (continued)

forfeiture period of 3 years during which employees who participated in the SAYE will lose their award if they resign or are dismissed from their employment.

Tekmar Energy Limited has recognised an expense of (£13k) in respect of equity settle share based payment transactions in the period ended 30 September 22 (2021: £122k), which has been included in staff costs. No options were exercised during the period.

19 Related parties*Identity of related parties with which the Company has transacted*

Tekmar Energy Limited rents a property from a business owned by Gary Ritchie-Bland, father of James Ritchie-Bland, a director of Tekmar Energy until 20 August 2020. Costs relating to this rental during the period were £nil (2021: £40,000). There was no balance outstanding at year end.

20 Ultimate parent company and parent company of larger group

The Company is a subsidiary undertaking of Tekmar Holdings Limited. Tekmar Group PLC is the ultimate parent company incorporated in England. The directors consider there to be no ultimate controlling party following admission to AIM of Tekmar Group PLC in June 2018.

The largest group in which the results of the Company are consolidated is that headed by Tekmar Group PLC, Innovation House, Centurion Way, Darlington, United Kingdom, DL3 0UP. The consolidated financial statements of these groups are available to the public and may be obtained from Tekmar Group PLC, Innovation House, Centurion Way, Darlington, DL3 0UP.

Notes (continued)**21 Accounting estimates and judgements**

The preparation of the financial statements under FRS101 requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. 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 the circumstances. Actual results may differ from these estimates.

The Directors consider that the following estimates and judgements are likely to have the most significant effect on the amounts recognised in the financial statements.

Recognition of Revenue

The recognition of revenue on contracts requires judgement and estimates on the overall contract margin. This judgement is based on contract value, historical experience and forecasts of future outcomes. Judgement is applied in determining the most appropriate method to apply in respect of recognising revenue over-time as the service is performed using either the input or output methods.

For the large, offshore wind projects in the Tekmar Energy business which were not complete at year end, and require the most judgment, if the percentage completion was 1% different to management's estimate the revenue impact would be £123,926. However, the likelihood of this is small, as the percentage completion is based upon items that are physically counted at year end.

Intangible Assets

The recognition of intangible assets requires judgements for the capitalisation of staff costs. In line with IAS 38 expenditure on research activities, is recognised in the profit and loss account as an expense as incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses. Senior management personnel with current industry knowledge apply judgement to ensure compliance with IAS38.

Notes *(continued)***22 Contingent Liabilities**

Contingent liabilities are disclosed in the financial statements when a possible obligation exists, the existence will be confirmed by uncertain future events that are not wholly within the control of the entity. Contingent liabilities also include obligations that are not recognised because their amount cannot be measured reliably or because settlement is not probable.

As noted by the Group in prior public announcements, there is an emerging industry-wide issue regarding abrasion of legacy cable protection systems installed at off-shore windfarms. The precise cause of the issues are not clear and could be as a result of a number of factors, such as the absence of a second layer of rock to stabilise the cables. The decision not to apply this second layer of rock, which was standard industry practice, was taken by the windfarm developers independently of Tekmar. Tekmar is committed to working with relevant installers and operators, including directly with customers who have highlighted this issue, to investigate further the root cause and assist with identifying potential remedial solutions. This is being done without prejudice and on the basis that Tekmar has consistently denied any responsibility for these issues. However, given these extensive uncertainties and level of variabilities at this early stage of investigations no conclusions can yet be made.

Tekmar have been presented with defect notifications for 9 legacy projects on which it has supplied cable protection systems("CPS"). These defect notifications have only been received on projects where there was an absence of the second layer of rock traditionally used to stabilise the cables.

At this stage management do not consider that there is a present obligation arising under IAS37 as insufficient evidence is available to identify the overall root cause of the damage to any of the CPS. Independent technical experts have been engaged to determine the root cause of the damage to the CPS, Tekmar have reviewed the assessments and concluded that a present obligation does not exist.

Management acknowledges that there are many complexities with regards to the alleged defects which could lead to a range of possible outcomes. Given the range of possible outcomes, management considers that a possible obligation exists which will only be confirmed by further technical investigation to identify the root cause of alleged CPS failures. As such management has disclosed a contingent liability in the financial statements.

Tekmar Group plc has taken exemption under IAS37, Paragraph 92 to not disclose information on the range of financial outcomes, uncertainties in relation to timing and any potential reimbursement as this could prejudice seriously the position of the entity in a dispute with other parties on the subject matter as a result of the early stage of discussions.

23 Post balance sheet events

On 20th April 2023, the parent company, Tekmar Group PLC successfully raised £6.4m (£5.2m net of expenses) through an initial strategic investment by SCF, alongside a placing and retail offer with existing shareholders. The proceeds of the investment and placing have been used to strengthen the balance sheet and will help support the delivery of the strategic plan as the business embarks on its transition to sustained profitable growth.

Tekmar Group PLC issued and allotted 22,222,222 Placing Shares, 47,505,458 Subscription Shares and 1,273,164 Retail Shares. The Company has also issued and allotted 4,075,788 Management Shares to certain members of the senior management team.