



Oxford Catalysts Group PLC

Annual Report and Accounts 2010

Oxford Catalysts designs and develops technology for the production of synthetic oil from both conventional fossil fuels and renewable sources such as bio-waste. The Group is focused on the emerging market for distributed smaller scale production of synthetic oil 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 synthetic oil, 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 oil. (The Group's reactor technology – known as microchannel process technology – is marketed under the brand name of Velocys).

Oxford Catalysts Group PLC is listed on the AIM market of the London Stock Exchange (LSE: OCG). The Group has some 80 employees with facilities near Oxford, UK and Columbus, Ohio, USA.

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Highlights

- Raised £21m before expenses through an oversubscribed equity placing in March 2011
- First order received from SGCE for commercial scale FT unit and fulfilled in March 2011
- Second order for commercial scale FT unit received post period end
- GTL demonstration plant fully constructed and arrived in Brazil April 2011
- Significant industry recognition with receipt of five international awards
- Revenue of £7.7 million (2009: £8.7 million), reflecting transition to commercial income
- Cash* at period end of £5.7m (2009: £12.0m) before fundraising

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

“2010 has been another successful year in the Group’s transition from a development company to a commercial product provider. Following the successful fundraising, Oxford Catalysts is well capitalised to continue advancing toward commercial roll-out.”

“We are receiving unprecedented levels of interest in our technology as the market environment for synthetic fuels continues improving. The Board looks forward to a period of considerable progress with growing anticipation for the future.”

* Defined as cash, cash equivalents, short term investments and other financial assets.

Chairman's Statement

2010 was another successful year for Oxford Catalysts, continuing our transformation from a development organisation to a commercial product provider. Market conditions for synthetic fuels production, especially through smaller scale Gas-to-Liquids ("GTL"), have improved considerably over the past year and the Group is enjoying high levels of interest in its technology.

The Group's existing commercial relationships remain strong; at the same time we are actively exploring additional opportunities with a number of major corporations. Our partner, SGC Energia, SGPS, S.A. ("SGCE") placed two orders with the Group for commercial scale Fischer-Tropsch ("FT") reactors, and is completing its plans for a major commercial synthetic fuels plant. The Group's FT demonstration in Güssing, Austria, was a success, validating many of the Group's technology advantages. At SGCE's request, we agreed to extend the demonstration (fully funded by SGCE) to host potential customers and to provide a location for SGCE to train its operators on the Group's technology ahead of deployment in commercial plants.

The Group announced the delivery of Steam Methane Reforming ("SMR") and FT reactors for its GTL demonstration which is funded and managed by Toyo Engineering Corporation and MODEC, Inc., in collaboration with Petróleo Brasileiro S.A. ("Petrobras") which is hosting the demonstration at one of its refineries in Brazil. The demonstration plant was fully constructed on schedule and arrived in Brazil in April 2011.

During the year, the Group also announced the signing of a \$5 million agreement with the Thai state-owned energy company, PTT Public Company Limited ("PTT"), to support the Group's smaller scale GTL technology for land based facilities.

The Group's cash position was strengthened after an oversubscribed placing that raised £21 million in March 2011 before expenses. This strong backing provides further validation of the Group's business model, its technical and commercial progress, and the significant market opportunity. I would like to take this opportunity to thank our existing shareholders for their continued support and to warmly welcome our new shareholders.

As previously announced, Group revenues for the year were £7.7 million (2009: £8.7 million), reflecting the start of a shift from development funding to commercial income streams. Year end cash* reserves stood at £5.7 million (2009: £12.0 million), prior to the fundraising.

I would like to thank the team, which consists of some 80 employees, for their tireless work throughout 2010 and their considerable achievements, which were also recognised by industry on five separate occasions during the year through significant awards.

Outlook

The Group is well capitalised to continue its progress towards commercial roll-out. 2011 looks set to be another busy and exciting year, with the Group's GTL demonstration due to start up in Brazil, and with the prospect of further commercial orders and new customers and partnerships.

In 2011, the Group will focus on its existing partnerships while strengthening its commercial, manufacturing and supply chain capabilities, as well as capitalising on the advancing status and market relevance of its technology.

The Board looks forward to a period of considerable progress with growing anticipation for the future.



Pierre Jungels, CBE

Chairman
12 May 2011

Chief Executive's Report

Introduction

Solid progress was made by the Group in 2010 and this has continued into 2011. Our first commercial order was received in December and successfully completed in March 2011 followed by a second order in May 2011. The Group has enjoyed unprecedented interest in its technology over the past year and we look forward to this trend being maintained during 2011.

Market Conditions

The increasing demand for oil and its sustained production constraints have helped drive crude prices again over \$100 a barrel. This, coupled with the discovery and development of the vast shale gas reserves in North America, has created an increasingly attractive environment for synthetic oil production through GTL, especially at smaller scales, thereby bringing the opportunity for the Group's technology sharply into focus.

Market conditions for Biomass-to-Liquids and Waste-to-Liquids ("BTL" and "WTL") are also very favourable as governments and industry have come to recognise the important role synthetic fuels derived from biomass and waste could play in seamlessly supplementing oil-based transportation fuels, whilst alleviating environmental pressures.

Successful Equity Placing

In March 2011, the Group successfully raised £21 million before expenses, at the same time enhancing its already solid shareholder base with the addition of seven new blue chip institutional investors. It is the intention of the Board to use these proceeds to accelerate the Group's transition to a commercial product company and in particular to:

- (a) enable the Group to hire new staff to support its growing commercial operations;
- (b) extend its supply chain capabilities, for both reactors and catalyst; and
- (c) upgrade its technology infrastructure to better support its commercial interactions and to enhance its standing with customers.

The new funds will also bolster the Company's balance sheet which will give it added credibility and strengthen

its negotiation position with respect to prospective new partners.

Commercialisation Demonstration

The Group previously announced the delivery of SMR and FT reactors for its GTL demonstration, funded and managed by Toyo Engineering Corporation and MODEC, Inc., in collaboration with Petrobras which is hosting the demonstration at its Lubnor refinery in Fortaleza, Brazil. We are pleased to announce that the demonstration plant is now fully constructed on schedule, and has arrived in Brazil. Currently, the Group understands that Petrobras will be ready to start the demonstration around September 2011.

In August 2010, Oxford Catalysts announced that our FT pilot unit was achieving good performance in phase one of the demonstration at Güssing, Austria. Our partner SGCE was 'very pleased' with the results obtained, and on this basis, placed an order for one of the Group's FT units. This represented the Group's first order for a full scale commercial reactor and catalyst, and an important opportunity to validate manufacturing and supply-chain readiness ahead of larger commercial orders. Following successful delivery of the first FT unit, SGCE placed a second order for an FT unit in May 2011, whilst confirming that they are completing plans for a major commercial synthetic fuels facility and expect to be in a position to proceed with the project in the second half of 2011.

A decision was also made during the year not to relocate the Group's FT demonstration unit to the Wright-Patterson Air Force base near Dayton, Ohio, thus paving the way for extended operation of the Güssing pilot plant to provide ongoing support for the design and deployment of future commercial facilities.

Manufacturing

Oxford Catalysts is currently collaborating with a number of manufacturers to secure 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 in Brazil. During the period, the Group also qualified a large US-based catalyst company for the commercial production of its FT catalyst.

Chief Executive's Report (continued)

In March 2011, Oxford Catalysts successfully completed the fabrication of a commercial FT unit in fulfilment of the first SGCE order placed in December, thus attaining a key technical milestone needed before SGCE progress with more aggressive commercialisation and implementation of the Group's technology. The completed full scale FT reactor was code stamped to ASME standards, thereby providing the necessary certification for commercial use. It was fully loaded with the Group's FT catalyst, produced by its US manufacturing partner, and is ready for commercial deployment.

With a nameplate capacity of some 25 bpd and core reactor dimensions of only 2ft x 2ft x 2ft, the commercial scale FT reactor exemplifies the process intensification potential of the Group's technology. Its 40,000+ microchannels also illustrate the technology's "numbering up" approach that provides both operational robustness and ease of scaling.

Other Agreements

In January 2010, Oxford Catalysts announced the signing of an agreement with PTT that provides \$5 million of funding for the development and commercialisation of the Group's GTL technology for smaller scale land based facilities. The Group's relationship with PTT continues to be very positive and the collaboration remains on track.

Industry Recognition

In 2010, the Group won five prestigious industry awards:

1. The Award for Excellence in the Field of Environmental Technology Commercialisation at the CleanEquity Monaco 2010 Awards;
2. The 2010 World XTL Award, widely regarded as the most important award in the synthetic fuels industry. Runners up were ENI / IFP / Axens, Oryx GTL, Shell and Technip. Past winners are Shell, Sasol, and Statoil;
3. The Chemical Industries Association's Innovation Award. Runners up included Johnson Matthey, Eli Lilly and Huntsman. Past winners include Dow, Solvay and Lucite;

4. A 2010 ChemInnovations Award, sponsored by Chemical Engineering;

5. The Institution of Chemical Engineers' 2010 Innovative Product Award. The IChemE Awards are widely recognised and attract entries from all over the world.

Intellectual Property ("IP")

The Group's current IP portfolio includes over 750 active patent cases and an even larger number of invention records. During the period, the Group filed 4 new patent applications, whilst 84 existing applications were granted in jurisdictions including the US, Canada, China, Australia, Japan, Russia, South Africa, South Korea, and various European countries.

Resources

With some 80 employees, Oxford Catalysts Group has a solid foundation to maintain its leading position in the fast emerging technology market for smaller scale synthetic oil production. The funds recently raised will be used to accelerate the Group's transition to a commercial product company, including the hiring of additional staff to support its growing commercial operations.

Financial Review

Revenues during the year were £7.7 million (2009: £8.7 million), reflecting the start of a shift from development funding to commercial income streams. Revenues were also impacted by a decision to slow down activities on a government funded programme in the last quarter in order to concentrate on preparations for some expected near term sales of FT units. The funding for this programme remains available and the work is expected to resume at planned levels in 2011 and 2012.

Chief Executive's Report (continued)

Losses for the period were £5.5 million (2009: £3.8 million), excluding the impact of currency movements (£0.1 million gain; 2009: £0.1 million loss) and non-cash items (depreciation, amortisation and share-based payments: £1.7 million; 2009: £1.5 million). Cash* outflow in this year was £6.3 million (2009: £4.3 million). Including the impact of currency movements and non-cash items, losses for the period were £7.2 million (2009: £5.5 million).

At period end, the Group had £5.7 million of cash* (2009: £12.0 million). Post period end, the Group raised £21 million before expenses through a share placing. Management believes that this level of funds is sufficient for now, although it 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
12 May 2011

* Defined as cash, cash equivalents, short term investments and other financial assets.

Directors' Report

The Directors present their annual report on the affairs of the Group together with the audited consolidated financial statements, for the year ended 31 December 2010.

Principal Activities

The principal activities of the Group during the year were the research, 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 5.

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 goals.

Scale Up

The risk that the Company 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 completed the first of its two demonstrations in 2010 which successfully demonstrated the FT reactor. On the basis of the results of this demonstration, one of its partners, SGCE, placed an order for a commercial scale reactor. The second demonstration programme, for a fully integrated GTL unit is currently underway with the unit scheduled to be commissioned in 2011.

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.

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.

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, 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 factors, 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 and other payables and amounts held in escrow. 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

Through the holding of cash and borrowings, 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 to protect against the foreign exchange impact on its US denominated cash flows.

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 2010, who served throughout the year and up to the date of signing, unless otherwise indicated, were as follows:

Directors' Report (continued)

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 2011 Annual General Meeting the following Directors will retire and offer themselves for re-election.

- Dr Pierre Jungels
- Dr Jan Verloop

Directors' Third Party Indemnity Provision

The Group maintains insurance to provide cover for legal action against its Directors. This has been in place throughout the year and remains in place at the date of this report.

Directors' Interests

The Directors who held office at 31 December 2010 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).

Oxford Catalysts Group PLC
Ordinary £0.01 shares

Name of Director	31 December 2010	31 December 2009
Dr Pierre Jungels	223,031	223,031
Mr Roy Lipski	2,329,564	757,139
Mrs Susan Robertson	304,874	183,513
Mr Jeremy Scudamore	24,000	24,000
Dr Andrew Jamieson	nil	n/a
Dr Jan Verloop	150,837	150,837

On 18 March 2011, Jeremy Scudamore and Andrew Jamieson purchased 75,000 and 25,000 shares respectively in the placing which was finalised on that day. As a result, their holdings increased by these amounts. On 21 March 2011, Roy Lipski was granted 87,534 shares as part of his 2010 bonus resulting in an increase of his share holding to 2,417,098 ordinary shares at the date of this report. Details of the Directors' share options and service contracts are shown in the Directors' Remuneration Report.

Substantial Shareholdings

On 18 April 2011, 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
Lansdowne Partners	17,609,568	19.5%
Pioneer Investments	11,561,646	12.8%
Battelle Memorial Institute	10,442,207	11.6%
IP2IPO Management Limited	4,957,444	5.5%
JP Morgan Asset Management	3,275,000	3.6%
BlackRock	3,223,355	3.6%
Henderson Global Investors	2,950,000	3.3%
Prof. Malcolm Green	2,825,900	3.1%

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 2010 were equivalent to 50 days' purchases (2009: 32 days' purchases), based on the average daily amount invoiced by suppliers during the year. The Company had trade payables at 31 December 2010 of £nil (2009: £nil).

Post Balance Sheet Event

On 25 February 2011, the Company announced the successful conditional placing of shares to raise £21 million (before expenses). This placing was approved at a General Meeting of its shareholders on 17th March 2011 and the shares were admitted to trading on AIM on 18 March 2011.

Annual General Meeting

The Annual General Meeting of the Company will be held at the Company's Milton Park premises at 10.45am on Wednesday 22 June 2011.

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:

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
12 May 2011

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 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. During 2010, Dr Jan Verloop chaired this committee. He retired as Chair in January 2011 and Dr Andrew Jamieson was appointed in his place. This committee reviews, inter-alia, 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 in discussions or decisions concerning his own remuneration.

The Directors' Remuneration Report is set out on pages 12 to 14.

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.

Senior Management Team

The day-to-day management of the Group is overseen by the Senior Management Team, 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 2010	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 Andrew Jamieson*	100%	100%	100%	100%
– Dr Jan Verloop	100%	100%	100%	100%

* In the case of Dr Jamieson, the attendance percentage related to meetings occurring from the date of his appointment in February 2010.

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 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 which was under the chairmanship of Dr Jan Verloop until January 2011 and now Dr Andrew Jamieson. 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 2010, the Remuneration Committee decided that a proportion of the bonus of the Executive Directors would be paid in nominal value exercise price share options or shares granted at nominal price, in order to preserve the cash reserves of the Group.

Pensions and Other Benefits

The Group contributes to individual's 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.

During the year Mr Lipski relocated to the United States in order to be better placed to support the Group's commercialisation activities. As a consequence, he was granted a relocation package based on the policies of the Group for overseas relocation. This package consisted of one-off allowances related to disturbance and for housing costs in the US, as well as reimbursement of moving costs. In addition, Mr Lipski is entitled to annual reimbursement of home leave travel costs for himself and his family in line with Company policy.

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 2010.

Name of Director	Salary and fees £	Bonus £	Bonus share options £	Other benefits £	Pension contributions £	2010 Totals £	2009 Totals £
Executive							
Mr Roy Lipski+	210,081	39,000	117,000	152,399	6,798	525,278	457,581
Mrs Susan Robertson	140,000	27,300	27,300	816	9,800	205,216	230,403
Non-executive							
Dr Pierre Jungels	50,000	-	-	-	-	50,000	50,000
Mr Jeremy Scudamore	35,000	-	-	-	-	35,000	35,000
Dr Andrew Jamieson *	47,375	-	6,500	-	-	53,875	-
Dr Jan Verloop	39,480	-	-	-	-	39,480	40,072
Aggregate emoluments and pension contributions	521,936	66,300	150,800	153,215	16,598	908,849	813,056

+ In the case of Mr Lipski, other benefits primarily include relocation allowances and expenses as explained earlier, including taxes paid thereon by the Company on behalf of the employee. In addition, although his base salary remained notionally unchanged from 2009, under the terms of the Company relocation policy, a fixed exchange rate was agreed at the start of the year for conversion of the sterling base to a dollar amount. The amount reported includes variations in the sterling cost to the Company arising from actual exchange rate fluctuations.

* Dr Jamieson joined the Board in February 2010. His fees comprise two elements: a fixed fee for his work as a director of the Company and a variable component for additional consultancy primarily related to business development paid under a separate service contract. This contract provides for consultancy work to be paid at a rate of £1,500 per day and in addition, at the end of each service year (31 March) for each day of consultancy, a number of share options are issued. These are calculated as options based on the number of shares equal to £500 per day at the share price on the date of issue and with a strike price equal to the nominal share price. The options are immediately exercisable and have an expiry date 10 years from date of grant. At 31 December 2010, no such options had been granted although the cost of these is accrued under the heading bonus share options. The variable element of Dr Jamieson's fees included in the figures above is £19,875.

Directors' Remuneration Report (continued)

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 post year end as part of the 2010 annual bonus to Mrs Robertson (and in 2009 to Mr Lipski and Mrs Robertson). The bonus shares are issued at nominal value (1p) exercise price, are immediately vested at date of issue, and expire 10 years later. Following his relocation to the US, due to different tax regimes in the UK and US, Mr Lipski's share bonus for 2010 was paid as shares (post period end) rather than options. The Company withheld 71,619 shares in order to meet the tax liability.

Details of all options held by the Directors at 31 December 2010 are as follows.

Name of Director	At 31 December 2009	Granted*	Exercised	Lapsed	At 31 December 2010	Exercise price	Earliest date of exercise	Date of expiry	Exercisable at 31 December 2010
Mr Roy Lipski									
Pre-IPO options	1,404,370	-	1,404,370	-	-	£0.0489	26/04/06	16/03/16	-
Bonus 2008	108,055	-	108,055	-	-	£0.01	31/03/09	31/03/19	-
Bonus 2009	-	342,000	-	-	342,000	£0.01	31/03/10	31/03/20	342,000
ELTIP 2008	200,000	-	-	-	200,000	£0.01	24/01/11	19/11/18	-
ELTIP 2009	400,000	-	-	-	400,000	£0.01	31/01/12	4/11/19	-
Total	2,112,425	342,000	1,512,425		942,000				342,000
Mrs Susan Robertson									
EMI	62,893	-	-	-	62,893	£1.59	29/10/10	01/04/18	62,893
Bonus 2008	83,666	-	41,561	-	42,105	£0.01	31/03/09	31/03/19	42,105
Bonus 2009	-	79,800	79,800	-	-	£0.01	11/02/10	31/03/20	-
ELTIP 2009	300,000	-	-	-	300,000	£0.01	31/01/12	21/11/19	-
Total	446,559	79,800	121,361		404,998				104,998

+ 2010 options were granted post year end.

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 2010 was 72.5p (2009: 50p) and the range during the year was 43p to 86p (2009: 28.5p to 96.5p). 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 2010, calculated on the difference between the option price and the mid-market price of 47.5p on the date of the option's exercise, was £705,000 (2009: £344,000), of which £649,000 (2009: £263,000) related to the gain attributable to the highest paid Director. None of the exercised shares were sold.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) 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 these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and 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 website. 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
12 May 2011

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 2010 which comprise the Consolidated and Company Balance Sheet, the Consolidated Income Statement, the Consolidated and Company Cash Flow Statement, the Consolidated and Company Statement of Changes in Equity 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 15, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on 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.

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 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.

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 2010 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.

At the request of the Directors, we have also audited the part of the Directors' Remuneration Report that is described as having been audited. In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Miles Saunders (Senior Statutory Auditor) for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
12 May 2011

Consolidated Income Statement for the year ended 31 December 2010

	Note	2010 £'000	Restated* 2009 £'000
Revenue	5	7,652	8,655
Cost of sales		(4,649)	(3,643)
Gross profit		3,003	5,012
Unfunded research and development costs		(4,568)	(4,459)
Share-based payments	12	(410)	(675)
Other administrative expenses		(6,235)	(6,106)
Total administrative expenses		(11,213)	(11,240)
Operating loss	8	(8,210)	(6,228)
Finance income	6	195	290
Finance costs	7	(55)	(142)
Finance income, net		140	148
Income tax credit	11	858	616
Loss for the financial year attributable to the equity holders of the Company		(7,212)	(5,464)
Loss per share attributable to the equity holders of the Company			
Basic and diluted (pence)	13	(11.45)	(9.07)

* 2009 figures for cost of sales and unfunded research and development costs have been restated following a review of the allocation of costs. Cost of sales consists of the direct costs attributable to the revenue earned and certain costs which had previously been allocated to cost of sales were considered by Management to be related to unfunded research and development costs and so have been reclassified accordingly. There was no impact to loss for the financial year attributable to the equity holders of the Company.

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 £3,792,000 (2009: loss £2,096,000).

The results for the years shown above are derived entirely from continuing operations.

Consolidated Statement of Comprehensive Income for the year ended 31 December 2010

	2010	2009
	£'000	£'000
Loss for the year	(7,212)	(5,464)
Other comprehensive income (expense)		
Foreign currency translation differences	1,035	(3,019)
Total comprehensive expense for the year	(6,177)	(8,483)

Consolidated Balance Sheet as at 31 December 2010

	Note	2010 £'000	2009 £'000
Assets			
Non-current assets			
Intangible assets	14	25,535	23,876
Property, plant and equipment	15	2,590	3,189
		28,125	27,065
Current assets			
Trade and other receivables	17	1,106	1,740
Current income tax asset		347	300
Financial assets – restricted access escrow account	18	320	308
Short term investments – cash held on long-term deposit	18	1,000	4,000
Cash and cash equivalents	18	4,406	7,686
		7,179	14,034
Total assets		35,304	41,099
Current liabilities			
Trade and other payables	19	(2,740)	(3,544)
Borrowings	21	(91)	(73)
		(2,831)	(3,617)
Non-current liabilities			
Trade and other payables	20	(371)	(765)
Borrowings	21	(959)	(227)
		(1,330)	(992)
Total liabilities		(4,161)	(4,609)
Net assets		31,143	36,490
Capital and reserves attributable to equity holders of the Company			
Called up share capital	22	638	613
Share premium account	22	45,469	45,074
Merger reserve		369	369
Share-based payment reserve		4,849	4,439
Accumulated losses		(20,182)	(14,005)
Total equity		31,143	36,490

The financial statements on pages 18 to 47 were approved by the Board of Directors and authorised for issue on 12 May 2011. They were signed on its behalf by:



Susan Robertson
Chief Financial Officer

Company number 5712187

Company Balance Sheet

as at 31 December 2010

	Note	2010 £'000	2009 £'000
Assets			
Non-current assets			
Investments	16	45,025	47,987
Total assets		45,025	47,987
Net assets		45,025	47,987
Capital and reserves attributable to equity holders of the Company			
Called up share capital	22	638	613
Share premium account	22	45,469	45,074
Share-based payment reserve		4,849	4,439
Accumulated losses		(5,931)	(2,139)
Total equity		45,025	47,987

Consolidated Statement of Changes in Equity as at 31 December 2010

	Called up share capital £'000	Share premium £'000	Share- based payments £'000	Merger reserve £'000	Accumulated losses £'000	Total £'000
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 1 January 2010	613	45,074	4,439	369	(14,005)	36,490
Comprehensive income						
Loss for the year	-	-	-	-	(7,212)	(7,212)
Other comprehensive income						
Foreign currency translation differences	-	-	-	-	1,035	1,035
Total comprehensive expense	-	-	-	-	(6,177)	(6,177)
Transactions with owners						
Share-based payments – value of employee services	-	-	410	-	-	410
Proceeds from share issues	25	395	-	-	-	420
Total transactions with owners	25	395	410	-	-	830
Balance at 31 December 2010	638	45,469	4,849	369	(20,182)	31,143

Company Statement of Changes in Equity as at 31 December 2010

	Called up share capital £'000	Share premium £'000	Share- based payments £'000	Accumulated losses £'000	Total £'000
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 1 January 2010	613	45,074	4,439	(2,139)	47,987
Comprehensive income					
Loss for the year	-	-	-	(3,792)	(3,792)
Total comprehensive expense	-	-	-	(3,792)	(3,792)
Transactions with owners					
Share-based payments – value of employee services	-	-	410	-	410
Proceeds from share issues	25	395	-	-	420
Total transactions with owners	25	395	410	-	830
Balance at 31 December 2010	638	45,469	4,849	(5,931)	45,025

Consolidated Cash Flow Statement for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Cash flows from operating activities			
Cash consumed by operations	23	(7,170)	(3,527)
Tax credit received		858	488
Net cash used in operating activities		(6,312)	(3,039)
Cash flows from investing activities			
Purchase of property, plant and equipment	15	(618)	(1,602)
Purchase of intangible fixed assets	14	(772)	(188)
Interest received	6	195	697
Interest paid	7	(55)	-
Decrease in cash placed on deposit and restricted access escrow account	18	3,000	4,337
Net cash flows from investing activities		1,750	3,244
Cash flows from financing activities			
Proceeds of issuance of ordinary shares		420	44
Increase in borrowing		746	271
Net cash from financing activities		1,166	315
Net increase/(decrease) in cash and cash equivalents		(3,396)	520
Cash and cash equivalents at beginning of year	18	7,686	7,667
Exchange gains/(losses) on cash and cash equivalents		116	(501)
Cash and cash equivalents at end of year		4,406	7,686

The notes on pages 26 to 47 are part of these consolidated financial statements.

Company Cash Flow Statement

for the year ended 31 December 2010

	Note	2010 £'000	Restated* 2009 £'000
Cash flows from operating activities			
Loss before income tax		(3,792)	(2,096)
Movement in intercompany balances*		3,372	2,052
Net cash flows from operating activities		(420)	(44)
Cash flows from investing activities			
Proceeds of issuance of ordinary shares		420	44
Net cash from financing activities		420	44
Net movement in cash and cash equivalents			
Cash and cash equivalents at beginning of year		-	-
Cash and cash equivalents at end of year		-	-

* 2009 comparatives were restated to reflect the fact that the expenses of the Company are charged directly to the intercompany account. This intercompany account, which is in an overall receivable position, is classified as an investment as it is considered long term in nature.

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 5.

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.

Change in Accounting Policy

Following a review of the allocation of costs between cost of sales and unfunded research costs, there has been a reclassification of certain costs between these categories. Costs of sales consists of the direct costs attributable to the revenue earned and certain costs which had previously been allocated to cost of sales were considered by Management to be related to unfunded research and development costs and so have been reclassified accordingly. The impact on the consolidated income statement for the year ended 31 December 2010 was to reduce cost of sales and increase unfunded research and development cost by £2,260,000 (2009: decrease cost of sales and increase unfunded research and development costs by £1,798,000). There was no impact to loss for the financial year attributable to the equity holders of the Company.

Accounting Developments

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2010, but are not currently relevant for the Group.

- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.
- 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.
- 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.

Improvements to International Financial Reporting Standards 2009 were issued in April 2009. The effective dates vary standard by standard:

- IFRS 2 (Amendment), 'Share based payments – Group cash-settled share-based payment transactions';

- IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations';
- IAS 1 (Amendment), 'Presentation of financial statements';
- IAS 27 (Revised), 'Consolidated and separate financial statements';
- IAS 36 (Amendment), 'Impairment of assets';
- IFRIC 12, 'Service concession arrangements';
- IFRIC 15, 'Agreements for the construction of real estate';
- IFRIC 16, 'Hedges of a net investment in a foreign operation';
- IFRIC 17, 'Distributions of non-cash assets to owners';
- IFRIC 18, 'Transfers of assets from customers'.

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

- IFRS 9, 'Financial instruments', issued in December 2009. This addresses the classification and measurement of financial assets. The Group is assessing whether there will be any impact on the accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption.
- Revised IAS 24, 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised IAS 24 is required to be applied from 1 January 2011. Earlier application, in whole or in part, is permitted.
- 'Classification of rights issues' (Amendment to IAS 32), issued in October 2009. The amendment should be applied for annual periods beginning on or after 1 February 2010. Earlier application is permitted.
- 'Prepayments of a minimum funding requirement' (Amendments to IFRIC 14), issued in November 2009 is effective for annual periods beginning 1 January 2011. Earlier application is permitted. The standard is not applicable to the Group as there is no defined benefit pension scheme.
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'. This clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010. Earlier application is permitted.

Financial Risk Management Policies

Financial risk management policies are set forth on page 7 of the Directors' Report.

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, for acquisitions completed prior to 1 January 2010, costs directly attributable to the acquisition. For acquisitions completed on or after 1 January 2010, directly attributable costs are expensed. 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.

Notes to the Accounts (continued)

Intercompany 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 Senior Management Team that makes operational 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 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 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, value added tax 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. Revenue on most development contracts is earned on a time and materials, supplemented by milestones, basis and is recognised as the work is performed. In the situation where contracts are for fixed services and value, 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.

Notes to the Accounts

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

In process technology consists of purchased intangibles and capitalised development costs.

Purchased Intangibles

Purchased intangibles arose from the acquisition of Velocys. These purchased intangibles are valued using discounted cash flow valuations of the projected future benefits arising from the technology acquired. See "Impairment of Non-financial Assets" below.

Capitalised Development Costs

Development costs are normally charged to the income statement in the year they are incurred except in those circumstances where, during the development phase of a project, the Group 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. See "Impairment of Non-financial Assets" below.

Impairment of Non-financial Assets

Assets that have an indefinite useful life, for example goodwill, in process technology and investments 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. Assets that are not yet being amortized are reviewed for impairment on an annual basis.

Property, Plant and Equipment

Property, plant and equipment is stated at cost, 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

Investments are shown at cost less provision for impairment. See "Impairment of Non-financial Assets" above.

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 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 InstrumentsTrade Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'selling and marketing costs'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the income statement.

Notes to the Accounts (continued)

Trade Payables

Trade payables are stated at fair value and subsequently held at amortized costs.

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.

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

The chief operating decision-maker has been identified as the Senior Management Team ("SMT"). 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 SMT considers that the business comprises a single activity which is the design and development of technology for synthetic fuels. The SMT reviews the Group's profit or loss and its cash flows, assets and liabilities on a whole-company

basis. In carrying out these reviews, the SMT considers all material items of income and expenditure that are directly attributable to individual development programmes. The internal management reports do not allocate assets and liabilities or shared overheads to individual products or projects.

Based on the above considerations, there is considered to be one reportable segment, synthetic fuels. In the prior year, the SMT identified two operating segments, Catalysts and Equipment. This position has been revised in the current year on the basis that the market is more meaningfully defined by end use rather than specific product and at this point in the Group's development, the key end use market is that of synthetic fuels. For this reason, the management of the catalysts and equipment activities have now been integrated and for management purposes, the business is segmented according to market. At this stage, the synthetics fuels segment represents over 90% of the business and therefore represents the only material segment.

Internal and external reporting is on a consolidated basis, with purchases and sales between subsidiaries eliminated on consolidation. Therefore the segment and financial information is the same as that set out in the consolidated income statement, consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement and the statement of changes in equity.

The Senior Management Team assesses the performance of the operating segments based on a measure of operating loss.

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

	2010			2009		
	Europe £'000	USA £'000	Asia £'000	Europe £'000	USA £'000	Asia £'000
Total revenue	2,193	923	4,536	2,068	445	6,142

Non-current assets, consisting primarily of goodwill, other intangible assets and property, plant and equipment, totalling £26,702,000 and £25,247,000 in 2010 and 2009 respectively, 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.

	2010 £'000	2009 £'000
Partner 1	2,731	5,815
Partner 2	1,811	1,850
Partner 3	1,772	-
Partners less than 10%	1,338	990
Total	7,652	8,655

6 Finance Income

	2010 £'000	2009 £'000
Interest income on bank deposits	129	290
Foreign exchange gains	66	-
	195	290

Notes to the Accounts (continued)

7 Finance Costs

	2010 £'000	2009 £'000
Unwinding of discount on deferred licence payments creditor	16	13
Interest on finance leases	9	2
Interest on borrowings	30	–
Foreign exchange losses	–	127
	55	142

8 Expenses by Nature

	2010 £'000	2009 £'000
Employee benefit expense (see note 10)	7,409	8,096
Sub-contractor and consultant costs	2,109	1,570
Depreciation of tangible fixed assets: owned (note 15)	1,243	786
Depreciation of tangible fixed assets: leased (note 15)	31	16
Amortisation of intangible assets (note 14)	41	42
Operating lease payments – plant and machinery	40	332
Operating lease payments – other	356	162
Other expenses	4,633	3,879
Total costs of sales, unfunded research and development costs, share based payments and other administrative expenses	15,862	14,883

9 Auditor Remuneration

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

	2010 £'000	2009 £'000
Fees payable to Company's auditor for the audit of parent company and consolidated financial statements	37	31
Fees payable to the Company's auditor for other services		
– The audit of Company's subsidiaries pursuant to legislation	30	31
– Other services pursuant to legislation	–	19
– Tax services	15	–
	82	81

10 Employee Benefit Expense

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

	2010 Number	2009 Number
Research, design and development	59	59
Administration	24	25
Total average headcount	83	84

Their aggregate remuneration comprised as follows.

	2010 £'000	2009 £'000
Wages and salaries	5,951	6,663
Social security costs	421	550
Pension costs	213	208
Severance expense	414	–
Share-based payments granted to Directors and employees	410	675
	7,409	8,096

Details of Directors' remuneration are given in the Directors' Remuneration Report on pages 12 to 14 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 £858,000 through R&D tax credit claims for the years ending 31 December 2010 and 31 December 2009 (2009: £616,000 in respect of claim for years ending 31 December 2008 and 2009).

Deferred Tax

At 31 December 2010 the Group has a net unrecognised deferred tax asset of £7,064,000 (2009: £5,651,000) arising from trading losses from incorporation. No recognition (2009: nil) of the net deferred tax asset has been made at 31 December 2010 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.

The actual tax charge for the current and previous year is higher (2009: 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.

	2010	2009
	£'000	£'000
Loss on ordinary activities before tax	(8,070)	(6,080)
Tax calculated at domestic tax rates applicable to losses in the respective countries	(2,324)	(1,718)
Tax effects of:		
– Expenses not deductible for tax purposes	23	36
– Unutilised tax losses	2,301	1,682
– R&D tax credit relating to prior years	(558)	(316)
– R&D tax credit	(300)	(300)
Current tax credit for year (see above)	(858)	(616)

The weighted average applicable tax rate was 28.8% (2009: 28.3%).

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 were exercised in 2010.

As a result, no options were outstanding at 31 December 2010. 1,404,370 options were outstanding and exercisable at 31 December 2009.

The Group recognised total expenses of nil in 2010 (2009: £2,000) related to the EMI Executive Scheme.

EMI Scheme

The EMI Scheme covers all UK based employees of the Group and beginning in 2010 now grants to US based employees. 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.

Notes to the Accounts (continued)

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

	2010		2009	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At 1 January	97.98p	756,667	136.08p	411,514
Granted	66.34p	349,034	52.56p	345,153
Forfeit	102.57p	(174,268)	–	–
At 31 December	85.26p	931,433	97.98p	756,667

Of the 931,433 options outstanding at 31 December 2010, 242,248 were exercisable (2009: 40,323). The weighted average exercise price of the exercisable shares was 134.16p (2009: 124.00p).

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

Year of expiry	Range of exercise price	Number of options	2010		2009	
			Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
2017	124.00 – 150.00p	179,355	125.45p	286,129	125.82p	125.82p
2018	146.50 – 171.50p	115,216	160.57p	125,385	159.50p	159.50p
2019	46.50 – 74.50p	303,048	53.26p	345,153	52.56p	52.56p
2020	57.50 – 82.31	333,814	66.74p	–	–	–
Total	46.50 – 171.50p	931,433	85.26p	756,667	97.98p	97.98p

The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was 16.1p (2009: 12.65p) per option. The significant inputs into the model were as follows.

	2010	2009
Weighted average share price at grant date	66.34p	52.56p
Weighted average exercise price	66.34p	52.56p
Expected volatility (i)	30%	30%
Annual risk free rate	3%	3%
Dividend yield	0%	0%
Expected life	3.0 Years	3.0 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 £43,000 in 2010 (2009: £57,000).

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. Of the remainder, 100,000 options lapsed on 31 December 2010 and 100,000 will vest on 31 January 2011. 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 2010, no shares (2009: 560,000) had been exercised and 900,000 (2009: 900,000) remained unexercised of which none (2009: none) were exercisable.

No options were granted in 2010. The weighted average fair value of options granted during 2009 determined using the Black-Scholes valuation model was 55p per option. The significant inputs into the model options granted during 2009 were as follows.

	2009
Weighted average share price at grant date	56.00p
Weighted average exercise price	1.00p
Expected volatility (i)	30%
Annual risk free rate	3%
Dividend yield	0%
Expected life	3.0 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 £92,000 (2009: £273,000).

Velocys Scheme

The Velocys, Inc. Stock Compensation Plan ("Velocys Scheme") was acquired as part of the acquisition of Velocys, Inc. 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.

	2010		2009	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At 1 January	\$1.20	1,198,888	\$1.20	1,200,351
Forfeited	\$2.34	(18,067)	2.54	(1,463)
Exercised	\$1.02	(544,837)	-	-
At 31 December	\$1.32	635,984	\$1.20	1,198,888

Of the options outstanding presented above, 623,313 and 1,133,360 were exercisable as of 31 December 2010 and 2009 respectively. The weighted average share price of the exercisable shares was \$1.30 (2009: \$1.13).

Notes to the Accounts (continued)

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

Year of expiry	Range of exercise price per share	2010		2009	
		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	187,740	\$0.77	266,796	\$0.77
2014	\$0.77	951	\$0.77	119,854	\$0.77
2015	\$0.77	106,565	\$0.77	359,121	\$0.77
2016	\$2.21 - \$2.22	83,798	\$2.21	189,164	\$2.21
2017	\$2.21 - \$2.55	47,569	\$2.46	51,227	\$2.47
2018	\$2.54 - \$2.60	16,169	\$2.58	19,534	\$2.57
Total		635,984	\$1.32	1,198,888	\$1.20

Total expense recognised in the income statement for share options granted under the Velocys plan was £15,000 (2009: £54,000).

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 £148,000 (2009: £257,000) for the Oxford Catalysts Limited bonus share options. Details of the bonus shares outstanding under the Oxford bonus share scheme are as follows.

	2010 Number of options	2009 Number of options
At 1 January	249,643	-
Granted	488,602	564,096
Exercised	(354,140)	(314,453)
At 31 December	384,105	249,643

Oxford Catalysts Limited bonus share options outstanding at the end of the year have the following expiry dates.

Year of Expiry	Exercise price	2010 Number of options	2009 Number of options
2019	1p	42,105	249,643
2020	1p	342,000	-
Total		384,105	249,643

The Velocys bonus share scheme consists of deferred shares awarded subsequent to year end at a nominal price of 1p. 20% of the award is granted on each anniversary of the date of award. Deferred awards totalled 236,831 shares and shares remaining to be granted in future years totalled 93,876 shares. Bonus share awards in 2009 were nil.

The share-based payment expense for the year includes a cost of £112,000 (2009: £33,000) related to shares granted under the Velocys bonus share scheme.

Share-based Payments Charge

The total charge for share-based payments during the year was £410,000 (2009: £675,000) of which £248,000 (2009: £493,000) 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.

	2010	2009
Loss attributable to equity holder of the Company (£'000s)	(7,212)	(5,464)
Weighted average number of ordinary shares in issue	63,008,632	60,211,508
Basic and diluted loss per share (pence)	(11.45)	(9.07)

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 27), there are no other potentially dilutive instruments. Details of share options are given in note 12.

14 Intangible Assets

Group 2010	Goodwill £'000	In process technology £'000	Patents, licence and trademarks £'000	Software £000	Total £'000
Cost					
At 1 January 2010	4,129	19,403	328	77	23,937
Transfer from property, plant and equipment	–	–	–	9	9
Additions	–	364	391	17	772
Foreign exchange movement	162	759	(3)	3	921
At 31 December 2010	4,291	20,526	716	106	25,639
Accumulated amortisation					
At 1 January 2010	–	–	26	35	61
Charge for the year	–	–	13	28	41
Foreign exchange movement	–	–	–	2	2
At 31 December 2010	–	–	39	65	104
Net book amount					
At 31 December 2010	4,291	20,526	677	41	25,535
2009	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 1 January 2009	4,606	21,626	268	70	26,570

In process technology is yet to be brought into use and hence is not being amortised.

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.

Notes to the Accounts (continued)

Goodwill and 'In process technology' intangible assets that are not yet ready for use are subject to an annual impairment review.

The impairment review for In process technology is performed for each 'Cash Generating Unit' (CGU) identified in accordance with the Group's accounting policy. It has been determined that there are six CGU's, each representing a separate technology stream for which distinct revenue streams are either being currently generated or are anticipated in the future.

Goodwill originates entirely from the acquisition of the Velocys Inc. subsidiary in 2008. It is not possible to allocate goodwill to each individual CGU. Goodwill is considered to relate to the synthetic fuel group of CGU's as a whole. This group represents an operating segment as described in further detail within the segmental disclosures in note 4. Five of the six In process technology CGU's are included within this segment which represents over 95% of the total value of intangible assets. No goodwill has been allocated to the emulsions segment which represents the remaining In Process technology CGU.

An impairment test is a comparison of the carrying value of the assets of the CGU (or group of CGU's for goodwill) with their recoverable amount. Where the recoverable amount is less than the carrying value, an impairment results. The Group has carried out its annual impairment testing at 31 December each year. The recoverable amounts of the CGUs are determined based on the value in use ('VIU') calculations.

The VIU calculation is based upon the estimated discounted future cash flows to be generated by the respective technology stream.

Key assumptions

The key assumptions in the VIU calculations are the discount rate applied and sales and gross margin forecasts for the period of the expected useful life of the technology.

Sales and gross margin forecasts

Future sales forecasts are based upon the commercialisation of the Group's technology in what is an emerging and nascent market. Forecast sales and gross margin levels are therefore dependent upon speed of uptake of the Group's technology, the size of the markets and the penetration achieved in those markets.

In all cases the approved budget for the following financial year forms the initial basis for the forecasts. Growth rate assumptions have then been applied to revenue for periods of between 6 and 7 years for each CGU. Revenue growth beyond this period has not been assumed in the VIU calculations as it is difficult at this stage to assess a long term growth rate. An expected useful life for each technology stream has been estimated, of 15 years in each case.

Discount rate

The discount rate applied to each CGU represents a post tax rate that reflects market assessment of the time value of money at the balance sheet date and the risks specific to each CGU. The discount rates applied to each CGU are between 25% and 30% (2009: 25% to 30%).

Summary of results

During the year, goodwill and in process technology intangible assets were tested for impairment with no impairment charge resulting (2009: nil).

The forecasts used in the impairment review as at 31 December 2011 indicate significant headroom when comparing recoverable amount against carrying value. However, given the early stage of adoption there remains a significant level of judgment involved in making the assumptions for revenues and margins. A reduction of more than 75 % in revenues forecast across all of the synthetic fuels CGU's would be required before an impairment in the allocated goodwill is triggered.

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

Company

The Company has no intangible assets (2009: nil).

15 Property, Plant and Equipment

Group 2010	Assets under construction £'000	Plant and machinery £'000	Total £'000
Cost or valuation			
At 1 January 2010	38	4,491	4,529
Transfer to intangible assets	(9)	–	(9)
Additions	199	419	618
Disposals	–	(30)	(30)
Transfers to plant and machinery	(178)	178	–
Foreign exchange	1	139	140
At 31 December 2010	51	5,197	5,248
Accumulated depreciation			
At 1 January 2010	–	1,340	1,340
Charge for the year	–	1,274	1,274
Disposals	–	(29)	(29)
Foreign exchange	–	73	73
At 31 December 2010	–	2,658	2,658
Net book amount			
At 31 December 2010	51	2,539	2,590
2009			
	Assets under construction £'000	Plant and machinery £'000	Total £'000
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	(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	–	(9)	(9)
At 31 December 2009	–	1,340	1,340
Net book amount			
At 31 December 2009	38	3,151	3,189
At 1 January 2009	41	2,452	2,493

The net book amount of leased assets included above is £63,000 (2009: £37,000). Depreciation is charged to other administrative expenses in the consolidated income statement.

Company

The Company has no property, plant or equipment (2009: nil).

As at 31 December 2010, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £43,000 (2009: £165,000).

Notes to the Accounts (continued)

16 Investments

Company	2010			2009		
	Loan to subsidiaries £'000	Capital contributions to subsidiaries £'000	Total investment in subsidiaries £'000	Loan to subsidiaries £'000	Capital contributions to subsidiaries £'000	Total investment in subsidiaries £'000
Investment in subsidiaries						
At 1 January	23,954	24,033	47,987	26,027	23,337	49,364
Movement in loans	(3,650)	-	(3,650)	(1,317)	-	(1,317)
Capital contributions	-	410	410	-	676	676
Costs related to acquisition of Velocys	-	-	-	-	20	20
Foreign exchange	278	-	278	(756)	-	(756)
At 31 December	20,582	24,443	45,025	23,954	24,033	47,987

The Directors believe the carrying value of the investments is supported by their expected future cash flows.

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

Investments are stated at cost.

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	
	2010 £'000	2009 £'000
Current		
Trade receivables	779	1,298
Provision	(90)	(100)
Prepayments and accrued income	351	308
Other receivables	66	234
	1,106	1,740

The Company had no trade and other receivables (2009: nil).

The fair value of trade and other receivables is not materially different to the book value above (2009: 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 plus cash balances held. The Group does not hold any collateral as security (2009: nil).

As at 31 December 2010 Group trade receivables of £111,000 (2009: £9,000) 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	
	2010	2009
	£'000	£'000
Up to 3 months	111	–
3 to 6 months	–	9
	111	9

The Company had no trade and other receivables past due but not impaired (2009: nil).

	2010	2009
	£'000	£'000
Provision		
At 1 January	100	100
Payments Received	(10)	–
At 31 December	90	100

Trade receivables outstanding at year end represent approximately 33 days' sales (2009: 36 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 2010, the Company had no overdue trade receivables (2009: nil). The other classes within trade and other receivables do not contain impaired assets (2009: nil).

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 necessary 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.

	2010	2009
	£'000	£'000
UK sterling	231	305
US dollars	875	1,435
	1,106	1,740

18 Short Term Investments, Cash Equivalents and Restricted Assets

	Group	
	2010	2009
	£'000	£'000
Financial assets – restricted access escrow account	320	308
Short term investments – cash held on long-term deposit	1,000	4,000
Cash and cash equivalents	4,406	7,686
Total	5,726	11,994

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. The Company is currently in talks with the State of Ohio regarding options available should those assets not return to Ohio by June 30, 2011.

Notes to the Accounts (continued)

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	
	2010	2009
	£'000	£'000
UK sterling accounts	3,531	5,187
US dollar accounts	875	2,499
Total	4,406	7,686

The Company has no cash or cash equivalents (2009: nil).

19 Trade and Other Payables: Current

	Group	
	2010	2009
	£'000	£'000
Trade payables	774	676
Other payables	–	13
Other taxation and social security	53	82
Accruals	1,384	1,502
Deferred income	529	1,271
	2,740	3,544

The Company has no trade and other payables (2009: nil).

20 Trade and Other Payables: Non-current

	Group	
	2010	2009
	£'000	£'000
Accruals	28	9
Deferred income	195	613
Deferred licence payments	148	143
	371	765

The Company has no non-current trade and other payables (2009: nil)

The deferred licence payments payable 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 per annum 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

The Company had no borrowings in 2010 (2009: nil). Maturity of borrowings for the Group is as follows.

	Group	
	2010	2009
	£'000	£'000
Within 1 year	91	73
Within 2 to 5 years	959	227
	1,050	300

On 1 December 2009, the Company's wholly owned subsidiary, Velocys, Inc. (Velocys) 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 project. 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 2010, Velocys had borrowed £989,000 under this loan agreement.

All remaining borrowings arise from finance lease obligations.

22 Called up Share Capital

	2010	2009
	£'000	£'000
Company		
Authorised		
100,000,000 (2009: 100,000,000) ordinary shares of £0.01 each	1,000	1,000
Allotted, called up and fully-paid		
63,791,232 (2009: 61,344,946) ordinary shares of £0.01 each	638	613
Share premium account		
Share premium	45,469	45,074

A total of 2,851,522 (2009: 4,509,568) options to subscribe for ordinary shares of the Company have been granted and are outstanding at 31 December 2010 under the employee options schemes operated within the Group. Details are given in note 12.

All movements in share capital during 2010 relate to the exercise of share options.

23 Consolidated Cash Outflow from Operating Activities

	2010	2009
	£'000	£'000
Operating loss	(8,210)	(6,228)
Depreciation and amortisation	1,315	844
Changes in working capital (excluding the effects of exchange differences on consolidation)		
– Trade and other receivables	666	279
– Trade and other payables	(1,353)	884
– Share-based payments	410	675
– Other	2	19
Net cash consumed by operations	(7,170)	(3,527)

Notes to the Accounts (continued)

24 Commitments

Capital commitments are disclosed in note 15.

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.

	2010 £'000	2009 £'000
Future aggregate minimum lease payments under non-cancellable property leases:		
– Within one year	357	320
– Between one and five years	1,057	1,016
– After more than five years	479	803
	1,893	2,139

	2010 £'000	2009 £'000
Future commitments under non-cancellable operating plant and equipment leases:		
– Within one year	1	26
– Between one and five years	1	37
	2	63

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 operates a number of defined contribution schemes for which the pension cost charge for the year amounted to £213,000 (2009: £208,000).

26 Related Party Transactions

There were no material related party transactions.

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. The arrangement represents an equity instrument and as such has not been accounted for at fair value. This agreement was extended until 20 November 2011. 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 received notification in 2010 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.

In April 2010, Velocys filed a lawsuit in the US against Catacel Corp. ("Catacel"), a supplier of catalysts to CompactGTL plc ("CompactGTL"), claiming infringement of several of the Group's microchannel related patents. In response, CompactGTL has challenged the validity of a small number of the Group's patents, including certain patents covering the UK.

Whilst the outcome of these cases is not certain, the Directors are confident of the Group's infringement case against Catacel, as well as the validity of those of its patents which are being challenged. Furthermore, the Directors consider that even in the unlikely event of a successful challenge to the few patents in question, this would have no material detrimental impact on the Group's business or the overall strength of its patent portfolio. As at the date of these financial statements, of the patents challenged by CompactGTL, 3 patents have already successfully passed re-examination and none of the patents have been revoked or have required alteration.

Costs incurred to date responding to this challenge have been expensed. However, given the nature of defending UK patent challenges, should its defence be unsuccessful, the Group may be liable for some of CompactGTL's UK legal costs (and vice versa). The Directors intend to vigorously defend the UK action should CompactGTL elect to continue this case. On this basis, no provision has been recognised in respect of this action.

The Group's policy is to always explore licensing opportunities for its IP where possible. Management will continue to seek business solutions that forward the Group's interests, in preference to resolution through legal means.

29 Subsequent Event – Fund raising

On 25 February 2011, the Company announced the conditional placing of shares to raise £21 million (before expenses). This placing was approved at a General Meeting of its shareholders on 17 March 2011 and the shares were admitted to trading on AIM on 18 March 2011. The net cash of £20 million was received on the 18 March 2011.

Directors, Secretary and Advisors to the Group

Company registration number	5712187
Registered office	115e Milton Park Oxford OX14 4RZ
Directors	Dr Pierre Jungels (Non-executive Chairman) Mr Roy Lipski (Chief Executive) Mrs Susan Robertson (Chief Financial Officer) Dr Andrew Jamieson (Non-executive Director) Mr Jeremy Scudamore (Non-executive Director) Dr Jan Verloop (Non-executive Director)
Company Secretary	Mrs Susan Robertson
Brokers & Nominated Advisors	Cenkos Securities plc 6,7,8 Tokenhouse Yard London EC2R 7AS
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