

**OXFORD ENERGY TECHNOLOGIES LIMITED**  
**REPORT AND**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR TO 31 DECEMBER 2013**

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COMPANIES HOUSE

OXFORD ENERGY TECHNOLOGIES LIMITED

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For the year to 31 December 2013

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OXFORD ENERGY TECHNOLOGIES LIMITED

**COMPANY INFORMATION**  
For the year to 31 December 2013

|                           |   |
|---------------------------|---|
| <b>DIRECTORS:</b>         | Adrian Meldrum<br>Philip Spinks   |
| <b>SECRETARY:</b>         | Philip Spinks   |
| <b>REGISTERED OFFICE:</b> | Centre for Innovation and Enterprise<br>Begbroke Science Park<br>Woodstock Road, Begbroke Hill<br>Begbroke<br>Oxfordshire OX5 1PF |
| <b>AUDITORS:</b>          | Ernst & Young LLP<br>Apex Plaza<br>Forbury Road<br>Reading RG1 1YE  |
| <b>REGISTERED NUMBER:</b> | 05955337 (England and Wales)  |

OXFORD ENERGY TECHNOLOGIES LIMITED  
STRATEGIC REPORT  
For the year ended 31 December 2013

The directors present their review of the business for the year to 31 December 2013 and their assessment of the risks faced by the Company.

#### **PRINCIPAL ACTIVITY**

Oxford Energy Technologies Limited (OET) is a research and development company that provides global companies with proprietary technology solutions to create engineered materials and address surface modification applications in the electronics display, solar and ophthalmic markets.

#### ***VISARC™ Anti-Reflective Coatings***

Our VISARC™ technology is a wet-process anti-reflective coating (ARC) which incorporates proprietary in-house manufactured nanoparticles with a low refractive index and anti-reflective properties. VISARC™ technology is applied using dip, spin or roll-to-roll coating techniques and is used with multiple substrates, including glass and polymers, making it suitable for multiple applications including electronic displays, ophthalmics and solar.

#### **REVIEW OF BUSINESS**

A full evaluation of how best to generate value from our mesoporous silica (MPS) nanoparticle manufacture know-how which underpinned VISARC™, and the intellectual property portfolio we have established for this technology, is ongoing. Due to market and competitive changes that occurred during our technical development period, no further resource is being invested in research work undertaken by OET in relation to VISARC™ and the associated nanomaterials following a review by the Board in August 2013.

No revenues were earned for the year ended 31 December 2013 (2012: £35,000). The parent company, Oxford Advanced Surfaces Group plc has agreed to waive the loan made by them until such time as OET becomes sufficiently profitable to repay this. This has been reflected in these accounts and shown as a capital contribution and taken to reserves.

This resulted in a loss of £611,000 (2012: loss of £657,000). Research and development costs reduced to £525,000 (2012: £583,000) whilst other administration costs increased to £170,000 (2012: £96,000), although this includes an impairment charge of £129,000 in relation to OET patents for which the recoverable value is uncertain due to the suspension in research activities during the year.

OET does not currently employ any research and development staff.

#### **RISK REVIEW**

Given the current nature and commercial position of the business, the Company's directors are of the opinion that analysis of key performance indicators ("KPIs") is not necessary for an understanding of the development, performance and position of the entity. However, the directors believe that performance is best measured by achievement against technical and business development milestones. These include progress towards commercial readiness including having in place manufacturing capability and capability to support new projects, the size and quality of development pipeline, progress towards income and cash burn rate.

#### **Operating Risks**

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

#### ***Technology Risk***

The Company manages the development of its technology through separate development programmes. Each programme has a specific set of milestones (either internal or external), measurable goals, timeline and budget. Performance against each of these is monitored either weekly or monthly depending on the programme requirements. This enables the Company to identify issues at an early stage and take appropriate mitigating actions.

#### ***Platform Technology***

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

#### ***Commercial success and market acceptance***

There can be no assurance that any current or future product development will be successfully developed into any commercially viable product or products. The Company's success will depend on the market's acceptance of its products and there can be no guarantee that this will be forthcoming or that the Company's technologies will succeed as an alternative to other new products. If a mass market for any product or process fails to develop or develops more slowly than anticipated, the Company may fail to recover the losses incurred in the development process and may never achieve profitability. There is also an inherent risk that unforeseen alternative technologies or market evolution could result in the loss of commercial opportunities for the Company. The Company's strategy of developing products to meet identified market needs and where applicable under joint development agreements with leading companies in large and valuable market applications is designed to maximise the chance of adoption and drive mass market uptake.

#### ***Early stage operations***

The Company is at an early stage of development. It is difficult to predict if and when material revenues will arise and the Company faces risks frequently encountered by developing companies. The Company's success will depend on its ability to develop a portfolio of products and services which address specific market needs and develop suitable licensing, royalty and contract manufacture models and capture value from business opportunities. The Company's business model involves focusing development on identified market needs and seeking commercial agreements to take the products to market.

**OXFORD ENERGY TECHNOLOGIES LIMITED**  
**STRATEGIC REPORT**  
For the year ended 31 December 2013

***Research and development risks***

The Company is involved in complex scientific areas and industry experience in such areas indicates a high incidence of delay or failure to produce results. Delays in achieving required results may result in the loss of an opportunity due to alternative competitive technologies or changing industry requirements and specifications. In addition, novel chemical reagents may face potential regulatory barriers which by their nature will vary, for example, by application, geography, volume of business and which are therefore difficult to anticipate at present.

***Intellectual Property***

A significant part of the Company's future development and growth depends on its intellectual property. If intellectual property is inadequately protected, the Company's future success could become adversely affected. The Company may not be able to protect and preserve its intellectual property or to exclude competitors with competing technology products. The Company continues to invest in the protection and expansion of its intellectual property portfolio. In addition the Company utilises internal procedures and controls to identify and capture new intellectual property and to prevent unauthorised disclosure to third parties.

***Financial Risks***

The Company's activities expose it to a number of financial risks including credit risk, interest rate risk and liquidity risk. The Company is not currently exposed to significant exchange rate risks. At present the Company does not use financial derivatives in the normal course of business. The Company's financial instruments comprise cash and cash equivalents, short-term investments, trade and other receivables and trade and other payables. The main purpose of these financial instruments is the funding of the Company's activities.

***Funding***

The Company is currently reliant on the cash funding available from the parent company, Oxford Advanced Surfaces Group plc. At the end of the year management believes that this provides sufficient funding for the business.

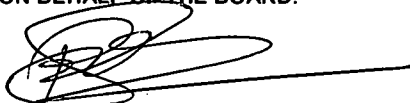
**EMPLOYMENT POLICIES**

The company supports employment of disabled people wherever possible through recruitment, by retention of those who become disabled and generally through training, career development and promotion.

**POLICY ON PAYMENT OF CREDITORS**

It is company policy to agree and clearly communicate the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based on the timely receipt of an accurate invoice. For the year ended 31 December 2013 trade creditor days stood at 17 (2012: 9).

**ON BEHALF OF THE BOARD:**



**Philip Spinks**  
Director  
16 June 2014

**OXFORD ENERGY TECHNOLOGIES LIMITED**  
**REPORT OF THE DIRECTORS**  
For the year ended 31 December 2013

**BASIS OF PREPARATION**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

**GOING CONCERN**

The directors confirm that they are satisfied that the company has access to adequate resources to continue in business for the foreseeable future, mainly through continued funding from the parent company via a loan. The loan will not become repayable until sufficient funds exist and loans are currently credited in the accounts. For this reason they continue to adopt the going concern basis in preparing the financial statements.

**DIVIDENDS**

No dividends were distributed during the period under review (2012: £nil).

**DIRECTORS**

The directors during the period under review were:

Adrian Meldrum  
Mike Edwards (resigned 13 September 2013)  
Philip Spinks

**DIRECTORS' INTERESTS**

At 31 December 2013 the directors hold no interest in the shares of the company, which are held in their entirety by the ultimate parent company, Oxford Advanced Surfaces Group plc.

**DIRECTORS' REMUNERATION**

The directors did not receive any remuneration for their work with Oxford Energy Technologies Limited.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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;

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the company financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**

The directors who were in office at the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information (as defined by Section 418(2) of the Companies Act 2006) of which the company's auditors are unaware, and that each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

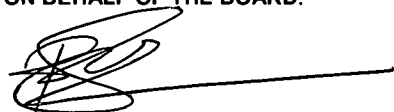
**THIRD PARTY INDEMNITY PROVISION FOR DIRECTORS**

Qualifying third party indemnity provision is in place for the benefit of all directors of the company.

**AUDITORS**

The auditors, Ernst & Young LLP, have indicated their willingness to continue in office and a resolution for re-appointment in accordance with Section 489(1) of the Companies Act 2006 will be proposed at the annual general meeting.

**ON BEHALF OF THE BOARD:**



Philip Spinks  
Director  
16 June 2014

## REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF OXFORD ENERGY TECHNOLOGIES LIMITED

We have audited the financial statements of Oxford Energy Technologies Limited for the year ended 31 December 2013 which comprise the statement of comprehensive income, the statement of changes in equity, the statement of financial position, the cash flow statement and the related notes 1 to 15. 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.

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

### Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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.

### 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. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

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

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



**Marcus Butler (Senior statutory auditor)**

for and on behalf of Ernst & Young LLP, Statutory Auditor

Reading

16 June 2014

OXFORD ENERGY TECHNOLOGIES LIMITED

**STATEMENT OF COMPREHENSIVE INCOME**  
For the year to 31 December 2013

| Notes  | Year to<br>31 December<br>2013<br>£'000 | Year to<br>31 December<br>2012<br>£'000 |
|--|---|---|
| <b>CONTINUING OPERATIONS</b>   |   |   |
| Revenue  | -                                       | 35                                      |
| Cost of sales  | -                                       | (120)                                   |
| <b>GROSS LOSS</b>  |   |   |
|  | -                                       | (85)                                    |
| Research and development costs   | (525)                                   | (583)                                   |
| Other administrative costs   | (170)                                   | (96)                                    |
| Share based payments   | 1                                       | (3)                                     |
| <b>Total administrative costs</b>                                      | <b>(694)</b>                            | <b>(682)</b>                            |
| <b>LOSS BEFORE TAX</b>   | <b>4</b>                                | <b>(767)</b>                            |
| Income tax credit  | 5                                       | 110                                     |
| <b>LOSS FOR THE YEAR AND TOTAL<br/>COMPREHENSIVE LOSS FOR THE YEAR</b> | <b>(611)</b>                            | <b>(657)</b>                            |

There were no items of other comprehensive income for the year to 31 December 2013 or 2012 and therefore the loss for the year is also the total comprehensive loss for the year net of tax.



OXFORD ENERGY TECHNOLOGIES LIMITED

STATEMENT OF CHANGES IN EQUITY  
For The Year to 31 December 2013

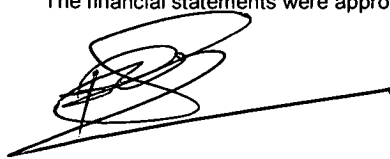
|   | Share Equity<br>£'000 | Share<br>Premium<br>£'000 | Share Based<br>Payment<br>Reserve<br>£'000 | Retained<br>Earnings<br>£'000 | Total Equity<br>£'000 |
|---|-----------------------|---------------------------|--|-------------------------------|-----------------------|
| At 1 January 2012   | 152                   | 470                       | 143  | (1,556)                       | (791)                 |
| Total comprehensive loss for the year to<br>31 December 2012  | -                     | -                         | -  | (657)                         | (657)                 |
| Cancellation of share options                                 | -                     | -                         | (140)                                      | 140                           | -                     |
| Share based payments (note 15)                                | -                     | -                         | 3  | -                             | 3                     |
| <b>At 31 December 2012</b>                                    | <b>152</b>            | <b>470</b>                | <b>6</b>                                   | <b>(2,073)</b>                | <b>(1,445)</b>        |
| Total comprehensive loss for the year to<br>31 December 2013  | -                     | -                         | -  | (611)                         | (611)                 |
| Capital contribution from parent<br>company on waiver of loan | -                     | -                         | -  | 2,239                         | 2,239                 |
| Cancellation of share options                                 | -                     | -                         | (5)  | 5                             | -                     |
| Share based payments (note 15)                                | -                     | -                         | (1)  | -                             | (1)                   |
| <b>At 31 December 2013</b>                                    | <b>152</b>            | <b>470</b>                | <b>-</b>                                   | <b>(440)</b>                  | <b>182</b>            |

OXFORD ENERGY TECHNOLOGIES LIMITED

STATEMENT OF FINANCIAL POSITION  
31 December 2013

| Notes  | 31<br>December<br>2013<br>£'000 | 31<br>December<br>2012<br>£'000 |
|--|---------------------------------|---------------------------------|
| <b>ASSETS</b>  |                                 |                                 |
| <b>NON-CURRENT ASSETS</b>  |                                 |                                 |
| Intangible assets  | 6                               | 85                              |
| Plant and equipment  | 7                               | 149                             |
|  | <b>110</b>                      | <b>234</b>                      |
| <b>CURRENT ASSETS</b>  |                                 |                                 |
| Trade and other receivables  | 8                               | 126                             |
| Cash and cash equivalents  | 9                               | 18                              |
|  | <b>100</b>                      | <b>144</b>                      |
| <b>LIABILITIES</b>   |                                 |                                 |
| <b>CURRENT LIABILITIES</b>   |                                 |                                 |
| Trade and other payables   | 10                              | 32                              |
|  | <b>79</b>                       | <b>112</b>                      |
| <b>NET CURRENT ASSETS</b>  |                                 |                                 |
| <b>LIABILITIES</b>   |                                 |                                 |
| <b>NON-CURRENT LIABILITIES</b>   |                                 |                                 |
| Provisions   | 10                              | 7                               |
| Loan from parent   | 10                              | 1,784                           |
|  | <b>182</b>                      | <b>(1,445)</b>                  |
| <b>SHAREHOLDERS FUNDS/(DEFICIT)</b>  |                                 |                                 |
| Called up share capital  | 11                              | 152                             |
| Share premium  |                                 | 470                             |
| Retained earnings  |                                 | (440)                           |
| Share based payments reserve   |                                 | 6                               |
|  | <b>182</b>                      | <b>(1,445)</b>                  |
| <b>TOTAL FUNDS/(DEFICIT) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b> |                                 |                                 |

The financial statements were approved by the Board of Directors on 16 June 2014 and were signed on its behalf by:



Philip Spinks  
Director

OXFORD ENERGY TECHNOLOGIES LIMITED

**CASH FLOW STATEMENT**  
For the year to 31 December 2013

| Notes   | Year to 31<br>December<br>2013<br>£'000 | Year to 31<br>December<br>2012<br>£'000 |
|---|---|---|
| Loss before tax                                   | (694)                                   | (767)                                   |
| Depreciation and amortisation charges             | 77                                      | 83                                      |
| Write-off of intangible assets                    | 129                                     | -                                       |
| Loss on disposal of plant and equipment           | 2                                       | 1                                       |
| Share based payment expense                       | (1)                                     | 3                                       |
|   | (487)                                   | (680)                                   |
| Decrease in trade and other receivables           | 8                                       | 24                                      |
| Decrease in trade and other payables              | (11)                                    | (22)                                    |
| <b>Cash outflow from operations</b>               | <b>(490)</b>                            | <b>(678)</b>                            |
| Income tax received                               | 112                                     | 83                                      |
| <b>Net cash outflow from operating activities</b> | <b>(378)</b>                            | <b>(595)</b>                            |
| <b>Cash flows from investing activities</b>       |   |   |
| Purchase of intangible assets                     | (50)                                    | (33)                                    |
| Purchase of plant and equipment                   | (34)                                    | (49)                                    |
| <b>Net cash outflow from investing activities</b> | <b>(84)</b>                             | <b>(82)</b>                             |
| <b>Net cash from financing activities</b>         |   |   |
| Inflow from loan from parent                      | 455                                     | 677                                     |
| <b>Net cash inflow from financing activities</b>  | <b>455</b>                              | <b>677</b>                              |
| Decrease in cash and cash equivalents             | (7)                                     | -                                       |
| Cash and cash equivalents at beginning of year    | 18                                      | 18                                      |
| Cash and cash equivalents at end of year          | 9                                       | 18                                      |

**OXFORD ENERGY TECHNOLOGIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year to 31 December 2013

1. **ACCOUNTING POLICIES**

**GENERAL INFORMATION**

Oxford Energy Technologies Limited (OET) is a research and development company that provides companies with proprietary technology solutions to create engineered materials and address surface modification applications in the electronics display, solar and ophthalmic markets.

**VISARCTM Anti-Reflective Coatings**

Our VISARC™ technology is a wet-process anti-reflective coating (ARC) which incorporates proprietary in-house manufactured nanoparticles with a low refractive index and anti-reflective properties. VISARC™ technology is applied using dip, spin or roll-to-roll coating techniques and is used with multiple substrates, including glass and polymers, making it suitable for multiple applications including electronic displays, ophthalmics and solar.

The research work undertaken by OET in relation to VISARC™ and the associated nanomaterials was suspended during a review by the Board in August 2013. This fundamental repositioning was due to market and competitive changes that occurred during our technical development period. A full evaluation of how best to generate value from our mesoporous silica (MPS) nanoparticle manufacture know-how which underpinned VISARC™, and the intellectual property portfolio we have established for this technology, is ongoing.

**Going Concern**

Information on the business environment and the factors underpinning the company's financial position, future prospects and product portfolio are included in the Strategic Report and the Directors' Report. The Directors confirm that they are satisfied that the company has adequate resources to continue in business for the foreseeable future, mainly through continued funding from the parent company via a loan. The loan has currently been waived by the parent. Based on the access to resources for the foreseeable future the Directors continue to adopt the going concern basis in preparing the financial statements.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, 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 company's functional and reporting currency is Sterling.

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

**Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognised.

**Taxes**

**Current income tax**

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the company operates and generates taxable income.

**Deferred tax**

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all relevant taxable temporary differences. Deferred tax assets are recognised for all relevant deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**OXFORD ENERGY TECHNOLOGIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year to 31 December 2013

**Sales tax**

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.  
The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

**Research and development**

Research costs are charged against income as they are incurred. Certain development costs are capitalised as intangible assets, when it is probable that future economic benefits will flow to the company. Such intangible assets are amortised on a straight-line basis from the point at which the assets are ready for use over the period of the expected benefit, and are reviewed for impairment at each balance sheet date. Other development costs are charged against income as incurred since the criteria for their recognition as an asset are not met.

The criteria for recognising expenditure as an asset are:

- Completion of the intangible asset is technically feasible so that it will be available for use or sale;
- The company intends to complete the intangible asset and use or sell it;
- The company has the ability to use or sell the intangible asset;
- The intangible asset will generate probable future economic benefits. Among many other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;
- That the company has available to it adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- That the company can reliably measure the expenditure attributable to the intangible asset during its development.

The costs of an internally generated intangible asset comprise all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Directly attributable costs include employee, (other than directors) costs incurred on technical development, testing and certification, materials consumed and any relevant third party costs. The costs of internally generated developments are recognised as intangible assets and are subsequently measured in the same way as externally acquired intangible assets. However, until completion of the development project, the assets are subject to impairment testing only.

Careful judgement by the directors is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the information available at each balance sheet date which includes the progress with third party pilot plants, testing and certification and progress on, for example, establishment of commercial arrangements with third parties. In addition, all internal activities related to research and development of new products is continuously monitored by the directors.

**Patents and licenses**

Patent costs and licensing rights are amortised over their estimated useful economic life of 20 years.

**Plant and equipment**

Plant and equipment are stated at cost, net of depreciation and provision for any impairment. Depreciation is calculated to write off the cost of all plant and equipment to estimated residual value on a straight line basis over their expected useful lives as follows:

|                               |         |
|-------------------------------|---------|
| Plant and machinery           | 4 years |
| Office furniture and fittings | 4 years |
| Computer and IT equipment     | 3 years |

**Impairment of assets**

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists the company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised as an expense immediately.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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**Financial assets and liabilities**

**Trade and other receivables**

Trade and other receivables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method less any provision for impairment.

**Trade and other payables**

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash at hand.

**Leases**

Leases in which a significant portion of the risks and rewards of the 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.

**Share-based payments**

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

Share options are valued at the date of grant using the Trinomial or Black-Scholes Merton option pricing model and are charged to operating profit over the vesting period of the award with a corresponding credit to the share based payment reserve.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting. Where an equity-settled award is forfeited, no expense is recognised and any expense recognised up to the date of the forfeiture is reversed through the income statement.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate, share premium.

**Changes in accounting policy and disclosures**

There have been no changes in accounting policy from those of the previous financial year. None of the new or amended standards that were effective as of 1 January 2013 had any material impact on the Company or the presentation of its financial results.

**Standards issued but not yet effective**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

***IFRS 9 Financial Instruments***

The first phase of IFRS 9, which addressed classification and measurement of financial assets was published in November 2009, and was subsequently amended in October 2010 and November 2013, to include classification and measurement requirements for financial liabilities and hedge accounting requirements. IFRS 9 does not currently have a mandatory effective date. A mandatory effective date will be set when the IASB completes the impairment phase of the project. However, the IASB has tentatively decided that the mandatory effective date of IFRS 9 will be for annual periods beginning on or after 1 January 2018. The Group will quantify the impact of IFRS 9 when the final standard, including all phases, is issued.

***IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements***

IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements. IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures, and associates in separate financial statements. IFRS 10 does not change consolidation procedures (i.e., how to consolidate an entity). Rather, IFRS 10 changes whether an entity is consolidated by revising the definition of control. IFRS 10 also provides a number of clarifications on applying the new definition of control. This change is not expected to impact the Company.

***IFRS 12 Disclosure of Interests in Other Entities***

IFRS 12 sets out the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates and/or structured entities. The objective of the new disclosure requirements is to help the users of financial statements understand the effects of an entity's interests in other entities on its financial position, financial performance and cash flows and the nature of, and the risks associated with, the entity's interest in other entities. This change is not expected to materially alter the disclosures provided by the Company.

***IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32***

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Company.

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**CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

**Share based payments**

Employee and director compensation in the form of shares are provided under share option schemes. The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The expense is based on a number of assumptions disclosed in note 15. The selection of different assumptions could affect the future results of the company. All share-based payment arrangements granted that had not vested prior to 31 December 2013 are recognised in the company financial statements.

**2. SEGMENTAL REPORTING**

The company only operates one class of business. At 31 December 2013 the company has one segment of operation – the development and commercialisation of advanced materials and technology solutions. The company's operations are all based in the UK and services are all performed in the UK. There is no geographic split of revenues by location of customer, as most customers are global corporations and the business is not considered to be seasonal.

There was no revenue earned during the year to 31 December 2013 (2012: customer fees of £35,000).

**3. EMPLOYEES AND DIRECTORS**

|                               | Year to 31<br>December<br>2013<br>£'000 | Year to 31<br>December<br>2012<br>£'000 |
|-------------------------------|---|---|
| Wages and salaries            | 270                                     | 312                                     |
| Social security costs         | 28                                      | 33                                      |
| Pension costs                 | 2                                       | 3                                       |
| Share-based payment (note 15) | (1)                                     | 3                                       |
|                               | <b>299</b>                              | <b>351</b>                              |

The average monthly number of employees of the Company, (excluding executive directors) during the period were:

|           | Year to 31<br>December<br>2013 | Year to 31<br>December<br>2012 |
|-----------|--------------------------------|--------------------------------|
| Technical | 8                              | 10                             |
|           | <b>8</b>                       | <b>10</b>                      |

No remuneration was earned by directors for either year in relation to this company. No pension contributions were made on behalf of the directors. Details regarding the share option scheme can be found under note 15.

**4. LOSS FROM OPERATIONS**

The loss from operations is stated after charging:

|   | Year to 31<br>December<br>2013<br>£'000 | Year to 31<br>December<br>2012<br>£'000 |
|---|---|---|
| Research and development costs  | 525                                     | 583                                     |
| Share based payments  | 1                                       | 3                                       |
| Depreciation of property, plant and equipment – owned                       | 71                                      | 79                                      |
| Impairment of intangible assets - patents                                   | 129                                     | -                                       |
| Amortisation of intangible assets – patents                                 | 6                                       | 4                                       |
| <b>Auditor's remuneration</b>   |   |   |
| Fees payable to the company's auditor for audit of the company accounts     | 8                                       | 7                                       |
| Fees payable to the company's auditor and its associates for other services | -                                       | 2                                       |

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5. **INCOME TAX CREDIT**

a) **Tax credited in the income statement**

|                           | <b>Year to 31<br/>December<br/>2013<br/>£'000</b> | <b>Year to 31<br/>December<br/>2012<br/>£'000</b> |
|---------------------------|---|---|
| UK corporation tax credit | (83)  | (110)   |

b) **Current tax**

The current tax credit in the income statement for the year is detailed below. Current tax credit is lower than the standard rate of corporation tax in the UK of 23.25% (2012: 24.5%). The differences are reconciled below:

|  | <b>Year to 31<br/>December<br/>2013<br/>£'000</b> | <b>Year to 31<br/>December<br/>2012<br/>£'000</b> |
|--|---|---|
| Loss before tax  | (694)   | (767)   |
| Loss on ordinary activities multiplied by the average standard rate of corporation tax in the UK of 23.25% (2012: 24.5%) | (161)   | (188)   |
| Effects of:  |   |   |
| Expenses not deductible for tax purposes   |   | 1   |
| Additional deduction for R&D expenditure   | (95)  | (132)   |
| Depreciation in excess of capital allowances   | 17  | 7   |
| Income not taxable for tax purposes  | (1)   | -   |
| Unrelieved tax losses and other deductions arising in the year   | 68  | 74  |
| Losses surrendered for research and development  | 91  | 128   |
| Prior year adjustment  | (2)   | -   |
| <b>Tax credit</b>  | <b>(83)</b>                                       | <b>(110)</b>                                      |

Unrelieved tax losses of £1,622,000 at 31 December 2013 (2012 £1,346,000) remain available indefinitely to offset against future taxable trading profits of the companies in which the losses arose. No deferred tax asset has been recognised in respect of the losses as recoverability is uncertain.

c) **Deferred tax**

Unrecognised deferred tax assets at 20% (2012: 23%)

|   | <b>Year to 31<br/>December<br/>2013<br/>£'000</b> | <b>Year to 31<br/>December<br/>2012<br/>£'000</b> |
|---|---|---|
| Tax losses carried forward                | 324   | 310   |
| Accelerated capital allowances            | (15)  | (33)  |
| Share based payments                      | -   | -   |
| <b>Deferred tax assets (unrecognised)</b> | <b>309</b>  | <b>277</b>  |

In his budget of 21 March 2013, the Chancellor of the Exchequer announced a number of further changes to the UK Corporation Tax rate. These included a reduction in the UK corporation tax rate from 22% to 21% effective from 1 April 2014 with a further 1% reduction from 1 April 2015 to 20%. Consequently the company will only recognise the impact of the rate change which is substantively enacted at that time in its financial statements. At the balance sheet date the corporation tax rate substantially enacted was 20% and therefore deferred tax assets and liabilities have been calculated at this rate.



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6. **INTANGIBLE ASSETS**

|                                      | <b>Patents &amp;<br/>licenses<br/>£'000</b> |
|--------------------------------------|---|
| <b>COST</b>                          |   |
| At 1 January 2012                    | 59  |
| Additions                            | 33  |
| <hr/>                                |   |
| As 31 December 2012                  | 92  |
| Additions                            | 50  |
| <hr/>                                |   |
| <b>At 31 December 2013</b>           | <b>142</b>                                  |
| <b>AMORTISATION &amp; IMPAIRMENT</b> |   |
| At 1 January 2012                    | 3   |
| Amortisation for year                | 4   |
| <hr/>                                |   |
| At 31 December 2012                  | 7   |
| Amortisation for year                | 6   |
| Impairment                           | 129   |
| <hr/>                                |   |
| <b>At 31 December 2013</b>           | <b>142</b>                                  |
| <b>NET BOOK VALUE</b>                |   |
| At 31 December 2012                  | 85  |
| <hr/>                                |   |
| At 31 December 2013                  | -   |

7. **PLANT AND EQUIPMENT**

No assets were held under finance leases.

|                            | <b>Plant &amp;<br/>machinery<br/>£'000</b> | <b>Computer<br/>equipment<br/>£'000</b> | <b>Totals<br/>£'000</b> |
|----------------------------|--|---|-------------------------|
| <b>COST</b>                |  |   |                         |
| At 1 January 2012          | 284  | 23                                      | 307                     |
| Additions                  | 48   | 1                                       | 49                      |
| Disposals                  | (1)  | -                                       | (1)                     |
| <hr/>                      |  |   |                         |
| At 31 December 2012        | 331  | 24                                      | 355                     |
| Additions                  | 34   | -                                       | 34                      |
| Disposals                  | (6)  | -                                       | (6)                     |
| <hr/>                      |  |   |                         |
| <b>At 31 December 2013</b> | <b>359</b>                                 | <b>24</b>                               | <b>383</b>              |
| <b>DEPRECIATION</b>        |  |   |                         |
| At 1 January 2012          | 119  | 8                                       | 127                     |
| Charge for year            | 72   | 7                                       | 79                      |
| <hr/>                      |  |   |                         |
| At 31 December 2012        | 191  | 15                                      | 206                     |
| Charge for year            | 65   | 6                                       | 71                      |
| Disposals                  | (4)  | -                                       | (4)                     |
| <hr/>                      |  |   |                         |
| <b>At 31 December 2013</b> | <b>252</b>                                 | <b>21</b>                               | <b>273</b>              |
| <b>NET BOOK VALUE</b>      |  |   |                         |
| At 31 December 2012        | 140  | 9                                       | 149                     |
| <hr/>                      |  |   |                         |
| At 31 December 2013        | 107  | 3                                       | 110                     |

8. **TRADE AND OTHER RECEIVABLES**

|                     | <b>31 December<br/>2013<br/>£'000</b> | <b>31 December<br/>2012<br/>£'000</b> |
|---------------------|---------------------------------------|---------------------------------------|
| Current:            |                                       |                                       |
| Corporation tax due | 81                                    | 110                                   |
| VAT receivable      | 7                                     | 15                                    |
| Prepayments         | 1                                     | 1                                     |
| <hr/>               |                                       |                                       |
|                     | <b>89</b>                             | <b>126</b>                            |

The directors consider that the carrying amount of trade and other receivables approximates to their fair values. There was no provision for impairment at 31 December 2013 or 31 December 2012. There are no receivables past due.

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**9. CASH AND CASH EQUIVALENTS**

|                          | <b>31 December<br/>2013<br/>£'000</b> | <b>31 December<br/>2012<br/>£'000</b> |
|--------------------------|---------------------------------------|---------------------------------------|
| Cash at bank and in hand | 11                                    | 18                                    |

**10. TRADE AND OTHER PAYABLES**

|                                 | <b>31 December<br/>2013<br/>£'000</b> | <b>31 December<br/>2012<br/>£'000</b> |
|---------------------------------|---------------------------------------|---------------------------------------|
| Current:                        |                                       |                                       |
| Trade payables                  | 8                                     | 9                                     |
| Social security and other taxes | -                                     | 10                                    |
| Accrued expenses                | 13                                    | 13                                    |
|                                 | <b>21</b>                             | <b>32</b>                             |
| Non-current:                    |                                       |                                       |
| Dilapidations Provisions        | 7                                     | 7                                     |
| Loans from parent               | -                                     | 1,784                                 |

Dilapidations provisions relate to anticipated costs related to short term leases on laboratories and offices to return them to their pre-lease condition. The directors consider that the carrying amounts of trade and other payables approximates to their fair values.

Oxford Advanced Surfaces Group plc, the parent company, provides working capital financing to Oxford Energy Technologies Limited on an as needs basis. No interest is charged on the loan and the loan is repayable as and when Oxford Energy Technologies Limited has available cash that is not required for working capital investment or growth. Due to the suspension in the development activities and the uncertainty surrounding the recoverability of the loan, the parent has agreed to waive the loan until such time as the Company can repay. The loan has been treated as a capital contribution in the financial statements and charged to Retained earnings as disclosed in the Statement of Changes in Equity.

**11. CALLED UP SHARE CAPITAL**

|   | <b>Number of<br/>Shares</b> | <b>Share<br/>Capital<br/>£'000</b> |
|---|-----------------------------|------------------------------------|
| <b>Issued and fully paid</b>                        |                             |                                    |
| <b>At 1 January and 31 December 2013 &amp; 2012</b> | <b>15,222,502</b>           | <b>152</b>                         |

**OXFORD ENERGY TECHNOLOGIES LIMITED**  
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**12. FINANCIAL RISK MANAGEMENT**

**Capital risk management**

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders. This is achieved through careful investment of surplus cash and tight budgetary control.

**Significant accounting policies**

Details of significant accounting policies and methods adopted, including criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 1 in the financial statements.

| <b>Categories of financial instrument</b>                         |                  |                               | <b>Year to 31<br/>December<br/>2013</b> | <b>Year to 31<br/>December<br/>2012</b> |
|---|------------------|-------------------------------|---|---|
| <b>Financial assets</b>   |                  |                               |   |   |
| Trade and other receivables (including cash and cash equivalents) |                  |                               | 100                                     | 144                                     |
| <b>Financial liabilities</b>                                      |                  |                               |   |   |
| Trade and other payables  |                  |                               | 28                                      | 1,823                                   |
| <b>Financial assets maturity - 2013</b>                           |                  |                               |   |   |
|   | <b>On demand</b> | <b>Less than 3<br/>months</b> | <b>3 to 12<br/>months</b>               | <b>Total</b>                            |
|   | <b>£'000</b>     | <b>£'000</b>                  | <b>£'000</b>                            | <b>£'000</b>                            |
| Trade and other receivables                                       | -                | 8                             | 81                                      | 89                                      |
| Cash at bank and in hand  | 11               | -                             | -                                       | 11                                      |
|   | <b>11</b>        | <b>8</b>                      | <b>81</b>                               | <b>100</b>                              |
| <b>Financial assets maturity - 2012</b>                           |                  |                               |   |   |
|   | <b>On demand</b> | <b>Less than 3<br/>months</b> | <b>3 to 12<br/>months</b>               | <b>Total</b>                            |
|   | <b>£'000</b>     | <b>£'000</b>                  | <b>£'000</b>                            | <b>£'000</b>                            |
| Trade and other receivables                                       | -                | 16                            | 110                                     | 126                                     |
| Cash at bank and in hand  | 18               | -                             | -                                       | 18                                      |
|   | <b>18</b>        | <b>16</b>                     | <b>110</b>                              | <b>144</b>                              |
| <b>Financial liabilities maturity - 2013</b>                      |                  |                               |   |   |
|   |                  | <b>On demand</b>              | <b>Over 1 year</b>                      | <b>Total</b>                            |
|   |                  | <b>£'000</b>                  | <b>£'000</b>                            | <b>£'000</b>                            |
| Trade and other payables  |                  | 21                            | -                                       | 21                                      |
| Dilapidations provisions  |                  | -                             | 7                                       | 7                                       |
| Loans from parent company   |                  | -                             | -                                       | -                                       |
|   |                  | <b>21</b>                     | <b>7</b>                                | <b>28</b>                               |
| <b>Financial liabilities maturity - 2012</b>                      |                  |                               |   |   |
|   |                  | <b>On demand</b>              | <b>Over 1 year</b>                      | <b>Total</b>                            |
|   |                  | <b>£'000</b>                  | <b>£'000</b>                            | <b>£'000</b>                            |
| Trade and other payables  |                  | 32                            | -                                       | 32                                      |
| Dilapidations provisions  |                  | -                             | 7                                       | 7                                       |
| Loans from parent company   |                  | -                             | 1,784                                   | 1,784                                   |
|   |                  | <b>32</b>                     | <b>1,791</b>                            | <b>1,823</b>                            |

The carrying amount reflected above represents the Company's maximum exposure to credit risk for such loans and receivables. There were no out of term financial assets or liabilities.

**Liquidity risk**

The Company carries a liquidity risk from the loans it carries from the parent company. In order to repay these loans the Company will need to successfully commercialise its technology. There is no fixed repayment period for these loans.

**Credit risk**

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers. For banks and financial institutions only independently rated parties with a strong credit rating are used. For credit exposures to customers the Company assesses the likelihood of payment from various factors including external credit ratings, financial records and other relevant factors.

**Interest Rate Sensitivity**

Due to the minimal cash and cash equivalent balances held in the company the impact of any likely change in interest rates is immaterial.

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**13. RELATED PARTY DISCLOSURES**

At the year-end the interest free loan from the parent, Oxford Advanced Surfaces Group plc, had been forfeited and the balance stood at nil (2012: £1,784,000). The loan carries no interest charge.

At the year end the Board did not consider any employees to be key to the Company other than the Directors. The Directors received no remuneration for the year or the prior period.

**14. ULTIMATE CONTROLLING PARTY**

The immediate parent company is Oxford Advanced Surfaces Group plc, a company registered in England and Wales. The directors are of the opinion there is no ultimate controlling party.

**15. SHARE-BASED PAYMENT TRANSACTIONS**

EMI/Unapproved Group Option Scheme

The EMI/Unapproved Scheme covers all employees of the Company and is operated by the parent company, Oxford Advanced Surfaces Group plc. Options are exercisable at a price as agreed in the option documentation, which is typically the mid-market price the day before the day of issue of the option award. For the January 2013 award the option price was set at 10 pence with the mid-market price on the day preceding the day of issue being 10 pence.

|                           | 2013                            |                   | 2012                            |                   |
|---------------------------|---------------------------------|-------------------|---------------------------------|-------------------|
|                           | Weighted average exercise price | Number of options | Weighted average exercise price | Number of options |
| At beginning of the year  | 11.59p                          | 551,263           | 29.70p                          | 430,397           |
| Granted during the year   | 10.00p                          | 1,000,000         | 9.92p                           | 415,000           |
| Lapsed/forfeited          | 10.00p                          | (650,000)         | -                               | -                 |
| Cancelled                 | 11.59p                          | (551,263)         | 35.80p                          | (294,134)         |
| <b>At end of the year</b> | <b>10.00p</b>                   | <b>350,000</b>    | <b>11.59p</b>                   | <b>551,263</b>    |

For the options brought forward there are no vesting conditions other than continuation of service. For the January 2013 awards there are, in addition to the continuation of service, performance criteria relating to the achievement of share price targets ranging from 15.0 pence to 25.0 pence over the coming 1 to 3 years.

Of the 350,000 options outstanding at 31 December 2013, none were exercisable (2012: 16,263). The weighted average price of the exercisable shares for the year ended 31 December 2012 was 16.50 pence.

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

| Year of expiry | Range of exercise price | 2013              |                                 | 2012              |                                 |
|----------------|-------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
|                |                         | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| 2019           | 16.50p                  | -                 | -                               | 16,263            | 16.50p                          |
| 2020           | 16.00p                  | -                 | -                               | 65,000            | 16.00p                          |
| 2021           | 12.50p – 23.50p         | -                 | -                               | 55,000            | 17.50p                          |
| 2022           | 7.75p – 10.00p          | -                 | -                               | 415,000           | 9.92p                           |
| 2023           | 10.00p                  | 350,000           | 10.00p                          | -                 | -                               |
|                |                         | <b>350,000</b>    | <b>10.00p</b>                   | <b>551,263</b>    | <b>11.59p</b>                   |

The following table lists the inputs to the models used for the years ended 31 December 2013 and 31 December 2012

|   | Performance linked grants |             | Non-performance linked grants |               |
|---|---------------------------|-------------|-------------------------------|---------------|
|   | 2013                      | 2012        | 2013                          | 2012          |
| Expected volatility (%)                                 | 50.0%                     | 50.0%       | -                             | 17.0%         |
| Risk-free interest rate (%)                             | 0.3% - 2.2%               | 0.3% - 2.2% | -                             | 0.5%          |
| Expected dividends                                      | nil                       | nil         | -                             | nil           |
| Expected life of options (years average)                | -                         | -           | -                             | 3.0 years     |
| Expected vesting multiple (of performance target price) | 1.0                       | 1.0         | -                             | -             |
| Weighted average exercise price (pence)                 | 10.00p                    | 10.00p      | -                             | 7.75p         |
| Leavers   | 20.0%                     | 20.0%       | -                             | 0.0%          |
| Model used  | Trinomial                 | Trinomial   | -                             | Black-Scholes |

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**SHARE-BASED PAYMENT TRANSACTIONS**

(continued)

Historically volatility has been calculated as the annualised standard deviation of the continuously compounded historical rates of return on all the shares listed on AIM. However for the October 2012 award onwards a volatility of 50% has been selected as a more appropriate estimate of the volatility for the Company. The 50% is based on the median volatility percentage of comparable companies in the chemistry industry sector and determined following a benchmarking exercise of companies deemed to be comparable (i.e. companies in the chemical industry sector listed on AIM and for companies who were less established (incorporated within the last 10 years) and based in the UK). The Directors are of the belief that using market based volatilities for any options is a more accurate measure to calculate the fair value as the Group's share price has suffered from unusual volatility due to issues such as liquidity and its stage of development.

The total credit arising in the year for share based payment transactions is £1,000 (2012: charge of £3,000). The options outstanding at 31 December 2013 had a weighted average remaining contractual life of 9.1 years. The fair value of the options issued during the year was £23,000.