



Oxford Catalysts Group PLC

Annual Report and Accounts 2009

Oxford Catalysts designs and develops technology for the production of clean synthetic fuels from both conventional fossil fuels and renewable sources such as biowaste. The Group is primarily focused on the emerging market for distributed smaller scale production of synthetic fuels via Fischer-Tropsch (“FT”) synthesis – a market that has the potential of producing as much as 25 million barrels of fuel a day.

The FT reaction is used when converting natural gas, coal or bio-mass into clean high-performance liquid synthetic fuels, processes known as GTL, CTL and BTL respectively. The Group is the recognised world leader in the design and development of high-activity catalysts and associated novel chemical reactors for the smaller scale production of synthetic fuels. (The Group’s reactor technology – known as microchannel process technology – is marketed under the brand name of Velocys).

Oxford Catalysts’ strategy is to license its technologies for commercial application by entering into co-development partnerships with leading manufacturers, producers and suppliers in the petroleum, alternative fuels and chemical markets.

Oxford Catalysts Group PLC is listed on the AIM market of the London Stock Exchange (LSE: OCG). The Group has some 90 employees with facilities near Oxford, UK and Columbus, Ohio, USA.

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Highlights

- Over \$50.0 million of non-dilutive funding secured for development and commercialisation
- Fully funded commercial demonstrations at key global locations
- All core partners made significant financial commitments to the Group in 2009
- Major potential customer, Petrobras, hosting demonstration of Group's GTL technology
- Increased revenues to £8.7 million (2008: £1.3 million)
- Cash and short term investments* at healthy £12.0 million (2008: £16.3 million)
- Substantial reduction in cash outflow (2H09: £0.4 million; 1H09: £3.9 million)
- Manufacturing relationships in place; Group preparing for delivery on future sales

Pierre Jungels, CBE, Chairman of Oxford Catalysts, said:

“2009 was a successful year for Oxford Catalysts as the Group delivered on its key commercialisation objectives and secured over \$50 million of non-dilutive funding to bring its technologies to market. Oxford Catalysts has all the elements needed to realise its commercial potential. The Board looks to the future with excitement and confidence.”

* Defined as cash, cash equivalents, short-term investments and other financial assets as disclosed in note 18.

Chairman's Statement

I am pleased to report on a successful year for Oxford Catalysts, as commercial momentum continued to build. When presenting the Group's full year results for 2008, we outlined our mission for 2009 of working with our core partners towards successful demonstration of our technologies in the field. The Group has significantly delivered against this crucial commercialisation objective.

Firstly, Oxford Catalysts' key relationships have strengthened, with substantial financial commitments being made by its partners towards commercialising its technologies: Toyo Engineering (a global Engineering, Procurement and Construction company) and MODEC (the world's second largest owner/provider of Floating Production, Storage and Offloading vessels to the oil industry) have committed several tens of millions of dollars during the period; SGCE (the renewable energy investment arm of one of Portugal's richest men) has committed over \$6.0 million, and; PTT (Thailand's national oil company) committed an initial \$5.0 million.

Secondly, the Group secured some of the best sites globally to demonstrate its technologies: Güssing, the unique "eco-town" in Austria, will shortly begin demonstration of the Group's Fischer-Tropsch ("FT") technology, whilst; the Group's smaller scale Gas-to-Liquids ("GTL") technology will be demonstrated next year in Fortaleza, Brazil, at one of the world's largest customers for offshore oil production vessels – Petrobras (Brazil's national oil company). Both demonstrations are fully funded by the Group's partners, and are progressing on schedule.

“Microchannel reactors and enhanced catalysts offer an exciting breakthrough for small to medium scale GTL... this technology [is] potentially **game-changing**.”

Dr. Songkiert Tansamrit, Executive VP, PTT
January 2010

Oxford Catalysts' finances fared well in 2009, with an especially encouraging second half. Group revenues for the year were up to £8.7 million (2008: £1.3 million). Cash, cash equivalents, short term investments and other financial assets at period end stood at £12.0 million (2008: £16.3 million), whilst cash* outflow in the second half of 2009 was £0.4 million (1H09: £3.9 million).

On 1 February 2010, the Group's credibility was further strengthened by the addition to its Board of one of the industry's leading figures – Dr Andrew Jamieson, OBE

who worked at Royal Dutch Shell ("Shell") for 35 years, most recently as Executive Vice President Gas & Projects in charge of Shell's GTL activities, including the landmark Pearl plant in Qatar, as well as all of Shell's projects in chemicals, refining, gas, LNG and coal gasification.

The Board is grateful to the entire Oxford Catalysts team for driving forward commercialisation and creating a strong integrated business, especially given the tough trading conditions worldwide. Their focus and achievements were recognised during the year with 3 industry awards, including the prestigious Innovation Award from the Energy Institute (the leading professional body for the energy industry), and by receiving the US National Academy of Sciences' highest ranking for their successful \$5 million grant proposal. I would also like to thank Roy Lipski, Group CEO, for choosing to relocate with his family to the USA to better steer the Company through its transition from a development stage business to commercial provider.

Outlook

Oxford Catalysts has secured all the elements needed to realise its commercial potential: fully funded commercial demonstrations; highly committed partners providing market access, engineering support and manufacturing; a world-leading technology patent portfolio; critical mass of resources; a strong cash position, and; a healthy pipeline of opportunities.

In 2010, the Group will remain focused on delivering successful demonstrations and on gearing up for product rollout in the smaller scale synthetic fuels market. As one of the leading technology developers in this industry, Oxford Catalysts is well positioned to capitalise on the major shifts that are underway in the world's energy markets.

The Board looks to the future with excitement and confidence.



Pierre Jungels, CBE

Chairman
13 April 2010

* Defined as cash, cash equivalents, short-term investments and other financial assets as disclosed in note 18.

Chief Executive's Report

In 2009, Oxford Catalysts successfully integrated Velocys achieving significant strategic clarity, alignment and focus, made strong commercial progress, and delivered on its key objectives for the year. The Group secured over \$50 million of non-dilutive funding during the period, \$10 million from government sources and the remainder from industrial partners.

Introduction

Oxford Catalysts has core partnerships and routes to market in place, its business model of upfront equipment licenses and ongoing catalyst royalties has been validated with its partners, and it remains on track for fully funded commercial scale demonstrations of its technology. The Group is well positioned to capture significant market share in the rapidly emerging market for smaller scale synthetic fuel technologies.

Market Conditions

Despite the challenging global economic environment, legislation and regulatory targets around the world are continuing to drive the adoption of next generation biofuels, as well as the required reductions in flaring of associated gas resulting from the development of oil fields, both onshore and offshore. Such factors underpin the significant potential available for the Group's smaller scale synthetic fuels technology, and help explain the Company's healthy pipeline of opportunities.

Commercialisation

Demonstration

Oxford Catalysts has secured the necessary funding, as well as some of the best locations worldwide for commercial demonstration of its core technologies – FT and Steam Methane Reforming ("SMR").

In October, the Group signed an agreement with its existing partner SGC Energia, SGPS, S.A. ("SGCE", the renewable energy investment arm of João Pereira Coutinho, the Portuguese billionaire), for \$5.9 million plus a contingency to fund the demonstration and commercialisation of the Group's FT technology. The FT demonstration plant, with a capacity of some 10,000 gallons/year, will be operated on gasified wood chips for six months at Güssing, in Austria. Güssing is arguably the prime location globally for demonstrating bio-conversion technologies – it is unique in having a commercial scale biomass gasifier, operational since 2005, that supplies the energy needs of the 10,000 inhabitants of the local town. Following demonstration, scheduled to begin shortly, the equipment will be relocated to the Wright-Patterson Air Force Base near Dayton, Ohio, USA where it will be demonstrated for the production of synthetic jet fuel.

In February 2010, the Group announced the signing of an agreement with Petróleo Brasileiro S.A. ("Petrobras", the Brazilian national oil company and largest company in Latin America), alongside its existing partners Toyo Engineering and MODEC, to fund an integrated demonstration of the Group's GTL technology (SMR with FT). The total cost of the plant, estimated at several tens of millions of dollars, will be covered by Toyo Engineering and MODEC, whilst Petrobras will be responsible for its installation and operation costs. The demonstration will be hosted at the Petrobras facilities in Fortaleza, Brazil, and will operate for nine months starting in the first half of 2011.

“...microchannel technology offer[s] the **best opportunity** to develop offshore GTL...”

Yutaka Yamada, President and CEO, Toyo Engineering
February 2010

Manufacturing

Oxford Catalysts is currently collaborating with a number of major manufacturers to ensure reliable commercial supply of its reactors and catalysts. In February 2010, the Group announced that it is working with Kobe Steel, Ltd. (one of Japan's leading steel makers, operating worldwide under the brand name of KOBELCO), to supply reactors for its forthcoming GTL demonstration.

Other Agreements

In January 2010, Oxford Catalysts announced the signing of an agreement with the Thai state-owned energy company, PTT Public Company Limited ("PTT"), extending its existing relationship with the company. Under the agreement, PTT will provide initial funding of \$5 million for the development and commercialisation of the Group's GTL technology for smaller scale land based facilities, and will invest in microchannel reactor testing facilities at its Research and Technology Institute near Bangkok to accelerate the project. The agreement also provides a framework for future investment by PTT in other applications of the Group's technology.

Chief Executive's Report (continued)

Government Funding

In 2009, the Group was awarded a total of \$10.0 million non-dilutive government funding to further the development and commercialisation of its technology. \$7.7 million of non-repayable grants were awarded to advance the Group's hydro-processing technology (an important optional step in the production of synthetic fuels used to maximise the yield of commercially desirable products such as diesel and jet fuel) – \$5 million in May from the State of Ohio and \$2.7 million in November from the US Department of Agriculture under the US Recovery and Reinvestment Act. In August, the Group received a \$2.3 million low-cost R&D drawdown facility from the State of Ohio, that can be called upon at any time over a period of two years, is repayable over ten years, and carries a fixed interest rate of 2.0% per annum on funds drawn.

“[Microchannel technology] will... promote the **monetisation of waste gas**, and create an opportunity for the introduction of a new generation of FPSOs in marginal gas field developments.”

Kenji Yamada, Chairman and CEO, MODEC
February 2010

Other Markets

At this crucial juncture in the Group's development, management is maintaining disciplined focus on the synthetic fuels market, where the Board believes that the size of the opportunity, alongside the Group's potential competitive advantage, means that maximum shareholder value can be created. Updates on other market opportunities will be made as and when these become material in the context of the Group's business.

Intellectual Property

The Group's current IP portfolio has over 650 active patent cases (including those licensed from Battelle and ISIS), and more than 850 invention records. During the period, the Group filed 10 new patent applications,

whilst 16 existing applications were granted in jurisdictions including the US, Canada, China, Australia and Singapore.

Resources

Oxford Catalysts Group now has the critical mass and capabilities it requires to maintain its leading position in the fast emerging market for smaller scale synthetic fuel technologies. It is not expected that significant additional investment in resources will be needed in the immediate future.

Financial Review

This is the first full year of consolidated financial results following the acquisition of Velocys, Inc. in November 2008. Revenues during the year increased to £8.7 million (2008: £1.3 million). Losses for the period were £3.8 million (2008: £2.4 million), excluding the impact of currency movements (£0.1 million loss; 2008 £0.7 million gain) and non-cash items (depreciation, amortisation and share-based payments: £1.5 million; 2008: £1.6 million). Cash* outflow in 2009 decreased to £4.3 million (2008: £6.1 million), with only £0.4 million of outflow in the second half of the year (1H09: £3.9 million).

At period end, the Group had £12.0 million of cash, cash equivalents, short term investments and other financial assets (2008: £16.3 million), after a one-off investment of £1.2 million in equipment for the forthcoming FT demonstration. Management believes that this level of funds is sufficient for several years of operation, although remains mindful of the uncertain nature of technology development and the need to preserve cash where possible without adversely impacting time to market or the long term value of the business.



Roy Lipski
Chief Executive
13 April 2010

* Defined as cash, cash equivalents, short-term investments and other financial assets as disclosed in note 18.

Directors' Report

The Directors present their annual report on the affairs of the Group, together with the audited financial statements, for the year ended 31 December 2009.

Principal Activities

The principal activities of the Group during the year were the design and development of catalysts and microchannel systems.

The principal activity of the Company (Oxford Catalysts Group PLC) is a holding company.

Business Review

A review of the Group's activities during the year is dealt with in the Chairman's Statement on page 2 and the Chief Executive's Report on pages 3 to 4.

Key Performance Indicators

At the current stage of the business, the Directors consider that performance is best measured by achievement against technical and business development milestones which are referred to in the Chief Executive's Report.

Operating Risks

The key operating risks of the Group and the measures taken to manage these are summarised below.

Technology Risk

The Group manages the development of its technology through separate programmes. Each programme has a specific set of milestones, measurable goals, timeline and budget. Performance against each of these is monitored monthly. This enables the Group to identify issues at an early stage and take appropriate mitigating actions.

Funding Risk

The Group finances the majority of its development programmes through partner-funded programmes. Each programme is subject to a contract with its partner and has a pre-defined partner review process and a project manager. Progress of the programme is jointly monitored with the partner. In addition, the Group identifies certain programmes as internal research and development ("R&D") to be self-funded. The costs of, and progress on, these programmes are also regularly reviewed.

Performance Risk

The risk of not achieving contractual commitments contained within partner contracts is managed as part of the partner review process described above. Regular partner reviews of progress enable issues to be identified at an early stage and to be resolved on a timely basis. In addition, care is taken to ensure that agreements entered into with partners reflect the uncertain nature of technology development and do not contain onerous or unrealistic performance conditions.

Scale Up

The risk that the Group may not be able to scale up its technology from laboratory to commercial scale is managed by including within its development programmes demonstrations of its technology where the technology can be assessed at

relevant scale. The Group currently has two major demonstration programmes underway for its FT and GTL technologies.

Platform Technology

The Directors consider that the broad range of applications to which the Group's technology can be applied provides a significant mitigation against the risk of failure of any one application.

Market Adoption

In order to minimise the risk of non-adoption of its technology by the market, the Group generally works with partners who are substantial players in their fields and who have significant interest in developing the technology commercially, as this would give them a competitive advantage. Partners commit funding to the programmes in return for securing preferential access to the technology.

“We are confident that [Oxford Catalysts'] technology provides an **important competitive advantage**...in the production of clean next generation synthetic fuels.”

Vianney Vales, CEO, SGCE
October 2009

Manufacturing

The Group is working with leading manufacturers of equipment and catalysts to develop the manufacturing capability for commercial sales of its products. By using manufacturing partners with proven track-records in their fields, rather than developing capability in-house, the Directors consider that the manufacturing risk is significantly reduced.

IP Protection

The Group assigns significant resources to enhancing and protecting its IP, both in terms of patented and non-patented IP. In addition to investment in an extensive patent portfolio, the Group has processes to capture and manage knowhow and other knowledge assets.

Personnel Retention

The Group has in place policies designed to ensure it attracts and retains key personnel. These include a performance evaluation system, training and incentive schemes.

External Risks

The Group's performance is also subject to external macroeconomic conditions and changes in factors such as exchange rates, interest rates, inflation and oil prices.

Directors' Report (continued)

These risks are managed through monitoring and analysis of the economic and external climate to ensure the Group has sufficient information to develop a good understanding of the potential impact, and to develop potential mitigating policies.

In addition, where possible, the Group looks to ensure its contracts provide protection against adverse external factors.

The oil price has a particular relevance for future demand since a number of the Group's products will provide solutions for the production of substitutes to oil production, and it is likely that higher oil prices will improve the economics of such products. However, the Group considers that there are numerous other drivers for future demand including regulatory, security of supply, subsidies etc. which mean that oil price alone is not the most significant factor, and therefore not an undue risk for the business.

Financial Risks

The Group's activities expose it to a number of financial risks including, credit risk, interest rate risk, liquidity risk and exchange rate risk. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives to manage these risks. At present the Group does not use financial derivatives in the normal course of business.

The Group's and the Company's financial instruments comprise investments in subsidiaries, cash and cash equivalents, short-term investments, trade receivables and trade payables. The main purpose of these financial instruments is the funding of the Group's activities. It has been the Group's policy throughout the year under review that no trading in financial instruments shall be undertaken.

Credit Risk

The Group's principal financial assets are cash, cash equivalents and short-term investments, trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables, which are concentrated in a small number of high value customer accounts. The Group has policies to manage this risk, including where applicable, carrying out relevant financial checks on customers, requiring letters of credit or advance payments.

The credit risk on liquid funds is limited to counterparties (banks) with high credit ratings assigned by international credit rating agencies. The Group has a treasury policy designed to ensure that cash, cash equivalents and short-term investments are only placed with high credit rated institutions and that the spread of such assets is sufficient that it is not overly exposed to any one institution.

Interest Rate Risk

The Group's activities expose it to the financial risk of changes in interest rates. A proportion of interest bearing assets are

held at fixed rate to ensure certainty of cash flows. The Group's borrowings all incur interest charges at a fixed rate.

Liquidity Risk

Group policy is to maintain sufficient cash balances to meet its anticipated requirements over a two to three year period. Funds are placed on time deposits with cash balances available for immediate withdrawal if required.

Exchange Rate Risk

A significant part of the Group's activities are located in the US and the funding requirements for these are denominated in US dollars. In order to minimise exposure to foreign exchange volatility, the Group holds a portion of its liquid assets in US dollar denominated accounts. This provides a natural hedge against foreign exchange impact.

In the consolidated accounts of the Group, there are significant US dollar denominated goodwill and acquired intangible assets relating to the acquisition of Velocys. These balances are subject to exchange rate fluctuations which result in movements in reserves; however, the Directors do not consider it necessary to hedge such exchange rate movements since they do not have any impact on the cash position of the Group.

Future Developments

The Board aims to continue its corporate strategies as set out in the Chairman's Statement and Chief Executive's Report.

Group Development Activities

The Group continues to invest in development. The catalysts and microchannel technologies currently being developed are expected to make significant contribution to the growth of the business. The Directors regard investment in development as important for success in the medium to long term.

Directors

The Directors of the Group as at 31 December 2009, who served throughout the year and up to the date of signing, unless otherwise indicated, were as follows:

Dr Pierre Jungels (Non-executive Chairman)
Mr Roy Lipski (Chief Executive)
Mrs Susan Robertson (Chief Financial Officer)
Dr Andrew Jamieson (appointed 1 February 2010)
(Non-executive Director)
Mr Jeremy Scudamore (Non-executive Director)
Dr Jan Verloop (Non-executive Director)

All Directors are subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of not more than three years. At the 2010 Annual General Meeting the following Directors will

retire and offer themselves for re-election, or be subject to election for the first time.

- Andrew Jamieson
- Susan Robertson

Directors' Third Party Indemnity Provision

The Group maintains insurance to provide cover for legal action against its Directors.

Directors' Interests

The Directors who held office at 31 December 2009 had the following interests in the shares of Group undertakings (as recorded in the Register of Directors' Interests and including those of the spouse or civil partner and children under 18).

Name of Director	Oxford Catalysts Group PLC Ordinary £0.01 shares	
	31 December 2009	31 December 2008
Dr Pierre Jungels	223,031	223,031
Mr Roy Lipski	757,139	12,000
Mrs Susan Robertson	183,513	9,600
Mr Jeremy Scudamore	24,000	24,000
Dr Jan Verloop	150,837	150,837

On 11 February 2010 Roy Lipski exercised share options resulting in an increase of his share holding by 1,512,425 to 2,269,564 ordinary shares at the date of this report, and Susan Robertson exercised 121,361 options resulting in an increase in her shareholding to 304,874 ordinary shares at the date of this report. Details of the Directors' share options and service contracts are shown in the Remuneration Report.

Substantial Shareholdings

On 15 March 2010 the Company had been notified of the following holdings of 3% or more of the issued share capital of the Company.

	Number of shares held	Percentage of issued share capital
Battelle Memorial Institute	10,442,207	16.55%
Lansdowne Partners	10,109,568	16.02%
Pioneer Investments IP2IPO Management Limited	9,911,798	15.71%
Dr Tiancun Xiao	6,209,668	9.84%
Prof. Malcolm Green	4,070,500	6.45%
University of Oxford	3,103,900	4.92%
Roy Lipski	2,339,661	3.71%
	2,269,564	3.60%

Supplier Payment Policy

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment, and to abide by the terms of payment. Trade payables of the Group at 31 December 2009 were equivalent to 32 (2008: 26) days' purchases, based on the average daily amount invoiced by suppliers during the year. The Company had trade payables at 31 December 2009 of £676,000 (2008: £739,000).

Annual General Meeting

The annual general meeting of the Company will be held at the Company's Milton Park premises at 10.45am on 7 May 2010.

Auditors and Disclosure of Information to Auditors

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

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board and signed on its behalf by:



Roy Lipski
Chief Executive
13 April 2010

Corporate Governance Report

Corporate Governance

Companies who have their securities traded on AIM are not required to comply with the disclosure requirements of the Combined Code. The Board, however, has determined that the Group should maintain high standards of corporate governance and whilst not fully complying with the Combined Code, has adopted procedures and has taken steps to adopt the underlying principles, in so far as appropriate given the size of the Group and the nature of its operations.

Board of Directors

The Group is controlled by the Board of Directors which comprises two Executives, one of whom is the Chief Executive, and three (since February 2010, four) Non-executive Directors. All of the Non-executive Directors are independent. The roles of Chief Executive and Chairman are separate. All Directors are able to take independent advice to assist them in their duties if necessary.

The Board is responsible to shareholders for the proper management of the Group and meets formally at least six times a year to set the overall direction and strategy of the Group, to review operating and financial performance and to consider and advise on senior management appointments. The Board also monitors and approves financial policy and budgets, including capital expenditure. All key operational decisions are subject to Board approval. The Company Secretary is responsible for ensuring that Board procedures are followed and that any and all applicable rules and regulations are complied with.

Directors are subject to election by shareholders at the first opportunity after their appointment. In addition, one third of Directors are subject to retirement by rotation at each Annual General Meeting.

The Board has introduced a process for evaluating the effectiveness of the Board and its committees. This is by means of a questionnaire survey of all Board members and other relevant senior executives.

Committees of the Board

Remuneration Committee

The Remuneration Committee comprises the Non-executive Directors, under the chairmanship of Dr Jan Verloop. It reviews the performance of the Executive Directors and sets the scale and structure of their remuneration and basis of their service agreements, having due regard to the interests of shareholders. The Remuneration Committee also determines the allocation of share options to Executive Directors. No Director has a service agreement exceeding one year.

One of the policies of the Remuneration Committee is that no individual participates on discussions or decisions concerning his own remuneration.

The Directors' Remuneration Report is set out on pages 10 to 12.

Audit Committee

The Audit Committee comprises the Non-executive Directors, under the Chairmanship of Mr Jeremy Scudamore. Under its terms of reference it meets at least twice a year, and amongst other duties it reviews the monitoring of the Group's internal controls, accounting policies and financial reporting, and provides a forum through which the external auditors report. It meets at least once a year with the external auditors without Executive Directors present.

Nominations Committee

The Nominations Committee consists of the Non-executive Directors, under the chairmanship of Dr Pierre Jungels. It meets at least once a year, and amongst its other duties it reviews the composition of the Board and its succession planning, and keeps under review the leadership needs of the Company with a view to ensuring the continued ability of the Group to compete effectively in the marketplace.

Executive Management Committee

The day-to-day management of the Group is overseen by the Executive Management Committee, consisting of the Executive Directors and other senior managers, under the leadership of the Chief Executive.

Board and Committee Attendance

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings held in 2009	7	2	2	1
Attendance by:				
– Dr Pierre Jungels	100%	100%	100%	100%
– Mr Roy Lipski	100%	n/a	n/a	n/a
– Mrs Susan Robertson	100%	n/a	n/a	n/a
– Mr Jeremy Scudamore	100%	100%	100%	100%
– Dr Jan Verloop	100%	100%	100%	100%

Relations with Shareholders

The Board considers effective communication with shareholders to be very important, and encourages regular dialogue with investors. The Board responds promptly to questions received verbally or in writing. Directors regularly attend meetings with shareholders and analysts throughout the year. Shareholders will be given at least 21 days notice of the Annual General Meeting, at which they will have the opportunity to discuss the Group's developments and performance.

The Company's web site www.oxfordcatalysts.com contains full details of the Group's activities, press releases and other details, as well as a link to the relevant web page of the London Stock Exchange web site for share price details, share trading activities and graphs, as well as Regulatory News Service ("RNS") announcements.

Maintenance of a Sound System of Internal Control

The Directors have overall responsibility for ensuring that the Group maintains a system of internal control to provide them with reasonable assurance that the assets of the Group are safeguarded and that shareholders' investments are protected. The system includes internal controls appropriate for a Group of the size of Oxford Catalysts Group PLC, and covers financial, operational, compliance (including health and safety) and risk management. There are limitations in any system of internal control, which can provide reasonable but not total assurance with respect to the preparation of financial information, the safeguarding of assets and the possibility of misstatement or loss.

The Board has considered its policies with regard to internal controls as set out in the Financial Reporting Council's updated Turnbull Guidance on Internal Control (2005), and undertakes assessments of the major areas of the business and methods used to monitor and control them. In addition to financial risk, the review covered operational, commercial, regulatory and health and safety risks. The risk review is an ongoing process with reviews being undertaken on a regular basis.

The key procedures designed to provide an effective system of internal controls that are operating up to the date of sign-off of this report are set out below.

Control Environment

There is an organisational structure with clearly defined lines of responsibility and delegation of accountability and authority.

Risk Management

The Group employs Directors and senior personnel with the appropriate knowledge and experience for a business engaged in activities in its field of operations, and undertakes regular risk assessments and reviews of its activities.

Financial Information

The Group prepares detailed budget and working capital projections which are approved annually by the Board, and are maintained and updated regularly throughout the year. Detailed management accounts and working capital cash flows are prepared on a monthly basis and compared to budgets and projections to identify any significant variances.

Management of Liquid Resources

The Board is risk averse when investing the Group's surplus cash. The Group's treasury management policy, which was updated in May 2009, and which is reviewed periodically, sets out strict procedures and limits on how surplus funds are invested.

The Board has considered it inappropriate to establish an internal audit function, given the size of the Group. However, this decision will be reviewed as the operations of the Group develop.

Review of Corporate Governance Disclosures

The Board has voluntarily complied with the principal Corporate Governance disclosures of the Combined Code in so far as appropriate given the size of the Company and the nature of its operations. These have not been formally reviewed by the Group's auditors. The auditors' responsibility extends only to reading this report as a part of the Annual Report and Accounts, and considering whether it is consistent with the audited financial statements.

Directors' Remuneration Report

Introduction

It is not a requirement for companies that have securities listed on AIM to comply with the disclosure requirements of Directors' Remuneration Report Regulations 2002 or to comply with the UKLA Listing Rules and the disclosure provisions under schedule 8 to SI 2008/410 of the Companies Act 2006. The Remuneration Committee, however, is committed to maintaining high standards of corporate governance and has taken steps to comply with the principles of best practice in so far as it can be applied practically given the size of the Group and the nature of its operations.

Unaudited Information Remuneration Report

The Board has applied the principles of good governance relating to Directors' remuneration as described below.

Remuneration Committee

The Remuneration Committee comprises the Non-executive Directors under the chairmanship of Dr Jan Verloop. The committee's constitution and operation is compliant with the provisions of the Combined Code on Corporate Governance. When setting its remuneration policy for Executive Directors, the Committee gives consideration to the provisions and principles of the Combined Code.

Remuneration Policy for Executive Directors

The remuneration policy has been designed to ensure that Executive Directors receive appropriate incentive and reward given their performance, responsibility and experience. When assessing this, the Remuneration Committee looks to ensure that the policy aligns the interests of the Executive Directors with those of shareholders.

The Group's remuneration policy for Executive Directors is to:

- consider the individual's experience and the nature, complexity and responsibilities of their work in order to set a competitive salary that attracts and retains management of the highest quality;
- link individual remuneration packages to the Group's long-term performance through both bonus schemes and share option plans;
- provide post-retirement benefits through payment into defined contribution pension schemes; and
- provide employment related benefits including provision of life assurance and medical insurance.

Remuneration of Executive Directors

Executive Directors' remuneration is considered annually and comprises a number of elements as follows.

Base Salary

The base salary is reviewed annually at the beginning of each year. The review process undertaken by the Remuneration Committee has regard to the development of the Group and the contribution that individuals will continue to make. Consideration is also given to the need to retain and motivate individuals, and available information on the package levels in comparable organisations. To assist in this process, the Remuneration Committee draws on the findings of external salary surveys and undertakes its own research. In the year commencing 1 January 2010, the Remuneration Committee decided to leave the base salary of Executive Directors unchanged.

Annual Performance Incentive

All Executive Directors are eligible, at the discretion of the Remuneration Committee, for an annual bonus. The Remuneration Committee sets targets for bonus awards at the beginning of each year. Awards are determined by both the performance of the individual and the Group as a whole at the end of each year. The performance targets for the Group comprise measures of certain financial, as well as technical, business development and share price performance. For the year ended 31 December 2009, the Remuneration Committee decided that a proportion of the bonus of the Executive Directors would be paid in nominal value exercise price share options in order to preserve the cash reserves of the Group.

Pensions and Other Benefits

The Group contributes to individuals' defined contribution pension plans.

Other benefits provided are life assurance, private medical insurance, and relocation allowances where applicable. No company car is provided, but Directors are paid an allowance for business miles travelled in accordance with HMRC guidelines.

Share Options

Executive Directors may, at the discretion of the Remuneration Committee, be awarded share options. Where share options are to be granted, these are granted at the closing mid market price of the Company's ordinary shares on the day prior to grant, and vest over a period of up to three years (except where they relate to bonus and ELTIP awards which are granted at nominal price).

ELTIP Awards

Executive Directors may be awarded executive long term incentive share options ("ELTIP") which only vest to the extent that predetermined performance conditions are satisfied at the end of a three year period. The maximum number of these performance shares that can be awarded to an Executive in any one year is at the discretion of the Remuneration Committee.

Remuneration Policy for Non-executive Directors

The remuneration of the Non-executive Directors is determined by the Board as a whole, based on a review of current practices in other equivalent companies. The Non-executive Directors do not receive any pension payments towards private arrangements, nor do they participate in any of the bonus schemes. Fees are based on a fixed fee plus a fee for chairmanship of a committee and/or for additional consulting services. For the year commencing 1 January 2010, the Board decided to leave the remuneration of Non-executive Directors unchanged.

The Non-executive Directors each have service agreements which are reviewed annually by the Board. They are included in the one third of Directors subject to retirement by rotation at each Annual General Meeting.

Audited Information**Directors' Remuneration**

The Directors received the following remuneration during the year to 31 December 2009.

Name of Director	Salary and fees £	Bonus £	Bonus share options £	Other benefits £	Pension contributions £	2009 Totals £	2008 Totals £
Executive							
Mr Roy Lipski	198,053	57,000	171,000	17,528	14,000	457,581	392,927
Mrs Susan Robertson*	140,000	39,900	39,900	803	9,800	230,403	143,359
Dr William Barton*	-	-	-	-	-	-	78,807
Dr Tiancun Xiao*	-	-	-	-	-	-	51,311
Non-executive							
Dr Pierre Jungels	50,000	-	-	-	-	50,000	40,000
Mr Jeremy Scudamore	35,000	-	-	-	-	35,000	30,000
Dr Jan Verloop	40,072	-	-	-	-	40,072	37,463
Prof. Malcolm Green*	-	-	-	-	-	-	9,327
Aggregate emoluments and pension contributions	463,125	96,900	210,900	18,331	23,800	813,056	783,193

* The figures shown above for 2008 relate to remuneration of Directors only whilst in office.

Directors' Share Options

Aggregate emoluments disclosed above do not include any amounts for the value of the options to acquire ordinary shares in the Company granted to or held by the Directors, other than options which were granted as part of the 2009 annual bonus. The bonus shares are issued at nominal value (1p) exercise price, are immediately vested at date of issue, and expire 10 years later.

Directors' Remuneration Report (continued)

Details of all options held by Directors at 31 December 2009 are as follows.

Name of Director	At 31 December 2008	Granted	Exercised	Lapsed	At 31 December 2009	Exercise price	Earliest date of exercise	Date of expiry	Exercisable at 31 December 2009
Mr Roy Lipski									
Pre-IPO options	1,404,370	-	-	-	1,404,370	£0.0489	26/04/06	16/03/16	1,404,370
Bonus 2008	-	365,921	(257,866)	-	108,055	£0.01	31/03/09	31/03/19	108,055
ELTIP 2008	600,000	-	(400,000)	-	200,000	£0.01	19/11/08	19/11/18	-
ELTIP 2009	-	400,000	-	-	400,000	£0.01	31/01/12	4/11/19	-
Total	2,004,370	765,921	(657,866)	-	2,112,425				1,512,425
Mrs Susan Robertson									
EMI	62,893	-	-	-	62,893	£1.59	29/10/10	01/04/18	-
Bonus 2008	-	97,579	(13,913)	-	83,666	£0.01	31/03/09	31/03/19	83,666
ELTIP 2008	160,000	-	(160,000)	-	-	£0.01	19/11/08	19/11/18	-
ELTIP 2009	-	300,000	-	-	300,000	£0.01	31/01/12	21/11/19	-
Total	222,893	397,579	(173,913)	-	446,559				83,666

Vesting of the ELTIP options is subject to achievement of performance conditions which have been set by the Remuneration Committee.

The market price of the Company's shares as at 31 December 2009 was 50p (2008: 95p) and the range during the year was 28.5p to 96.5p (2008: 95p to 173p). Details of options and the cost of such share-based payments are given in note 12.

The aggregate of the notional gains made on share options exercised during the year ended 31 December 2009, calculated on the difference between the option price and the mid-market price on the date of the option's exercise, was £344,000 (2008: nil), of which £263,000 related to the gain attributable to the highest paid Director. None of the exercised shares were sold.

In addition to the options disclosed above, bonus share options were granted subsequent to 31 December 2009 in respect of the 2009 annual bonus as disclosed on page 11.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, Corporate Governance Report, Directors' Remuneration 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. The Directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. Under Company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company, and of the profit or loss of the Group for that period.

In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group, and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

A handwritten signature in black ink that reads "Roy Lipski". The signature is written in a cursive style with a horizontal line underneath the name.

Roy Lipski
Chief Executive
13 April 2010

Independent Auditors' Report to the members of Oxford Catalysts Group PLC

We have audited the Group and parent company financial statements (the "financial statements") of Oxford Catalysts Group PLC for the year ended 31 December 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated Statement of Changes in Equity, the Consolidated and Company Cash Flow Statements, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective Responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 13, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. The Directors are also responsible for preparing the Directors' Remuneration Report (because the Company applies the requirements, as considered appropriate by the Directors for a company of its size, of the Companies Act 2006 as if it were a listed company). Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also, at the request of the Directors, audit the part of the Directors' Remuneration Report to be audited (because the Company applies the requirements, as considered appropriate by the Directors for a company of its size, of the Companies Act 2006 as if it were a listed company).

This report, including the opinions, has been prepared for, and only for, the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006, and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and parent company's circumstances, and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2009 and of the Group's loss and Group's and parent company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on Which we are Required to Report by Exception

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

- adequate accounting records have not been kept 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.

Miles Saunders (Senior Statutory Auditor) for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
13 April 2010

Consolidated Income Statement

for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Revenue	5	8,655	1,298
Cost of sales		(5,441)	(768)
Gross profit		3,214	530
Unfunded research and development costs		(2,661)	(1,607)
Share-based payments	12	(675)	(1,248)
Other administrative expenses		(6,106)	(2,644)
Total administrative expenses		(9,442)	(5,499)
Operating loss	8	(6,228)	(4,969)
Finance income	6	290	1,505
Finance costs	7	(142)	(12)
Loss before income tax		(6,080)	(3,476)
Income tax credit	11	616	179
Loss for the financial year attributable to the equity holders of the Company		(5,464)	(3,297)
Loss per share attributable to the equity holders of the Company			
Basic and diluted (pence)	13	(9.07)	(7.72)

The notes on pages 24 to 44 are an integral part of these consolidated financial statements.

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 to not present the parent company income statement and statement of comprehensive income. The loss for the parent company for the year was £2,096,000 (2008: profit £272,000).

Consolidated Statement of Comprehensive Income for the year ended 31 December 2009

	2009	2008
	£'000	£'000
Loss for the year	(5,464)	(3,297)
Other comprehensive income		
Foreign currency translation differences	(3,019)	638
Total comprehensive expense for the year	(8,483)	(2,659)

Consolidated Balance Sheet as at 31 December 2009

	Note	2009 £'000	2008 £'000
Non-current assets			
Intangible assets	14	23,876	26,570
Property, plant and equipment	15	3,189	2,493
		27,065	29,063
Current assets			
Trade and other receivables	17	1,740	2,579
Current income tax asset		300	172
Financial assets – restricted access escrow account	18	308	–
Short term investments – cash held on long-term deposit	18	4,000	8,645
Cash and cash equivalents	18	7,686	7,667
		14,034	19,063
Total assets		41,099	48,126
Current liabilities			
Trade and other payables	19	(3,544)	(2,521)
Borrowings	21	(73)	(10)
		(3,617)	(2,531)
Non-current liabilities			
Trade and other payables	20	(765)	(1,319)
Borrowings	21	(227)	(22)
		(992)	(1,341)
Total liabilities		(4,609)	(3,872)
Net assets		36,490	44,254
Capital and reserves attributable to equity holders of the Company			
Called up share capital	22	613	596
Share premium account		45,074	45,047
Merger reserve		369	369
Share-based payment reserve		4,439	3,764
Accumulated losses		(14,005)	(5,522)
Total equity		36,490	44,254

The financial statements on pages 16 to 44 were approved by the Board of Directors and authorised for issue on 13 April 2010. They were signed on its behalf by:



Susan Robertson
Chief Financial Officer

Company Balance Sheet

as at 31 December 2009

	Note	2009 £'000	2008 £'000
Assets			
Non-current assets			
Investments	16	47,987	49,364
Total assets		47,987	49,364
Net assets		47,987	49,364
Capital and reserves attributable to equity holders of the Company			
Called up share capital	22	613	596
Share premium account		45,074	45,047
Share-based payment reserve		4,439	3,764
Accumulated losses		(2,139)	(43)
Total equity		47,987	49,364

Consolidated Statement of Changes in Equity as at 31 December 2009

	Called up share capital £'000	Share premium £'000	Share- based payments £'000	Merger reserve £'000	Accumulated losses £'000	Total £'000
Balance at 1 January 2008	405	17,865	–	369	(2,106)	16,533
Comprehensive income						
Loss for the year	–	–	–	–	(3,297)	(3,297)
Other comprehensive income						
Foreign currency translation differences	–	–	–	–	638	638
Total comprehensive expense	–	–	–	–	(2,659)	(2,659)
Transactions with owners						
Share-based payments – value of employee services	–	–	2,005	–	(757)	1,248
Fair value of Velocys options	–	–	1,759	–	–	1,759
Proceeds from share issues	191	27,182	–	–	–	27,373
Total transactions with owners	191	27,182	3,764	–	(757)	30,380
Balance at 1 January 2009	596	45,047	3,764	369	(5,522)	44,254
Comprehensive income						
Loss for the year	–	–	–	–	(5,464)	(5,464)
Other comprehensive income						
Foreign currency translation differences	–	–	–	–	(3,019)	(3,019)
Total comprehensive expense	–	–	–	–	(8,483)	(8,483)
Transactions with owners						
Share-based payments – value of employee services	–	–	675	–	–	675
Proceeds from share issues	17	27	–	–	–	44
Total transactions with owners	17	27	675	–	–	719
Balance at 31 December 2009	613	45,074	4,439	369	(14,005)	36,490

Company Statement of Changes in Equity as at 31 December 2009

	Called up share capital £'000	Share premium £'000	Share- based payments £'000	Accumulated losses £'000	Total £'000
Balance at 1 January 2008	405	17,865	757	(315)	18,712
Comprehensive income					
Profit for the year		-	-	272	272
Total comprehensive expense	-	-	-	272	272
Transactions with owners					
Share-based payments – value of employee services	-	-	1,248	-	1,248
Fair value of Velocys options	-	-	1,759	-	1,759
Proceeds from share issues	191	27,182	-	-	27,373
Total transactions with owners	191	27,182	3,007	-	30,380
Balance at 1 January 2009	596	45,047	3,764	(43)	49,364
Comprehensive income					
Loss for the year	-	-	-	(2,096)	(2,096)
Total comprehensive expense	-	-	-	(2,096)	(2,096)
Transactions with owners					
Share-based payments – value of employee services	-	-	675	-	675
Proceeds from share issues	17	27	-	-	44
Total transactions with owners	17	27	675	-	719
Balance at 31 December 2009	613	45,074	4,439	(2,139)	47,987

Consolidated Cash Flow Statement for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Cash flows from operating activities			
Cash consumed by operations	23	(3,527)	(5,526)
Tax credit received		488	53
Net cash used in operating activities			
		(3,039)	(5,473)
Cash flows from investing activities			
Acquisition of subsidiary (net of cash acquired)		-	(3,041)
Purchase of property, plant and equipment	15	(1,602)	(1,387)
Purchase of intangible fixed assets	14	(188)	(82)
Interest received		697	517
Decrease/(increase) in cash placed on deposit and restricted access escrow account		4,337	(1,645)
Net cash flows from investing activities			
		3,244	(5,638)
Cash flows from financing activities			
Proceeds of issuance of ordinary shares		44	9,774
Increase in borrowing		271	-
Net cash from financing activities			
		315	9,774
Net increase/(decrease) in cash and cash equivalents			
		520	(1,337)
Cash and cash equivalents at beginning of year		7,667	8,630
Exchange (losses)/gains on cash and cash equivalents		(501)	374
Cash and cash equivalents at end of year			
		7,686	7,667

Company Cash Flow Statement

for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
(Loss)/profit before income tax		(2,096)	272
Changes in working capital:			
- Trade and other payables		-	(60)
Net cash flows from operating activities		(2,096)	212
Cash flows from investing activities			
Acquisition of subsidiary		-	(3,484)
Foreign exchange impact on loan to subsidiaries		756	-
Investment in subsidiaries		1,296	(6,502)
Net cash flows from investing activities		2,052	(9,986)
Cash flows from financing activities			
Proceeds of issuance of ordinary shares		44	9,774
Net movement in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of year		-	-
Cash and cash equivalents at end of year		-	-

Notes to the Accounts

1 General Information

Oxford Catalysts Group PLC is a company incorporated in England and Wales and domiciled in England. The nature of the Group's operations and its principal activities are set out in the summary on the inside front cover and in the Chairman's Statement and Chief Executive's Report on pages 2 to 4.

The Company is a public limited company which is listed on AIM.

2 Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are summarised below. The policies have been consistently applied to all the years presented unless otherwise stated.

Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

Accounting Developments

Standards, amendments and interpretations mandatory in 2009

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2009.

- IFRS 8, 'Operating segments' (effective 1 January 2009). IFRS 8 replaces IAS 14, 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. Management considers that there are two reportable segments: catalysts and equipment. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Executive Management Committee that makes strategic decisions. Assets, liabilities and overheads are allocated to these two segments.
- IAS 1 (revised), 'Presentation of financial statements' (effective 1 January 2009). The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present a separate consolidated income statement and consolidated statement of comprehensive income. These financial statements have been prepared under the revised disclosure requirements.
- IFRS 2 (amendment), 'Share-based payment' (effective 1 January 2009). IFRS 2 (amendment) deals with vesting conditions and cancellations. It clarifies that vesting conditions are either service or performance conditions only. Other features of a share-based payment would need to be included in the grant date fair value calculation for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment does not have a material impact on the Group's financial statements.
- IFRS 7 (amendment), 'Financial instruments: disclosures' (effective 1 January 2009). This requires all financial instruments that are measured at fair value in the balance sheet to be classified into a three-level fair value hierarchy. The amendments are designed to assist understanding of the determination of fair value measurements.
- IAS 32 (amendment), 'Financial instruments: Presentation' (effective 1 January 2009). Puttable financial instruments and obligations arising on liquidation require certain instruments to be classified as equity puttable financial instruments. The amendment does not have a material impact on the Group's financial statements.

- IAS 23 (amendment), 'Borrowing costs' (effective 1 January 2009). This removes the option of immediately recognising as an expense those borrowing costs which relate to assets that take a substantial period of time to prepare for their intended use. The amendment does not have a material impact on the Group's financial statements.

Standards, amendments and interpretations mandatory in 2009 but not relevant

The following amendments and interpretations to published standards are effective for accounting periods beginning on or after 1 January 2009 but are not relevant to the Group's operations:

- IAS 16 (amendment), 'Property, plant and equipment' (effective 1 January 2009). Where entities routinely sell items of property, plant and equipment that have been held for rental to others, they shall:
 - transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale;
 - recognise the income on disposal of such assets in revenue in accordance with IAS 18, Revenue;
 - classify cash flows upon the purchase and disposal of such assets within 'operating activities' in the Consolidated Cash Flow Statement.
- IAS 39 and IFRIC 9 (amendments) regarding embedded derivatives (effective 1 July 2008). IFRIC 9, 'Financial instruments' introduces new requirements for the classification and measurement of financial assets, simplifying the mixed measurement model currently applied under IAS 39, 'Financial instruments: recognition and measurement', by defining two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39.
- IFRIC 13, 'Customer loyalty programmes' (effective 1 July 2008 but EU-endorsed for use 1 January 2009) provides guidance on the treatment of customer loyalty programmes. An entity shall account for award credits which are granted as part of customer loyalty programmes as separately identifiable components of a sales transaction. The fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and other components of the sale.
- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective 1 July 2008 but EU-endorsed for use 1 January 2009). This applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements.
- IFRIC 15, 'Agreements for the construction of real estate' (effective 1 January 2009 but EU-endorsed for use 1 January 2010) addresses the accounting for revenue and associated expenses by entities that undertake the construction of real estate.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not adopted them early:

- IAS 39 (amendment), 'Financial instruments: Recognition and measurement' (effective 1 July 2009) has been amended to be consistent with IFRS 8, 'Operating segments', which requires disclosure for segments to be based on information reported to the chief operating decision-maker.
- IFRIC 17, 'Distributions of non-cash assets to owners' (effective 1 July 2009) applies to the entity making the distribution, not to the recipient, when non-cash assets are distributed to owners or when the owner is given a choice of taking cash in lieu of the non-cash assets. In particular, a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and should be measured at the fair value of the net assets to be distributed.
- IFRIC 18, 'Transfer of assets from customers' (effective 1 July 2009) clarifies the requirements for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or

Notes to the Accounts (continued)

services. When the item of property, plant and equipment transferred from a customer meets the definition of an asset under the IASB Framework from the perspective of the recipient, the recipient must recognise the asset in its financial statements.

Interpretations and amendments to existing standards that are not yet mandatory and not relevant for the Group's operations

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods but are not relevant for the Group's operations:

- IAS 27 (revised), 'Consolidated and separate financial statements', and IFRS 1 (revised), 'First time adoption' (both effective 1 July 2009), allow first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The revised standard also specifies the accounting where there is no change in control or control is lost. Where there is a change in control, the effects of all transactions with non-controlling interests are recorded in equity and these transactions will no longer result in goodwill or gains and losses. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss.
- IFRS 3 (revised), 'Business combinations' (effective 1 July 2009) requires that all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the Income Statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.
- IFRIC 12, 'Service concession arrangements' (effective 30 March 2009) applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services, for example, under private finance initiative (PFI) contracts. Under these arrangements, assets are assessed as either intangible assets or finance receivables.
- IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective 1 October 2008 but EU-endorsed for use 1 July 2009) provides guidance on net investment hedging, including:
 - which foreign currency risks qualify for hedge accounting and the amount that may be designated;
 - where within the Group the hedging instrument may be held; and
 - the amount which is reclassified to the Income Statement upon disposal of the hedged foreign operation.

Significant Accounting Policies

Consolidation – Subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. Acquired subsidiaries are consolidated from the date on which control of the subsidiary is transferred to the Group.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Management Committee that makes strategic decisions.

Foreign Currency Translation

Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in UK sterling (£), which is the Company's functional and the Group's presentation currency.

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'.

Group Companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting exchange differences are recognised as a movement within equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Bank accounts held which have an original maturity of more than three months, or which are subject to significant restrictions over access, are not presented as cash and cash equivalents. Such amounts are shown separately as short term investments or other financial assets with appropriate disclosure of the related terms.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant

Notes to the Accounts (continued)

and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes and after eliminating sales within the Group.

Revenue from development contracts is measured in accordance with the Group's policy on development contracts. Where the outcome of a development contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that costs incurred for work performed to date bear to the estimated total costs, except where this would not be representative of the stage of completion.

Where the outcome of a development contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable that they will be recoverable. Contract expenses are recognised as costs in the period in which they are incurred. When it is probable that total contract costs will exceed revenue, the total expected loss is recognised as an expense immediately.

Contracts for development work may include either upfront payments or milestone payments, payable on successful attainment of defined milestones. Where upfront non-refundable payments are received on signing of an agreement, such payments are deferred and amortised over the life of the agreement to which it relates. For milestone payments, revenue is only recognised when the milestone has been successfully achieved and no further obligations remain.

Revenue is recognised only when the collection of related receivables is probable. When uncertainty arises about the collectability of an amount that has already been recorded in revenue, any provision required as a result of that uncertainty is recognised as an expense and not a reduction in revenue.

Grants are recognised as income over the periods necessary to match them, on a systematic basis, with the costs which they are intended to compensate. Grant income is not recognised until the conditions for their receipt have been complied with and there is reasonable assurance that the grant will be received. In the event that a grant appears to have to be repaid, provision is made for the estimated liability.

Where a grant is received to fund the acquisition of property, plant and equipment, the income is deferred and recognised over the useful economic life of the related asset.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

Intangible Assets

Licences

Licences are capitalised at the present value of the minimum licence payments. Amortisation will commence when related revenue starts to be earned and it will be charged in equal annual instalments over the life of the patents to which the licences relate. Provision is made for any impairment.

Patents

Patents and trademarks are included at cost and amortised in equal annual instalments over a period of 20 years, which is their estimated useful economic life. Provision is made for any impairment. Where patent expenditure is funded by arrangements with development partners, the costs of such patents are not capitalised.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'Intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

Software

Purchased software is measured initially at cost and is amortised on a straight-line basis over its estimated useful life of 3 years. Provision is made for any impairment.

In Process Technology

Purchased Intangibles

Intangibles are recognised when they have been acquired separately for cash or other monetary assets, or as part of a business combination and are amortised through cost of sales over their estimated useful lives from the time they are available for use. In process technology acquired as part of a business combination is valued using discounted cash flow valuations of the projected future benefits arising from the technology acquired.

Research and Development

Development costs are charged to the income statement in the year they are incurred except in those circumstances where, during the development phase of a project, the Company is able to identify an intangible asset and demonstrate that the asset will generate probable future economic benefits. In such cases, provided the criteria defined under IAS 38 are met, then the costs are capitalised as in process technology. The costs in respect of funded projects are recognised to the extent that the costs meet the relevant criteria, net of any amounts reimbursed by research partners.

Development costs are amortised, from the point the asset is available for use in the manner intended by management, on a straight-line basis over the period of its expected benefit.

Expenditure on research and development that does not meet the above criteria is charged to the income statement in the year in which it is incurred.

Impairment of Non-financial Assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Property, Plant and Equipment

Property, plant and equipment is stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows: plant and machinery, 3-5 years. No depreciation is provided on assets under construction. Residual value is calculated on prices prevailing at the balance sheet date.

Expenditure funded by research partners is only capitalised where there are no significant rights acquired by that third party over the asset and the asset has a clear enduring use beyond the specific funding project.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Share-based Payments

The Group issues share options to certain employees which are accounted for as equity settled. Equity settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural

Notes to the Accounts (continued)

considerations. When options are exercised the proceeds received, net of attributable transaction costs, are credited to share capital and premium.

The grant by the Company of options over its equity instruments to employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investments in subsidiary undertakings with a corresponding credit to equity.

Short Term Employee Benefits

Accruals are included to reflect the cost of short term compensation to employees for absences such as paid leave.

Pension Costs

The Group operates various defined contribution pension schemes for its employees. The amount charged to the income statement in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Financial Instruments

Trade Receivables

Trade receivables are stated at nominal value (which approximates to fair value) less impairment for estimated irrecoverable amounts. Customer prepayments are netted against individual customer receivables to the extent that there is the right of set-off.

Trade Payables

Trade payables are stated at their nominal value (which approximates to fair value).

Financial Liabilities and Equity Instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value, taken as proceeds received net of direct issue costs and thereafter at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are recognised in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

3 Critical Accounting Estimates and Judgements

The preparation of financial information in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The estimates and assumptions that have a significant

risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Revenue Recognition

The Company and its subsidiaries recognise revenue generally at the time of delivery and when collection of the resulting receivable is probable. Should management consider that the criteria for revenue recognition are not met for a transaction, revenue recognition would be delayed until such time as the benefit becomes fully earned. Payments received in advance of revenue recognition are recorded as deferred income.

Execution of certain agreements will sometimes allow the Company and its subsidiaries to charge an upfront payment. These are recorded as deferred income and recognised in revenue over the period of the agreement to which they relate. Management reviews, on a periodic basis, progress performed on such agreements and adjusts the proportion recorded in revenue accordingly.

The length of an agreement can be dependent on achievement of certain technical milestones and as such is uncertain when the agreement is signed. In such cases, management recognise income based on their best estimate of the agreement duration and review this estimate at each period end.

Share-based Payments

The fair value calculation of share-based payments requires several assumptions and estimates. Their details are disclosed in note 12. Such assumptions and estimates could change and could affect the amount recorded.

Capitalised Development Costs

The Company undertakes a significant number of research projects in which it incurs development costs. These costs are assessed against the capitalisation policy as set out in note 2. There is a high degree of judgement in assessing whether and when the costs on such projects meet the criteria for capitalisation under IAS 38. Those costs which have been assessed as meeting these criteria for capitalisation are disclosed within note 14 as in process technology additions.

Acquired intangible Assets

Estimation of the fair values of acquired intangible assets requires assumptions as to value, future life and future cash flows for impairment tests. There is a high degree of judgement required in making these assumptions which impact both the initial fair value acquired and the carrying value as at the balance sheet date.

4 Segmental Information

IFRS 8 'Operating Segments' has been adopted by the Group for the financial year ending 31 December 2009.

The chief operating decision-maker has been identified as the Executive Management Committee. This committee reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Committee considers the business from a product perspective. From a product perspective, management assesses the performance of catalyst and equipment products separately.

The Executive Management Committee assesses the performance of the operating segments based on a measure of operating loss. Inter segment revenue is recorded at arms length price.

Notes to the Accounts (continued)

The segment results for the year ended 31 December 2009 are as follows:

	2009			2008		
	Catalyst £'000	Equipment £'000	Group £'000	Catalyst £'000	Equipment £'000	Group £'000
Total revenue	320	8,335	8,655	524	774	1,298
Operating loss	(4,663)	(1,565)	(6,228)	(4,446)	(523)	(4,969)
Finance income			290			1,505
Finance costs			(142)			(12)
Loss before income tax			(6,080)			(3,476)
Income tax credit			616			179
Loss for the year			(5,464)			(3,297)

Prior to the acquisition of Velocys in November 2008, the Group only had one operating segment, the catalyst business.

	2009			2008		
	Catalyst £'000	Equipment £'000	Group £'000	Catalyst £'000	Equipment £'000	Group £'000
Other segmental items						
Depreciation and amortisation	576	268	844	353	26	379
Capital expenditure	(225)	(1,565)	(1,790)	1,456	13	1,469
Goodwill	-	4,129	4,129	-	4,606	4,606
Other assets	11,610	25,360	36,970	18,360	25,160	43,520
Total assets	11,610	29,489	41,099	18,360	29,766	48,126

Other segment assets comprise primarily of property, plant and equipment, trade and other receivables and cash and cash equivalents.

Capital expenditure comprises additions to property, plant and equipment and intangible assets.

The Group's two operating segments operate in three main geographical areas. Revenue is allocated based on the country in which the customer is located.

	2009			2008		
	Europe £'000	USA £'000	Asia £'000	Europe £'000	USA £'000	Asia £'000
Total revenue	2,068	445	6,142	197	557	544

Non-current assets, consisting primarily of goodwill, other intangible assets and property, plant and equipment, totalling £25,247,000 were located in the United States of America. All other non-current assets are held in the United Kingdom.

5 Revenue from Partners

The majority of revenue of the Group is derived from a small number of significant development partners. The total amounts recognised from partners where revenue comprises 10% or more of Group revenue is as follows:

	2009 £'000	2008 £'000
Partner 1	5,815	417
Partner 2	1,850	79
Velocys*	-	256
Partners less than 10%	990	546
Total	8,655	1,298

* Velocys income relates to the period before the acquisition in November 2008. Revenue to Oxford Catalysts Ltd from Velocys in 2009 is eliminated on consolidation.

6 Finance Income

	2009	2008
	£'000	£'000
Interest income on bank deposits	290	810
Foreign exchange gains	–	695
	290	1,505

7 Finance Costs

	2009	2008
	£'000	£'000
Unwinding of discount on deferred licence payments creditor	13	12
Interest on finance leases	2	–
Foreign exchange losses	127	–
	142	12

8 Expenses by Nature

	2009	2008
	£'000	£'000
Employee benefit expense (see note 10)	8,096	3,512
Sub-contractor and consultant costs	1,570	334
Depreciation of tangible fixed assets: owned (note 15)	786	366
Depreciation of tangible fixed assets: leased (note 15)	16	1
Amortisation of intangible assets (note 14)	42	12
Operating lease payments – plant and machinery	332	28
Operating lease payments – other	162	169
Other expenses	3,879	1,845
Total costs of sales, unfunded research and development costs, and administrative expenses	14,883	6,267

9 Auditor Remuneration

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditor.

	2009	2008
	£'000	£'000
Fees payable to Company's auditor for the audit of parent company and consolidated financial statements	31	33
Fees payable to the Company's auditor for other services		
– The audit of Company's subsidiaries pursuant to legislation	31	32
– Other services pursuant to legislation	19	5
– Services relating to completed corporate finance transaction	–	283
	81	353

10 Employee Benefit Expense

The average monthly number of Group employees (including the Executive Directors) was as follows.

	2009	2008
	Number	Number
Research, design and development	59	21
Administration	25	9
Total average headcount	84	30

Notes to the Accounts (continued)

Their aggregate remuneration comprised as follows.

	2009 £'000	2008 £'000
Wages and salaries	6,164	1,879
Social security costs	550	211
Medical insurance	484	79
Pension costs	208	95
Other costs	15	–
Share-based payments granted to Directors and employees	675	1,248
	8,096	3,512

The figures above for 2008 include Velocys employees from the date of acquisition.

The Company did not employ any staff (2008: nil) during the year.

Details of Directors' remuneration are given in the Directors' Remuneration Report on pages 10 to 12 which form part of these financial statements.

11 Income Tax

Current Tax

Due to the availability of losses incurred in the year, there is no charge to corporation tax. The Group has recovered or expects to recover £616,000 through R&D tax credit claims for the years ending 31 December 2009 and 31 December 2008 (2008: £179,000 in respect of claim for year ending 31 December 2007).

Deferred Tax

At 31 December 2009 the Group has a net unrecognised deferred tax asset of £5,651,000 (2008: £5,981,000) arising from trading losses from incorporation. No recognition (2008: nil) of the net deferred tax asset has been made at 31 December 2009 on the grounds of uncertainty over its recoverability in light of the Group's nascent revenue streams and commitment to continued investment in research and development, and therefore there is no impact on the current or prior year income statement.

Reconciliation to Current Tax Credit

The actual tax charge for the current and previous year is higher (2008: higher) than the theoretical amount that would arise using the weighted average tax rate applicable to the results of the consolidated entities, for the reasons set out in the following reconciliation.

	2009 £'000	2008 £'000
Loss on ordinary activities before tax	(6,080)	(3,476)
Tax calculated at domestic tax rates applicable to losses in the respective countries	(1,718)	(1,020)
Tax effects of:		
– Expenses not deductible for tax purposes	36	4
– Unutilised tax losses	1,682	1,016
– R&D tax credit relating to prior years	(316)	(179)
– R&D tax credit	(300)	–
Current tax credit for year (see above)	(616)	(179)

The weighted average applicable tax rate was 28.3% (2008: 29.3%).

12 Share-based Payments

Equity Settled Share Option Scheme

The Group has four share option schemes that cover all employees.

EMI Executive Scheme

The EMI Executive Scheme granted share options to two directors on 16 March 2006 with an exercise price of 4.89p and an expiration date of 16 March 2016. The exercise price was based upon the estimated market value of the Company on the date of grant. Mr Roy Lipski, was granted 1,404,370 share options of which fifty percent vested upon the Company's listing

on AIM (26 April 2006) and the balance on 26 October 2007. These options all remained outstanding and exercisable at 31 December 2009.

Dr William Barton was issued 702,185 share options, with an exercise price of 4.89p, of which one-sixth vested upon the Company's listing on AIM with one-third of the balance vesting on 31 January 2007, 2008 and 2009 respectively; he exercised all of these in November 2009.

As a result, 1,404,370 options were outstanding and exercisable at 31 December 2009. 2,106,555 options were outstanding and 1,911,503 were exercisable at 31 December 2008.

The Group recognised total expenses of £2,000 in 2009 (2008: £28,000) related to the EMI Executive Scheme.

EMI Scheme

The EMI Scheme covers all UK based employees of the Group. Options are exercisable at a price equal to the mid-market value of the Group's ordinary shares on the day prior to grant and vest after the earlier of three years from grant or date of joining the Group. Options expire after 10 years and are forfeited if the employee leaves the Group before the options vest.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows.

	2009		2008	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At 1 January	136.08p	411,514	125.30p	382,903
Granted	52.56p	345,153	159.51p	125,385
Forfeit	–	–	124.00p	(96,774)
At 31 December	97.98p	756,667	136.08p	411,514

Of the 756,667 options outstanding at 31 December 2009, 40,323 were exercisable (2008: none exercisable).

Share options outstanding at the end of the year have the following expiry date and exercise prices.

Year of expiry	Range of exercise price	2009		2008	
		Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
2017	124.00 – 150.00p	286,129	125.82p	286,129	125.82p
2018	146.50 – 171.50p	125,385	159.50p	125,385	159.51p
2019	46.50 – 74.50p	345,153	52.56p	–	–
Total	46.50 – 171.50p	756,667	97.98p	411,514	136.08p

The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was 12.65p (2008: 38.50p) per option. The significant inputs into the model were as follows.

	2009	2008
Weighted average share price at grant date	52.56p	159.50p
Weighted average exercise price	52.56p	159.50p
Expected volatility ⁽ⁱ⁾	30%	30%
Annual risk free rate	3%	3%
Dividend yield	0%	0%
Expected life	3.0 Years	2.8 Years

(i) The expected volatility was determined by reference to comparable companies and review of historic actual volatility based on statistical analysis of daily share prices since the date of the Company's listing on AIM.

Total expense recognised in the income statement for share options granted to Directors and employees was £57,000 in 2009 (2008: £40,000).

Notes to the Accounts (continued)

Executive Long Term Incentive Plan (ELTIP)

On 4 November 2009, the Board of Directors authorised the ELTIP Scheme to grant 400,000 share options to Mr Roy Lipski with an exercise price of 1p and a vesting date of 31 January 2012 if Mr Lipski achieves certain performance criteria set by the Remuneration Committee. The options expire 10 years after grant.

On 4 November 2009, the Board of Directors authorised the ELTIP Scheme to grant 300,000 share options to Mrs Susan Robertson with an exercise price of 1p and a vesting date of 31 January 2012 if Mrs Robertson achieves certain performance metrics set by the Board of Directors. The options expire 10 years after grant.

On 19 November 2008, the Board of Directors also authorised the ELTIP Scheme to grant 600,000 share options to Mr Roy Lipski with an exercise price of 1p. Of the grant, 400,000 options vested immediately and were exercised between March and May 2009. The remainder will vest on 31 January 2011 if Mr Lipski achieves certain performance criteria set by the Remuneration Committee. The options expire 10 years after grant.

The Board of Directors also authorised on 19 November 2008 the ELTIP Scheme to grant Mrs Susan Robertson, Group CFO, 160,000 share options with an exercise price of 1p. Two-thirds of the grant vested on 19 November 2008, and the balance vested on 31 January 2009 based on achievement of certain performance criteria set by the Remuneration Committee. The options would have expired 10 years after grant but were exercised in March 2009.

These awards authorised in 2008 were recommended by the Remuneration Committee in December 2007, but could not be granted due to the Company being in a closed period until after the announcement of the acquisition of Velocys.

As of 31 December 2009, none of the options granted under the ELTIP were forfeited, 560,000 (2008: none) had been exercised and 900,000 (2008: 760,000) remained unexercised of which none (2008: 506,667) were exercisable.

The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was 55p (2008: 158p) per option. The significant inputs into the model were as follows.

	2009	2008
Weighted average share price at grant date	56.00p	158.00p
Weighted average exercise price	1.00p	1.00p
Expected volatility ⁽ⁱ⁾	30%	30%
Annual risk free rate	3%	3%
Dividend yield	0%	0%
Expected life	3.0 years	5.0 years

(i) The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years.

Total expense recognised in the income statement for share options granted under the ELTIP was £273,000 (2008: £865,544).

Velocys Scheme

The Velocys, Inc. Stock Compensation Plan ("Velocys Scheme") was acquired as part of the acquisition of Velocys on 20 November 2008. The scheme was started in 2001 and covers all US based employees. Prior to the acquisition, Velocys' board of directors granted nonqualified share options to employees that expire 10 years from grant date. The options' exercise price was equal to the stock's fair market value at the date of grant. Options are forfeited if an employee leaves the Group. Generally, options vest as follows.

After 1 year of service from vest start date:	25% of grant
Each month subsequent to 1 year of service:	1/48th of grant

Pursuant to the terms and conditions of the acquisition of Velocys, each vested and unvested Velocys Scheme option existing on the acquisition date was converted into 0.3659 of an Oxford Catalyst Group PLC option (the ratio of the value of one share of Velocys stock to one share of Oxford Catalyst Group PLC stock) with a corresponding increase to the exercise price. Share Options are exercisable in US dollars. Details of the share options outstanding under the Velocys Scheme are as follows.

	2008	
	Weighted average exercise price	Number of options
At 20 November	\$1.20	1,203,716
Granted	-	-
Forfeited	\$2.54	(3,365)
Exercised	-	-
Expired	-	-
At 31 December	\$1.20	1,200,351

	2009	
	Weighted average exercise price	Number of options
At 1 January	\$1.20	1,200,351
Forfeited	\$2.54	(1,463)
At 31 December	\$1.20	1,198,888

Of the options outstanding presented above, 1,133,360 and 1,014,187 were exercisable as of 31 December 2009 and 2008 respectively.

Share options outstanding at the end of the year have the following expiry date and exercise prices.

Year of expiry	2009			2008	
	Range of exercise price per share	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
2011	\$1.39	158,879	\$1.39	158,879	\$1.39
2012	\$1.39	34,313	\$1.39	34,313	\$1.39
2013	\$0.77	266,796	\$0.77	266,796	\$0.77
2014	\$0.77	119,854	\$0.77	119,854	\$0.77
2015	\$0.77	359,121	\$0.77	359,121	\$0.77
2016	\$2.21 – \$2.22	189,164	\$2.21	189,164	\$2.21
2017	\$2.21 – \$2.55	51,227	\$2.47	51,227	\$2.47
2018	\$2.54 – \$2.60	19,534	\$2.57	20,997	\$2.57
Total		1,198,888	\$1.20	1,200,351	\$1.20

The Velocys Scheme options were revalued as of the acquisition date using the Black-Scholes valuation model.

Significant assumptions used to value the options are as follows.

	At 20 November 2008
Velocys, Inc. share price at date of transaction	\$0.952
Weighted average exercise price per Velocys share option	\$0.44
Expected volatility	102 – 129%
Annual risk free rate	3.1%
Dividend yield	0%
Average expected life	6.1 years

(i) The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices of a number of comparable companies over the last three years.

Total expense recognised in the income statement for share options granted under the Velocys plan was £54,000 (2008: £13,700).

Notes to the Accounts (continued)

Bonus Shares

The Group maintains two bonus share schemes for certain executives: one in respect of employees of Oxford Catalysts Limited and one in respect of employees of Velocys, Inc. Under both schemes, the value of the bonus is based upon the executive's salary as well as the Group and the executive achieving certain targets throughout the year. The Oxford Catalysts Limited bonus share scheme awards nominal value share options (1p) that are issued after year end. The awards vest on the date of grant and expire 10 years thereafter. The share-based payment expense for the year includes a cost of £257,000 (2008: £300,000) for the Oxford Catalysts Limited bonus share options.

The Velocys bonus share scheme awards shares subsequent to year end at an exercise price equal to the stock's fair market value at the date of grant. Unvested shares are forfeited if an employee leaves the Group. 20% of the award vests on each anniversary of the date of grant.

The share-based payment expense for the year includes a cost of £33,000 (2008: nil) using the above vesting schedule.

Share-based Payments Charge

The total charge for share-based payments during the year was £675,000 (2008: £1,248,000) of which £493,000 (2008: £1,103,000) relates to options granted to Directors and the remainder to other employees.

13 Loss Per Share

The basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2009	2008
Loss attributable to equity holders of the Company (£'000s)	(5,464)	(3,297)
Weighted average number of ordinary shares in issue	60,211,508	42,710,480
Basic and diluted loss per share (pence)	(9.07)	(7.72)

Diluted loss per share is calculated by adjusting the weighted average number of shares in issue to assume conversion of all potential dilutive shares. Share options have not been included in the number of shares used for the purpose of calculating diluted loss per share since these would be anti-dilutive for the period presented. Other than share options and the Put and Call Option (see note 28), there are no other potentially dilutive instruments. Details of share options are given in note 12.

14 Group Intangible Assets

	Goodwill £'000	In process technology £'000	Patents, licence and trademarks £'000	Software £000	Total £'000
Cost					
At 1 January 2009	4,606	21,626	285	74	26,591
Additions	20	114	43	11	188
Foreign exchange movement	(497)	(2,337)	-	(8)	(2,842)
At 31 December 2009	4,129	19,403	328	77	23,937
Accumulated amortisation					
At 1 January 2009	-	-	17	4	21
Charge for the year	-	-	9	33	42
Foreign exchange movement	-	-	-	(2)	(2)
At 31 December 2009	-	-	26	35	61
Net book amount					
At 31 December 2009	4,129	19,403	302	42	23,876
At 31 December 2008	4,606	21,626	268	70	26,570

	Goodwill £'000	In process technology £'000	Patents, licence and trademarks £'000	Software £000	Total £'000
Cost					
At 1 January 2008	–	–	214	–	214
Additions	–	–	71	11	82
Assets acquired on acquisition of subsidiary	4,532	20,860	–	61	25,453
Foreign exchange movement	74	766	–	2	842
At 31 December 2008	4,606	21,626	285	74	26,591
Accumulated amortisation					
At 1 January 2008	–	–	9	–	9
Charge for the year	–	–	8	4	12
At 31 December 2008	–	–	17	4	21

Goodwill and intangible assets that are not yet ready for use are subject to an annual impairment review. Intangible assets in use are amortised over their expected useful lives and are reviewed when there is an indication that an impairment may have occurred. If the balance sheet carrying amount of the asset exceeds the higher of its value in use to the Group or its anticipated fair value less cost of sale, an impairment loss for the difference is recognised.

The impairment analysis is principally based upon estimated discounted future cash flows. Actual outcomes could vary significantly from such estimates of discounted future cash flows. Especially, the development of discounted future cash flows for intangible assets under development involves highly sensitive assumptions specific to the nature of the Group's activities, primarily relating to long-term sales forecasts for the Group's products.

Value in use calculations are generally utilised to calculate recoverable amounts. Value in use is calculated as the net present value of the projected risk-adjusted, pre-tax cash flows of the cash generating unit (being the related products) relating to the intangible asset, and applying a discount rate of the Group's post-tax weighted average cost of capital of approximately 25%. This approximates to applying a pre-tax discount rate to pre-tax cash flows. The cash flows projected are over the expected useful lives of the products which extend over 20 years.

The determination of these underlying assumptions relating to the recoverability of intangible assets is subjective and requires the exercise of considerable judgement. Any changes in key assumptions about the business, expected development of technology, or changes in market conditions, could result in an impairment change.

Amortisation of intangible assets is charged to other administrative expenses in the consolidated income statement.

Company

The Company has no intangible assets (2008: none).

15 Group Property, Plant and Equipment

	Assets under construction £'000	Plant and machinery £'000	Total £'000
2009			
Cost or valuation			
At 1 January 2009	41	2,999	3,040
Additions	1,393	209	1,602
Transfers to plant and machinery	(1,347)	1,347	–
Foreign exchange losses	(49)	(64)	(113)
At 31 December 2009	38	4,491	4,529
Accumulated depreciation			
At 1 January 2009	–	547	547
Charge for the year	–	802	802
Foreign exchange losses	–	(9)	(9)
At 31 December 2009	–	1,340	1,340
Net book amount			
At 31 December 2009	38	3,151	3,189

Notes to the Accounts (continued)

2008	Assets under construction £'000	Plant and machinery £'000	Total £'000
Cost or valuation			
At 1 January 2008	254	786	1,040
Additions	41	1,346	1,387
Transfers to plan and machinery	(258)	258	-
Assets acquired on acquisition of subsidiary	4	588	592
Foreign exchange gains	-	21	21
At 31 December 2008	41	2,999	3,040
Accumulated depreciation			
At 1 January 2008	-	180	180
Charge for the year	-	367	367
At 31 December 2008	-	547	547
Net book amount			
At 31 December 2008	41	2,452	2,493

The net book amount of leased assets included above is £37,000 (2008: £31,000). Depreciation is charged to other administrative expenses in the consolidated income statement.

Company

The Company has no property, plant or equipment.

As at 31 December 2009, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £165,000 (2008: £41,000).

16 Investments

Company	2009 £'000	2008 £'000
Investment in subsidiaries		
Investment in Group undertakings at 1 January	49,364	1,044
Capital contributions relating to share-based payments	675	1,248
Movement in loan to subsidiary	(1,315)	24,230
Purchase consideration for acquisition of Velocys	-	22,842
Costs associated with acquisition of Velocys	19	-
Foreign exchange impact – retranslation of loans to subsidiary	(756)	-
At 31 December	47,987	49,364

Investments include long term loans to both Velocys, Inc. and Oxford Catalysts Limited.

The Company has investments in the following subsidiary undertakings.

Subsidiary undertakings	Country of incorporation or principal business address	Principal activity	% Holding (all ordinary share capital)
Oxford Catalysts Ltd	England and Wales	Design and development of catalysts, and exploitation of its platform catalyst technologies	100
Velocys, Inc.	Delaware, USA	Design, development and exploitation of its microchannel technologies	100

17 Trade and Other Receivables

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Amounts falling due within one year				
Trade receivables	1,198	1,263	-	-
Prepayments and accrued income	308	1,156	-	-
Other receivables	234	160	-	-
	1,740	2,579	-	-

The fair value of trade and other receivables is not materially different to the book value above (2008: not materially different). The majority of the trade receivables are due from large multinational groups and hold a low credit risk. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable. The Group does not hold any collateral as security (2008: none).

As at 31 December 2009 trade receivables of £9,000 (2008: £552,000) were past due but not impaired. These related to a number of partners for whom there is no history of default. The ageing analysis of these trade receivables past the due date is as follows.

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Up to 3 months	-	543	-	-
3 to 6 months	109	9	-	-
Greater than 6 months	-	-	-	-
Provision for doubtful debt	(100)	-	-	-
	9	552	-	-

Trade receivables outstanding at year end represent approximately 36 days sales (2008: 30 days).

The Group believes that the full amount of trade receivables recognised is recoverable after allowance has been made for doubtful debts. At 31 December 2009, the Company had no overdue trade receivables (2008: none). The other classes within trade and other receivables do not contain impaired assets (2008: none).

The allowance for doubtful debt is based on discussions with two smaller customers who have indicated that their ability to pay is dependant on their raising funding which is not yet secured. Both customers have confirmed their intention to pay but the Directors consider it prudent at this point to provide in full for the amounts concerned.

The carrying amount of the Group's trade and other receivables are denominated in the following currencies.

	Group	
	2009 £'000	2008 £'000
UK sterling	305	1,010
US dollars	1,435	1,569
	1,740	2,579

18 Short Term Investments, Cash Equivalents and Restricted Assets

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Financial assets – restricted access escrow account	308	-	-	-
Short term investments – cash held on long-term deposit	4,000	8,645	-	-
Cash and cash equivalents	7,686	7,667	-	-
Total	11,994	16,312	-	-

Notes to the Accounts (continued)

Under IFRS 7, cash held on long-term deposit has been classified as a short term investment since it is on term deposits of greater than three months.

The financial assets – restricted cash is the balance held in an escrow account which relates to the State of Ohio loan (see note 21). Generally, assets acquired under the State of Ohio's R&D Loan program must remain in the State of Ohio. The Company's wholly owned subsidiary, Velocys, Inc., and the State of Ohio agreed as part of the loan terms and conditions that Velocys could use a portion of the proceeds to fund the purchase of certain assets to be located outside of the United States for approximately one year if Velocys agreed to place \$500,000 in an escrow account. Should the assets not return to the State of Ohio by 30 June 2011, the funds in the Escrow Account could be drawn by the State of Ohio to repay a portion of the loan. It is the Company's intention that the assets will return to the State of Ohio in late 2010.

All short term investments are in UK sterling denominated accounts. The restricted access escrow account is denominated in US dollars. Cash is held in both US dollars and UK sterling denominated accounts as follows.

	Group	
	2009	2008
	£'000	£'000
UK sterling accounts	5,187	3,150
US dollar accounts	2,499	4,517
Total	7,686	7,667

The Company has no cash or cash equivalents.

19 Trade and Other Payables: Amounts Falling Due Within One Year

	Group		Company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Trade payables	676	739	-	-
Other payables	13	-	-	-
Other taxation and social security	82	68	-	-
Accruals	1,502	968	-	-
Deferred income	1,271	746	-	-
	3,544	2,521	-	-

20 Trade and Other Payables: Amounts Falling Due After More than One Year

	Group		Company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Accruals	9	91	-	-
Deferred income	613	1,093	-	-
Deferred licence payments	143	135	-	-
	765	1,319	-	-

The deferred licence payments creditor represents the discounted value of the minimum licence payments due under the terms of a licence agreement between Oxford Catalysts and ISIS Innovations Limited, the technology transfer office of the University of Oxford. Under this agreement, ISIS granted Oxford Catalysts the worldwide rights for the duration of the patents to certain intellectual property and is entitled to a royalty of 4% of direct sales and 11% of any indirect sales incorporating the licensed intellectual property. In addition, there are certain minimum payments; the first of these payments of £5,000 became payable in 2009. Thereafter, the minimum payment rises by £5,000 per annum for the next 3 years then remains at £20,000 for the remainder of the contract. The discounted value of these payments is included in intangible assets.

The fair value of trade and other payables are not materially different from the carrying values above.

21 Borrowings

Maturity of borrowings is as follows.

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Within 1 year	73	10	-	-
Within 2 to 5 years	227	22	-	-
	300	32	-	-

On 1 December 2009, the Company's wholly owned subsidiary, Velocys, Inc. entered into a loan agreement with the State of Ohio (the State) whereby Velocys can borrow up to \$2.25 million to fund qualified capital projects. The loan agreement provides that a qualified capital project is one that is for research and development purposes, is completed by 30 June 2010 and Velocys funds at least 25% of the costs associated with said projects. The stated interest rate for the loan is 2.00% per annum with a service fee of 0.25% of the principle balance. The loan is repaid to the state using a blended payment schedule as follows.

- For the first five years of the loan, the principal will be paid in consecutive monthly instalments based upon an original amortisation over 20 years with any interest accrued during that particular month.
- For the remaining term of the loan, the principal will be paid in consecutive monthly instalments based upon the remaining term of the loan (5 years) with any interest accrued during that particular month.

The loan is secured by all property acquired using the loan proceeds as well as a guarantee of payment provided by the Company. As of 31 December 2009, Velocys had borrowed £261,000 under this loan agreement.

All remaining borrowings arise from finance lease obligations.

22 Share Capital

Company	2009 £'000	2008 £'000
Authorised		
100,000,000 (2008: 100,000,000) ordinary shares of £0.01 each	1,000	1,000
Allotted, called up and fully-paid		
61,344,946 (2008: 59,649,281) ordinary shares of £0.01 each	613	596

A total of 4,509,568 (2008: 4,478,420) options to subscribe for ordinary shares of the Company have been granted and are outstanding at 31 December 2009 under the employee options schemes operated within the Group. Details are given in note 12.

All movements in share capital during 2009 relate to the exercise of share options.

23 Cash Outflow from Operating Activities

	2009 £'000	2008 £'000
Operating loss	(6,228)	(4,969)
Depreciation and amortisation	844	379
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation)		
- Trade and other receivables	279	(262)
- Trade and other payables	884	(1,709)
- Foreign exchange differences	-	(213)
- Share-based payments	675	1,248
- Other	19	-
Net cash consumed by operations	(3,527)	(5,526)

24 Commitments

Capital commitments are disclosed in note 15.

Notes to the Accounts (continued)

Operating Lease Commitments

The Group leases various offices under non-cancellable operating lease agreements. The lease terms are between 2 and 5 years and the majority of lease agreements are renewable at the end of the lease period at market rate.

	2009 £'000	2008 £'000
Future aggregate minimum lease payments under non-cancellable property leases:		
- Within one year	320	424
- Between one and five years	1,016	1,068
- After more than five years	803	-
	2,139	1,492
Future commitments under non-cancellable operating plant and equipment leases:		
- Within one year	26	111
- Between one and five years	37	124
	63	235

Licence from Battelle

As part of the diligence requirements set forth in one of the licence agreements by and between Velocys, Inc., the subsidiary acquired from The Battelle Memorial Institute ("Battelle") in 2008, and Battelle, Velocys is required to pay annual licence payments of \$150,000 to Battelle for each of four separate fields of use commencing in the year ending 30 September 2013. Failure to make the payment could result in the loss of exclusivity in that particular field of use. Licence payments continue to be required until the earlier of the expiration of the licence or from the date that the Company wishes the field of use to become non-exclusive. Battelle can, at its own discretion defer the licence requirements. Since the licence payments remain at the discretion of the Group, they are not capitalised.

25 Pension Arrangements

The Group also operates a number of defined contribution schemes for which the pension cost charge for the year amounted to £208,000 (2008: £95,000).

26 Related Party Transactions

Prior to the acquisition of Velocys, Oxford Catalysts Ltd had entered into an MOU with Velocys under which Velocys contracted to pay Oxford Catalysts Ltd for certain development work. Revenues in 2008 from this contract of £256,000 which relate to the period prior to the acquisition are included within the turnover of the Group. Revenues deriving from this MOU for the period after the acquisition are eliminated on consolidation and are therefore not included within these results.

27 Put and Call Option

In order to provide potential back up funding for the Velocys development activities, at the time of the acquisition fund raising, the Company entered into a put and call option (the "Put and Call Option") dated 31 October 2008 between the Company and Avenir Finances S.A. Under this agreement either Avenir Finances S.A. may, in the period of 24 months following completion of the Velocys transaction which occurred on 20 November 2008, exercise a call option to acquire 1,600,000 Ordinary Shares in the Company at the price of £1.25 per share, or the Company may, in the period from 12 months from the completion of the Velocys transaction up to 24 months after this date, exercise a put option to require Avenir Finances S.A. to acquire 1,600,000 Ordinary shares in the Company at the price of £1.25 per share. Under the Put and Call Option agreement, the Company has agreed to pay Innovator Capital Ltd a fee of £100,000 which is payable upon exercise of the put or call option.

28 Contingent Liabilities

Velocys has recently received notification of the results of an audit of contract billings from the US Defence Contract Audit Agency. The audit relates to an examination of amounts billed to the US government for a period ending 30 September 2005. This report details amounts of \$1,267,000 which are stated as not being compliant with the terms of the contract. The Directors strongly refute the audit findings and believe they have evidence to support the claims Velocys made. Based on this, the Directors have not recognised any liability relating to this audit report.

Furthermore, the contract relates to the period prior to acquisition of Velocys. Under the terms and conditions of the sale and purchase agreement for Velocys, there are warranty provisions which trigger a payment from the former owner of Velocys, the Battelle Memorial Institute, for claims in excess of \$250,000.

Directors, Secretary and Advisors to the Group

Company registration number	5712187
Registered office	115e Milton Park Oxford OX14 4RZ
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Company Secretary	Mrs Susan Robertson
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