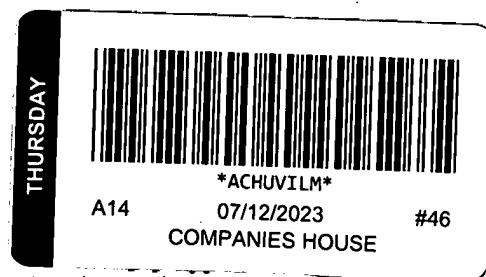


COMPANY REGISTRATION NUMBER: 02413577

Reaction Engines Limited

**Annual Report and Consolidated Financial
Statements**

31 December 2022



Reaction Engines Limited

Annual Report and Consolidated Financial Statements Year ended 31 December 2022

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Reaction Engines Limited

Officers and Professional Advisers Year ended 31 December 2022

Directors

Rt Hon P Dunne MP (Chairman)
M Thomas
C Thorold (resigned 6 October 2023)
D McNair Scott
J Hale
D Holmes
A Minton Beddoes
S N Zawaideh
I L Muldowney (resigned 8 March 2023)
N G McNair Scott (deceased 7 April 2023)
T Scrope (resigned 16 November 2022)

Secretary

Teifion Hill (appointed 19 September 2023)
R Lee (resigned 5 September 2023)

Company number

02413577

Registered Office

Building F5
Culham Science Centre
Abingdon
Oxfordshire
OX14 3DB

Auditor

Grant Thornton UK LLP
Seacourt Tower
Botley
Oxford
OX2 0JJ

Reaction Engines Limited

Strategic Report Year ended 31 December 2022

This strategic report has been prepared for Reaction Engines Limited ("the Company") and its subsidiaries ("the Group") as a whole and therefore gives greater emphasis to those matters which are significant to the Group.

Review of the business

The Group's historical focus has been centred on SABRE (Synergetic Air Breathing Rocket Engine), an air-breathing rocket engine incorporating a ramjet system for improved efficiency, a precooler to enable higher operating speeds than existing engines and a recuperator to utilise energy produced by the precooler, significantly reducing fuel consumption. The Group completed drawing down its original £60m Government grant to fund SABRE during 2021 and an additional £4m in follow on funding during 2022. Efforts continue to be made to secure a multi-year commitment for SABRE funding.

The Group has increased its focus on emerging revenue streams in high-speed flight (in atmosphere) and applied technologies (applying technologies derived from SABRE into applications to serve adjacent commercial markets), by investing in its sales and marketing capabilities and product development. Reduced space funding from UKSA/ESA has been replaced with UK Defence funding with a contract signed in Q1 2023.

Grant income fell year on year by £2.1m and the Group continued to diversify its commercial portfolio, develop its technologies, and invest in its intellectual property. Based on the potential of these opportunities the Group was able to secure further equity funding during the year of £41.0m (2021: £23.5m), increasing the net assets position to £32.1m (2021: £15.2m). The loss for the year increased to £23.7m (2021: £18.4m) as the programmes were funded more by equity than revenues.

One appointment to the Board was made; Samer Nawaf Zawaideh joined the Company as a non-executive director in September 2022 to further strengthen the Board and governance. Following the successful closure of equity investments, the Group was able to increase headcount to support programme growth with total headcount closing at 256 (2021: 198).

Principal risks and uncertainties

Going concern

The principal risks and uncertainties the Group faces have historically been associated with its ability to raise capital and grant income to fund its technology development and operate as a going concern and there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

In September 2022 the Group received equity funding of £35m through an issue of 875,000 shares to a strategic investor to fund the maturation of its technologies along with an additional £5m from existing investors, at the year ended December 2022 the Group's cash position was £23.8m. Whilst the Group is still investing heavily in commercialising technologies and growing revenue the strategic business plan indicates that further funding will be required by the end of June 2024 when cash reserves would be depleted. The Group is currently finalising the annual budget for 2024 and management are evaluating cost mitigating actions to postpone the requirement for additional external funding.

The Group has a history of successfully obtaining funding with £41m equity investment in 2022 and £23.5m in 2021. As such, whilst the Group appreciates that there is a material uncertainty as the additional funding had not yet been secured at the signing date of the financial statements, its strong investor base and track record should give confidence that these risks can be managed. The directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, and thus they continue to adopt the going concern basis in preparing the financial statements.

Reaction Engines Limited

Strategic Report *(continued)* Year ended 31 December 2022

Principal risks and uncertainties *(continued)*

Economic uncertainty

Current inflationary pressures are predicted to impact the Group's cost base, most particularly over staff costs, which is compounded by a competitive marketplace for skilled engineers. The Group has incorporated these costs into its anticipated future cash flows and will factor into customer contracts wherever possible. The Group does not have significant levels of borrowings and, as such, rising interest rates do not represent a material risk.

Intellectual property

Intellectual property remains a key asset to the Group and the risk of expropriation of our technology through fraud or theft is real. To mitigate this the Board have invested significant resources in people, processes and systems - particularly in the fields of export control, cybersecurity and patenting. Whilst the Board are confident of our market leading position in terms of being ahead of competitors, it is hard to assess what or where competitors are given the often secretive nature of this type of research and development.

Key Performance Indicators ("KPI's")

The key financial and other performance indicators during the year were as follows:

	Notes	2022 £000	2021 <i>(restated)</i> ² £000	Change (%)
Revenue ¹	4	4,743	7,159	(34)
Operating loss ¹	6	28,866	20,232	33
Loss for the financial year ¹		25,696	18,430	28
Cash and cash equivalents ³		23,762	11,585	105
Current ratio ⁴		5.0	2.2	127
Total equity ¹		32,144	15,185	112
Average number of employees	10	224	202	11

¹ Revenue has decreased in line with grant funding limitations, with management adjusting external spend accordingly. The operating loss and loss for the financial year have increased due to programmes being funded by equity investment rather than grant revenue.

² Restated following change of accounting policy to reclassify software licences from tangible assets (see Note 28); accounting for the 2021 Company Share Option Purchase (CSOP) scheme; and accounting for professional fees relating to share issues.

³ Increase is driven by receipt of an equity tranche of £35m on 9 September 2022.

⁴ Current ratio is calculated as current assets divided by current liabilities, defined as assets that are cash or will be turned into cash in a year or less and liabilities that will be paid in a year or less. This gives an indication about the Group's ability to cover its short-term debt.

Future developments

The directors expect the general level of activity to increase in the forthcoming year in line with its programme plan and budget, which encompasses an increase in internal resources enabled by revenue growth during 2023.

Reaction Engines Limited

Strategic Report *(continued)* Year ended 31 December 2022

Events after the balance sheet date

Details of other events after the end of the reporting period are disclosed in Note 25 on page 55.

This report was approved by the board of directors on 5 December 2023 and signed on behalf of the board by:

Mark Thomas

Mr M Thomas
Director

Reaction Engines Limited

Directors' Report Year ended 31 December 2022

The directors present their report and the Annual Report and Financial Statements of the Group for the year ended 31 December 2022.

Results

The loss for the financial year, after taxation, amounted to £23,676,330 (2021 restated: £18,430,228). As at 31 December 2022 the Group has total assets of £39,682,473 (2021: £23,893,784).

Directors

The directors who served the Company up to the date of signing the report were as follows:

Mr M Thomas
Mr C Thorold (appointed 16 November 2022, resigned 6 October 2023)
Mr T Scrope (resigned 16 November 2022)
Mr N McNair Scott (deceased 7 April 2023)
Mr D McNair Scott
Mr J Hale
Mr I Muldowney (resigned 8 March 2023)
Mr D Holmes (appointed 8 March 2023)
Rt Hon P Dunne MP
Ms A Minton Beddoes
Mr S N Zawaideh (appointed 21 September 2022)

Dividends

No dividends were paid during the year. The directors do not recommend the payment of a dividend (2021: £nil).

Political contributions

No political contributions were made during the year (2021: £nil).

Matters covered in the strategic report

Details of going concern, future developments, research and development activities and events that have occurred after the balance sheet date can be found in the Strategic Report on pages 2 to 4 and form part of this report by cross-reference as permitted by section 416 (4) of the Companies Act 2006.

Employment of disabled persons

The Group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the Group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

Reaction Engines Limited

Directors' Report *(continued)* Year ended 31 December 2022

Financial risk management objectives and policies

The Group's activities expose it to certain financial risks. 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. The Group does not use derivative financial instruments for speculative purposes.

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables.

The Group's credit risk on receivables is low as the majority of inflows originate from governmental grants or contracts. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group uses a mixture of equity finance, grant income and a limited amount of supplier financing agreements. There are no material debts.

Further details regarding liquidity risk can be found in the Statement of Accounting Policies in the financial statements.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue trading while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2021.

The capital structure of the Group consists of share capital, share premium and cash balances less borrowings. Details of the authorised and issued share capital can be found together with details of the movements in the Company's issued share capital during the year in Note 24 on page 53.

The Group is not subject to any externally imposed capital requirements.

When deciding on whether and how to raise capital, the Directors consider all relevant factors, including the Group's projected cash flow requirements and the cost of each funding source. To date, the Group has considered equity issuances as the most appropriate source for raising capital.

Directors' indemnities

The Group has made qualifying third party indemnities for the benefit of its directors which were made during the year and remain in force at the date of this report.

The auditor is deemed to have been re-appointed in accordance with section 485 of the Companies Act 2006.

Reaction Engines Limited

Directors' Report *(continued)* Year ended 31 December 2022

Auditor:

The directors confirm that:

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

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

This report was approved by the board of directors on 5 December 2023 and signed on behalf of the board by:

Mark Thomas

Mr M Thomas
Director

Reaction Engines Limited

Directors' Responsibilities Statement Year ended 31 December 2022

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 elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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 profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Reaction Engines Limited

Independent Auditor's Report to the members of Reaction Engines Limited Year ended 31 December 2022

Opinion

We have audited the financial statements of Reaction Engines Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2022 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2022 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance UK-adopted international accounting standards; and
- the parent company financial statements have been properly prepared in accordance with UK-adopted international accounting standards 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern

We draw attention to the going concern section in note 2 to the financial statements, which indicates that whilst the group is still investing heavily in commercialising technologies and growing revenue the strategic business plan indicates that further funding will be required by the group and parent company by the end of 2024. As stated in note 2, these events or conditions, along with the other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter. In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Reaction Engines Limited

Independent Auditor's Report to the members of Reaction Engines Limited

(continued)

Year ended 31 December 2022

Our responsibilities

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Reaction Engines Limited

Independent Auditor's Report to the Members of Reaction Engines Limited

(continued)

Year ended 31 December 2022

Matters on which we are required to report by exception

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant which are directly relevant to the financial statements are those related to the reporting frameworks (IFRS and the Companies Act 2006).
 - In addition, we concluded that there are certain significant laws and regulations, such as Employment Law, and Health and Safety regulations; the Data Protection Act and the Modern Slavery Act that may have an effect on the determination of the amounts and disclosures in the financial statements relating those matters
-

Reaction Engines Limited

Independent Auditor's Report to the Members of Reaction Engines Limited

(continued)

Year ended 31 December 2022

Auditor's responsibilities for the audit of the financial statements (continued)

- We assessed the susceptibility of the Group's and parent company's financial statements to material misstatement, including how fraud might occur, by considering management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and the recognition of revenue. We determined that the principal risks were in relation to:
 - unusual journal entries
 - potential management bias in determining accounting estimates and judgements, especially in relation to the Research and Development (R&D) claim, bad debt provision, intangible assets, and depreciation and amortisation policies.

Our audit procedures included:

- Making enquiries of management to understand the Group's and parent company's procedures and policies relating to the identification, evaluation and compliance with those legal and regulatory frameworks, the detection and response to the risks of fraud, and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations. We corroborated our enquiries through our review of board minutes and other information obtained throughout the audit.
 - Gaining an understanding of the controls management have in place to prevent and detect fraud.
 - Journal entry testing with a focus on journals posted by individuals outside the accounting team, journals posted by senior management and material postings to cash.
 - Challenging significant accounting assumptions, estimates and judgements made by management specifically in relation to the R&D claim, bad debt provision, intangible assets, and depreciation and amortisation policies.
 - Assessing the extent of compliance with relevant laws and regulations as part of our audit procedures on the related financial statement item; and
 - Performing audit procedures to consider the compliance of disclosure in the financial statements with applicable financial reporting requirements.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
 - The engagement partner's assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
 - Understanding of, and practical experience with audit engagements of similar nature and complexity through appropriate training and participation; and
 - Knowledge of the industry in which the group and parent company operates.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Reaction Engines Limited

Independent Auditor's Report to the Members of Reaction Engines Limited

(continued)

Year ended 31 December 2022

Use of our report

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

Grant Thornton UK LLP

Madeleine Malenczuk
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Oxford
5 December 2023

Reaction Engines Limited

Consolidated Income Statement Year ended 31 December 2022

	Note	Year ended 31 December 2022 £	Year ended 31 December 2021 (restated) ¹ £
Revenue	4	4,743,049	7,158,894
Cost of sales		(7,970,187)	(5,139,463)
Gross (loss)/profit		(3,227,138)	2,019,431
Other operating income	5	29,256	112,357
Administrative expenses ²		(24,302,481)	(22,363,610)
Other expenditure ³		(1,366,007)	-
Operating loss	6	(28,866,367)	(20,231,822)
Finance costs	7	(192)	(105,048)
Finance income	8	122,726	713
Loss before taxation		(28,743,833)	(20,336,157)
Tax on loss	12	3,048,227	1,905,869
Loss for the financial year		(25,695,606)	(18,430,288)
Loss for the year attributable to:			
Non-controlling interest	16	(458,877)	-
Owners of the parent		(25,236,729)	(18,430,288)
Loss for the financial year		(25,695,606)	(18,430,288)

All the activities of the Group are from continuing operations.

¹ See Note 28

² Administrative expenses include provisions for onerous contracts totalling £nil (2021: £1,023,406).

³ Other expenditure is impairment of Intellectual Property assets transferred to Sunborne Systems Limited.

The notes on pages 25 to 60 form part of these Annual Report and Financial Statements.

Reaction Engines Limited

Consolidated Statement of Comprehensive Income Year ended 31 December 2022

		Year ended 31 December 2022	Year ended 31 December 2021 <i>(restated)</i>
	Note	£	£
Loss for the year		(25,695,606)	(18,430,288)
Other comprehensive income:			
Items that will be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	24	245,681	-
Other comprehensive income for the year		245,681	-
Total comprehensive loss for the year		(25,449,925)	(18,430,288)
Non-controlling interest	16	(458,877)	-
Owners of the parent		(24,991,048)	(18,430,288)

The notes on pages 25 to 60 form part of these Annual Report and Financial Statements.

Reaction Engines Limited

Consolidated Statement of Financial Position 31 December 2022

	Note	As at 31 December 2022 £	As at 31 December 2021 (restated) £	As at 01 January 2021 (restated) £
Assets				
Non-current assets				
Intangible assets	13	989,660	523,961	476,412
Property, plant and equipment	14	5,002,982	5,101,082	6,118,634
Right of use assets	21	1,285,136	1,549,913	2,273,286
		<u>7,277,778</u>	<u>7,174,956</u>	<u>8,868,332</u>
Current assets				
Trade and other receivables	17	8,643,079	5,133,835	3,370,962
Cash and cash equivalents		23,761,521	11,584,993	5,684,639
		<u>32,404,600</u>	<u>16,718,828</u>	<u>9,055,601</u>
Total assets		<u>39,682,378</u>	<u>23,893,784</u>	<u>17,923,933</u>
Liabilities				
Non-current liabilities				
Interest-bearing loans and borrowings	19	(855,793)	(1,053,280)	(1,599,857)
Provision for liabilities	20	(176,243)	(184,801)	(310,972)
		<u>(1,032,036)</u>	<u>(1,238,081)</u>	<u>(1,910,829)</u>
Current liabilities				
Trade and other payables	18	(5,627,767)	(5,554,854)	(3,606,144)
Interest-bearing loans and borrowings	19	(879,016)	(750,152)	(778,394)
Provision for liabilities	20	-	(1,165,519)	(2,354,354)
		<u>(6,506,783)</u>	<u>(7,470,525)</u>	<u>(6,738,892)</u>
Total liabilities		<u>(7,538,819)</u>	<u>(8,708,606)</u>	<u>(8,649,721)</u>
Net assets		<u>32,143,559</u>	<u>15,185,178</u>	<u>9,274,212</u>
Equity attributable to owners of the parent company				
Called up share capital	24	74,503	64,429	58,554
Share premium account	24	154,813,791	113,199,034	90,488,677
Translation reserve	24	245,681	-	-
Profit and loss account		(122,531,541)	(98,078,285)	(81,273,019)
		<u>32,602,434</u>	<u>15,185,178</u>	<u>9,274,212</u>
Non-controlling interest	16	(458,875)	-	-
Total equity		<u>32,143,559</u>	<u>15,185,178</u>	<u>9,274,212</u>

The notes on pages 25 to 60 form part of these Annual Report and Financial Statements.

Reaction Engines Limited

Consolidated Statement of Financial Position *(continued)* 31 December 2022

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account. The loss for the financial year of the Company was £25,101,268 (2021: £16,923,379 restated).

These Annual Report and Financial Statements were approved by the board of directors and authorised for issue on 5 December 2023 and are signed on behalf of the board by:

Mark Thomas

Mr M Thomas
Director

Company registration number: 02413577

The notes on pages 25 to 60 form part of these Annual Report and Financial Statements.

Reaction Engines Limited

Company Statement of Financial Position 31 December 2022

	Note	As at 31 December 2022 £	As at 31 December 2021 (restated) £	As at 01 January 2021 (restated) £
Assets				
Non-current assets				
Intangible assets	13	989,660	523,961	476,412
Property, plant and equipment	14	2,686,341	2,706,513	3,410,836
Right of use assets	21	866,342	1,390,074	2,044,790
		<u>4,542,343</u>	<u>4,620,548</u>	<u>5,932,038</u>
Current assets				
Trade and other receivables	17	8,062,946	4,822,348	3,366,338
Cash and cash equivalents		23,077,544	11,133,197	5,589,163
		<u>31,140,490</u>	<u>15,955,545</u>	<u>8,955,501</u>
Total assets		<u>35,682,833</u>	<u>20,576,093</u>	<u>14,887,539</u>
Liabilities				
Non-current liabilities				
Interest-bearing loans and borrowings	19	(504,951)	(950,411)	(1,427,923)
Provision for liabilities	20	(176,243)	(184,801)	(310,972)
		<u>(681,194)</u>	<u>(1,135,212)</u>	<u>(1,738,895)</u>
Current liabilities				
Trade and other payables	18	(5,393,678)	(4,725,860)	(3,606,144)
Interest-bearing loans and borrowings	19	(777,115)	(681,087)	(714,200)
Provision for liabilities	20	–	(142,113)	(2,354,354)
		<u>(6,170,793)</u>	<u>(5,549,060)</u>	<u>(6,674,698)</u>
Total liabilities		<u>(6,851,987)</u>	<u>(6,684,272)</u>	<u>(8,413,593)</u>
Net assets		<u>28,830,846</u>	<u>13,891,821</u>	<u>6,473,946</u>
Issued capital and reserves				
Called up share capital	24	74,468	64,429	58,554
Share premium account	24	152,445,815	113,199,034	90,488,677
Profit and loss account		(123,689,437)	(99,371,642)	(84,073,285)
Total equity		<u>28,830,846</u>	<u>13,891,821</u>	<u>6,473,946</u>

The notes on pages 25 to 60 form part of these Annual Report and Financial Statements.

Reaction Engines Limited

Company Statement of Financial Position *(continued)* Year ended 31 December 2022

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account. The loss for the financial year of the Company was £25,101,268 (2021: £16,923,379 restated).

These Annual Report and Financial Statements were approved by the board of directors and authorised for issue on 5 December 2023 and are signed on behalf of the board by:

Mark Thomas

Mr M Thomas
Director

Company registration number: 02413577

The notes on pages 25 to 60 form part of these Annual Report and Financial Statements.

Reaction Engines Limited

Consolidated Statement of Changes in Equity Year ended 31 December 2022

	Note	Called up share capital £	Share premium account £	Profit and loss account £	Translation reserve £	Total attributable to owners of parent £	Non- controlling interest ² £	Total equity £
At 1 January 2021¹		58,554	90,488,677	(81,273,019)	–	9,274,212	–	9,274,212
Loss for the year ¹		–	–	(18,430,288)	–	(18,430,288)	–	(18,430,288)
Total comprehensive loss for the year		–	–	(18,430,288)	–	(18,430,288)	–	(18,430,288)
Issue of shares	24	5,875	23,494,125	–	–	23,500,000	–	23,500,000
Costs on issue of shares ¹	24	–	(783,768)	–	–	(783,768)	–	(783,768)
Equity-settled share-based payments ¹	23	–	–	1,625,022	–	1,625,022	–	1,625,022
Total investments by and distributions to owners		5,875	22,710,357	1,625,022	–	24,341,254	–	24,341,254
At 31 December 2021¹		64,429	113,199,034	(98,078,285)	–	15,185,178	–	15,185,178
Loss for the year		–	–	(25,236,729)	–	(25,236,729)	(458,877)	(25,695,606)
Other comprehensive income		–	–	–	245,681	245,681	–	245,681
Total comprehensive loss for the year		–	–	(25,236,729)	245,681	(24,991,048)	(458,877)	(25,449,925)
Issue of shares	24	10,074	42,328,537	–	–	42,338,611	–	42,338,611
Costs on issue of shares	24	–	(713,780)	–	–	(713,780)	–	(713,780)
On acquisition of subsidiary		–	–	–	–	–	2	2
Equity-settled share-based payments	23	–	–	783,473	–	783,473	–	783,473
Total investments by and distributions to owners		10,074	41,614,757	783,473	–	42,408,304	2	42,408,306
At 31 December 2022		<u>74,503</u>	<u>154,813,791</u>	<u>(122,531,541)</u>	<u>245,681</u>	<u>32,602,434</u>	<u>(458,875)</u>	<u>32,143,559</u>

¹See Restatement Note 28²See Note 16

The notes on pages 25 to 60 form part of these Annual Report and Financial Statements.

Reaction Engines Limited

Company Statement of Changes in Equity Year ended 31 December 2022

	Note	Called up share capital £	Share premium account £	Profit and loss account £	Total £
At 1 January 2021		58,554	90,488,677	(84,073,285)	6,473,946
Loss for the year ¹				(16,923,379)	(16,923,379)
Total comprehensive loss for the year ¹		–	–	(16,923,379)	(16,923,379)
Issue of shares	24	5,875	23,494,125	–	23,500,000
Costs on issue of shares ¹	24	–	(783,768)	–	(783,768)
Equity-settled share-based payments ¹	23	–	–	1,625,022	1,625,022
Total investments by and distributions to owners		5,875	22,710,357	1,625,022	24,341,254
At 31 December 2021		64,429	113,199,034	(99,371,642)	13,891,821
Loss for the year		–	–	(25,101,268)	(25,101,268)
Total comprehensive loss for the year		–	–	(25,101,268)	(25,101,268)
Issue of shares	24	10,039	39,960,561	–	39,970,600
Costs on issue of shares	24	–	(713,780)	–	(713,780)
Equity-settled share-based payments	23	–	–	783,473	783,473
Total investments by and distributions to owners		10,039	39,246,781	783,473	40,040,293
At 31 December 2022		<u>74,468</u>	<u>152,445,815</u>	<u>(123,689,437)</u>	<u>28,830,846</u>

¹See Restatement Note 28

The notes on pages 25 to 60 form part of these Annual Report and Financial Statements.

Reaction Engines Limited

Consolidated Statement of Cash Flows Year ended 31 December 2022

	Note	2022 £	2021 (restated) £
Cash flows from operating activities			
Loss for the financial year		(25,695,606)	(18,430,288)
<i>Adjustments for:</i>			
Depreciation of tangible assets	14	1,277,621	1,418,406
Amortisation of intangible assets	13	190,568	171,528
Depreciation of right of use assets	21	604,111	723,373
Interest payable	7	192	105,048
Interest receivable and similar income	8	(122,726)	(713)
(Profit)/Loss on disposal of tangible assets		(500)	-
(Profit)/Loss on disposal of ROU assets		(3,436)	-
Parent company discount on acquisition	15	(3)	-
Impairment of assets		1,366,007	-
Equity-settled share-based payments	23	783,473	1,625,022
Tax credit	12	(3,048,227)	(1,844,863)
Net foreign exchange differences		8,723	-
<i>Working capital adjustments:</i>			
Increase in trade and other receivables		(461,012)	(1,435,343)
Increase in trade and other payables		108,253	2,037,896
Decrease in provisions for liabilities		(1,174,077)	(1,315,006)
Cash used from operations		<u>(26,166,639)</u>	<u>(16,944,940)</u>
Interest paid		(192)	(105,048)
Interest received		111,222	713
Tax received		-	1,517,333
Net cash used in operating activities		<u>(26,055,609)</u>	<u>(15,531,942)</u>
Cash flows from investing activities			
Purchase of tangible assets		(928,707)	(400,854)
Purchase of intangible assets		(656,266)	(219,078)
Proceeds from sale of tangible assets		500	-
Net cash used in investing activities		<u>(1,584,474)</u>	<u>(619,932)</u>
Cash flows from financing activities			
Proceeds from issue of ordinary shares		40,258,824	22,716,232
Proceeds from borrowings		354,586	253,416
Payment of borrowings		(185,289)	(237,045)
Payment of lease liabilities		(611,510)	(680,375)
Net cash from financing activities		<u>39,816,611</u>	<u>22,052,228</u>
Net increase/(decrease) in cash and cash equivalents		12,176,528	5,900,354
Cash and cash equivalents at beginning of year		11,584,993	5,684,639
Cash and cash equivalents at end of year		<u>23,761,521</u>	<u>11,584,993</u>

The notes on pages 25 to 60 form part of these Annual Report and Financial Statements.

Reaction Engines Limited

Consolidated Statement of Cash Flows *(continued)* Year ended 31 December 2022

Analysis of changes in net debt

	At 1 Jan 2022	Cash flows	At 31 Dec 2022
	£	£	£
Cash and cash equivalents			
Cash	11,584,993	12,176,528	23,761,521
Borrowings			
Debt due within one year	750,152	128,864	879,016
Debt due after one year	1,053,280	(197,487)	855,793
	<u>1,803,432</u>	<u>(68,623)</u>	<u>1,734,809</u>
Total	<u>9,781,561</u>	<u>12,245,151</u>	<u>22,026,712</u>

The notes on pages 25 to 60 form part of these Annual Report and Financial Statements.

Reaction Engines Limited

Notes to the Annual Report and Financial Statements Year ended 31 December 2022

1. General information

The consolidated financial statements of Reaction Engines Limited and its subsidiaries (collectively, the Group) for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the directors on 5 December 2023.

Reaction Engines Limited (the Company) is a private company limited by shares, incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales with company registration number 02413577. The address of the registered office is Building F5, Culham Science Centre, Abingdon, Oxfordshire, OX14 3DB.

The Group is principally engaged in the provision of aerospace research and the application of that research to adjacent commercial markets. The principal activities of the Group are set out in the strategic report on pages 2 to 4.

2. Accounting policies

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the Companies Act 2006 and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit or loss.

The financial statements are prepared in sterling, which is the functional currency of the entity.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2022. All subsidiaries have a reporting date of 31 December 2022.

A subsidiary is an entity over which the Group has control. Control is achieved when the Group is exposed or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The parent company has applied the exemption contained in section 408 of the Companies Act 2006 and has not included its individual profit and loss account.

Going concern

The principal risks and uncertainties the Group faces have historically been associated with its ability to raise capital and grant income to fund its technology development and operate as a going concern and there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

In September 2022 the Group received equity funding of £35m through an issue of 875,000 shares to a strategic investor to fund the maturation of its technologies along with an additional £5m from existing investors, at the year ended December 2022 the Group's cash position was £23.8m. Whilst the Group is still investing heavily in commercialising technologies and growing revenue the strategic business plan indicates that further funding will be required by the end of June 2024 when cash reserves would be depleted. The Group is currently finalising the annual budget for 2024 and management are evaluating cost mitigating actions to postpone the requirement for additional external funding.

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

2. Accounting policies *(continued)*

Going concern *(continued)*

The Group has a history of successfully obtaining funding with £41m equity investment in 2022 and £23.5m in 2021. As such, whilst the Group appreciates that there is a material uncertainty as the additional funding had not yet been secured at the signing date of the financial statements, its strong investor base and track record should give confidence that these risks can be managed. The directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, and thus they continue to adopt the going concern basis in preparing the financial statements.

Business combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred, and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

If the Group acquires a controlling interest in a business in which it previously held an equity interest, that equity interest is remeasured to fair value at the acquisition date with any resulting gain or loss recognised in profit or loss or other comprehensive income, as appropriate.

Consideration transferred as part of a business combination does not include amounts related to the settlement of pre-existing relationships. The gain or loss on the settlement of any pre-existing relationship is recognised in profit or loss.

Assets acquired and liabilities assumed are measured at their acquisition-date fair values.

Goodwill

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

2. Accounting policies *(continued)*

Revenue from contracts with customers

The Group is in the business of providing technical studies, goods and services. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services net of VAT. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

Revenue includes grant income from the UK Space Agency, and the European Space Agency. The Group records such income by reference to the stage of completion of the service transaction at the end of the reporting period provided that the outcome can be reliably estimated. When the outcome cannot be reliably estimated, revenue is recognised only to the extent that expenses recognised are recoverable. The value of grant income recognised in the year was £2,350,461 (2021: £4,428,451).

Other grants of a revenue nature are recognised in "other operating income" within profit or loss in the same period as the related expenditure. This includes the Government Coronavirus Job Retention Scheme ('Furlough').

Sale of goods

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment at the customer's location. The normal credit term is 30 days upon delivery.

Contract balances

Contract assets

A contract asset is initially recognised for revenue earned from technical services because the receipt of consideration is conditional on successful completion of the service performed. Upon completion of the service and acceptance by the customer, the amount recognised as contract assets is reclassified to trade receivables.

Contract assets are subject to impairment assessment. Refer to accounting policies on impairment of financial assets on page 33.

Trade receivables

A receivable is recognised if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets on page 32.

Contract liabilities

A contract liability is recognised if a payment is received, or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

2. Accounting policies *(continued)*

Other operating income

Other operating income includes revenue from all other operating activities which are not related to the principal activities of the Group, including United States Employee Retention Credit, and Government Coronavirus Job Retention Scheme ('Furlough').

Taxes

Current income tax

Current income tax assets and liabilities 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 Group operates and generates taxable income.

Deferred tax

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

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available, against which the temporary differences 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 re-assessed 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 are measured at the tax rates that are expected to apply in the year when the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Foreign currencies

The Group's consolidated financial statements are presented in sterling, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

2. Accounting policies *(continued)*

Foreign currencies *(continued)*

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into sterling at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

Property, plant and equipment

Construction in progress is stated at cost, net of accumulated impairment losses, if any. Plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

As of 31 December 2021, software licences were included as tangible assets where they enabled items of IT hardware to be used for their intended purposes. The company now writes off the cost directly to the profit and loss account over the period of the licence with any carrying value included within prepayments. Accordingly, the company has restated its 2021 results as a result of this change in accounting policy. Refer to Note 28 on pages 56 to 60 for further information.

Assets under construction are accounted for at cost. They are not depreciated until the accounting period in which they are brought into use.

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

2. Accounting policies *(continued)*

Property, plant and equipment *(continued)*

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Plant and machinery	- 15% straight line
Fixtures and fittings	- 15% straight line.
Motor vehicles	- 20% straight line
Test site building	- 4% straight line

All depreciation charged is recognised in administrative expenses in the statement of profit and loss.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities representing obligations to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (ie. the date the underlying asset is available for use), except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows, and all depreciation charged on right-of-use assets is recognised in administrative expenses in the statement of profit or loss:

Buildings	- Straight line over the period of the lease
-----------	--

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policy on page 33.

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

2. Accounting policies *(continued)*

Leases *(continued)*

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as an expense (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying value of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing loans and borrowings (see Note 19).

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

2. Accounting policies *(continued)*

Intangible assets *(continued)*

Research and development costs

Research expenditure is written off in the period in which it is incurred. Development expenditures are recognised as an intangible asset where the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in administrative expenses. During the period of development, the asset is tested for impairment annually.

Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful life of that asset as follows:

Goodwill	-	20% straight line
Patents, trademarks and licences	-	20% straight line
ERP development costs	-	20% straight line from completion

Development costs are amortised over the period of expected future sales from the related project.

If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new estimates.

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Group only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade receivables, contract assets, trade payables and contract liabilities.

Financial assets

Initial review and measurement

Financial assets are initially measured at fair value and subsequently measured at amortised cost.

Subsequent measurement

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables.

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

2. Accounting policies *(continued)*

Financial instruments – initial recognition and subsequent measurement *(continued)*

Financial assets *(continued)*

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment

The Group recognises an allowance for expected credit losses (ECLs) for all financial instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

The majority of the Group's trade receivables comprise balances due from government agencies and the risk of default is therefore considered low. The Group has assessed the risk of ECL's for non-government agencies and makes a revenue loss provision on these debts based on historical collections experience.

Financial liabilities

Initial review and measurement

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

2. Accounting policies *(continued)*

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount 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. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor 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 statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.

Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Onerous contracts

If the Group has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision. However, before a separate provision for an onerous contract is established, the Group recognises any impairment loss that has occurred on assets dedicated to that contract.

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The cost of fulfilling a contract comprises the costs that relate directly to the contract (i.e., both incremental costs and an allocation of costs directly related to contract activities).

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

2. Accounting policies *(continued)*

Pensions and other post-employment benefits

Defined contribution plans

The Group operates a defined contribution plan for its employees. Contributions to defined contribution plans are recognised as an expense in the period in which the related service is provided. Amounts not paid are shown in accruals as a liability.

Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 23.

That cost is recognised in employee benefits expense (Note 23), together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

3. Critical accounting judgements and key sources of estimation uncertainty *(continued)*

Estimates and assumptions *(continued)*

Share-based payments

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. For the measurement of the fair value of equity-settled transactions with employees at the grant date, the Group uses a Black-Scholes model for both the Senior Executive Plan (SEP) and the Company Share Option Plan (CSOP). The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 23.

Taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

The Group has £71,547,737 (2021: £53,945,407) of tax losses carried forward. The Group and its subsidiaries neither have any taxable temporary difference nor any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets.

On this basis, the Group has determined that it cannot recognise deferred tax assets on the tax losses carried forward. If the Group was able to recognise all unrecognised deferred tax assets, profit and equity would have increased by £21,400,194 (2021: 17,293,794). Further details on taxes are disclosed in Note 12.

Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating). Further details are disclosed in Notes 19 and 21.

Judgements

Consideration transferred to acquire Sunborne Systems Ltd

The consideration transferred to acquire Sunborne Systems Ltd was estimated to be £Nil, on the basis that there was £Nil cash transferred, and the fair value of the background intellectual property supplied to the subsidiary was deemed to be £Nil, on the basis that no market currently exists, and the level of uncertainty around the development of a market was deemed too great for any value to be attributed at this time (see Note 15).

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

4. Revenue

Revenue arises from:

	2022	2021
	£	£
Type of goods or services		
Sale of goods	1,270,010	222,169
Rendering of services	1,122,578	2,508,274
Grants	2,350,461	4,428,451
	<u>4,743,049</u>	<u>7,158,894</u>
Geographical markets		
United Kingdom	4,051,284	6,101,208
United States	691,765	1,057,686
	<u>4,743,049</u>	<u>7,158,894</u>
Timing of revenue recognition		
Goods and services transferred at a point in time	4,051,284	5,546,849
Goods and services transferred over time	691,765	1,612,045
	<u>4,743,049</u>	<u>7,158,894</u>

5. Other operating income

	2022	2021
	£	£
Furlough income	–	16,132
United States Employee Retention Credit	29,256	–
United States PPP (Paycheck Protection Programme) loan forgiveness	–	96,225
	<u>29,256</u>	<u>112,357</u>

6. Operating loss

Operating loss is stated after charging/crediting:

		2022	2021
		£	(restated) £
Amortisation of intangible assets	13	190,568	171,528
Depreciation of tangible assets ¹	14	1,277,621	1,418,406
Depreciation of right of use assets	21	604,111	723,373
(Profit)/Loss on disposal of tangible assets		(500)	–
(Profit)/Loss on disposal of right-of-use assets		(3,436)	–
Impairment of asset under construction	14	–	903,775
Impairment of intellectual property asset		1,366,007	
Research and development expenditure written off		1,985,879	1,892,324
Equity-settled share-based payments expense ¹	23	783,473	1,625,022
Parent Company discount on acquisition	15	(3)	–
Foreign exchange differences		8,723	(47,929)

¹See Note 28 Restatement

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

7. Finance costs		
	2022	2021
	£	£
Group		
Interest on lease liabilities	<u>192</u>	<u>105,048</u>
8. Finance income		
	2022	2021
	£	£
Group		
Interest on cash and cash equivalents	<u>122,726</u>	<u>713</u>
9. Auditor's remuneration		
	2022	2021
	£	£
Fees payable for the audit of the annual report and financial statements	<u>80,000</u>	<u>74,000</u>
Fees payable to the Company's auditor and its associates for other services:		
Audit-related assurance services	–	10,000
Tax compliance	–	27,760
Other non-audit services	–	16,500
	<u>–</u>	<u>54,260</u>

Auditors for 2021 were Deloitte LLP, auditors for 2022 accounts are Grant Thornton UK LLP.

10. Staff costs

As of 31 December 2022 the Group employed 256 persons. The average number of persons employed by the Group during the year, including the directors, amounted to:

	Group	
	2022	2021
	No.	No.
Production staff	144	134
Administrative staff	80	68
	<u>224</u>	<u>202</u>

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

10. Staff costs (continued)

The aggregate payroll costs incurred during the year, relating to the above, were:

	Group	
	2022	2021
	£	£
Wages and salaries	13,550,238	11,345,490
Social security costs	1,634,272	1,323,237
Other pension costs	522,054	450,449
	<u>15,706,564</u>	<u>13,119,176</u>

11. Directors' remuneration

The directors' aggregate remuneration in respect of qualifying services was:

	Group	
	2022	2021 ¹
	£	£
Remuneration	948,117	799,194
Other pension costs	20,445	22,143
	<u>968,562</u>	<u>821,337</u>

¹ 2021 restated as original figures included vested but not exercised Share Options, amended from £33,308 to £Nil

The number of directors who accrued benefits under company pension plans was as follows:

	Group	
	2022	2021
	No.	No.
Defined contribution plans	<u>2</u>	<u>2</u>

The number of directors who exercised share options and received shares under a long-term incentive scheme during the year was Nil (2021: Nil). 2021 restated from 2 to Nil as this included directors who received share options but did not exercise them.

Remuneration of the highest paid director in respect of qualifying services:

	Group	
	2022	2021
	£	£
Aggregate remuneration	448,543	385,287
Other pension costs	13,500	13,500
	<u>462,043</u>	<u>398,787</u>

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

12. Tax on loss

Major components of tax income

	2022 £	2021 £
Current tax:		
UK current tax income	(3,051,449)	(1,844,863)
Adjustment in respect of previous periods	3,222	(61,006)
Tax on loss	<u>(3,048,227)</u>	<u>(1,905,869)</u>

Reconciliation of tax income

The tax assessed on the loss on ordinary activities for the year is higher than (2021: higher than) the standard rate of corporation tax in the UK of 19% (2021: 19%).

	2022 £	2021 £
Loss for the year	(28,743,833)	(20,336,157)
Loss by rate of tax	(5,461,328)	(3,863,870)
Adjustment in respect of previous periods	3,222	(61,006)
Effect of expenses not deductible for tax purposes	2,364,680	1,555,747
Effect of revenue exempt from tax	(3,998,452)	(3,022,145)
Deferred tax not recognised	2,947,788	5,021,514
Effects of group relief/other reliefs	947,003	(1,844,863)
Share Options	148,860	308,754
Tax on loss	<u>(3,048,227)</u>	<u>(1,905,869)</u>

The Group has tax losses that arose in the United Kingdom of £71,547,737 (2021: £53,945,407) that are available indefinitely for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of those losses as there are no taxable profits elsewhere in the Group and there are no other tax planning opportunities or evidence of recoverability in the near future that could support the recognition of these losses as deferred tax assets. If the Group were able to recognise all unrecognised deferred tax assets, the profit would increase by £21,400,194 (2021: £17,293,794).

On 23 September 2022 the government announced that the planned corporation tax increase from 19% to 25% had been cancelled. Research and development tax credits are therefore expected to remain consistent.

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

13. Intangible assets

Group and Company	Goodwill £	Patents, trademarks and licences £	ERP development costs £	Total £
Cost				
At 1 January 2022	41,311	1,235,167	–	1,276,478
Additions	–	272,100	384,167	656,267
At 31 December 2022	<u>41,311</u>	<u>1,507,267</u>	<u>384,167</u>	<u>1,932,745</u>
Amortisation				
At 1 January 2022	41,311	711,206	–	752,517
Charge for the year	–	190,568	–	190,568
At 31 December 2022	<u>41,311</u>	<u>901,774</u>	<u>–</u>	<u>943,085</u>
Carrying amount				
At 31 December 2022	<u>–</u>	<u>605,493</u>	<u>384,167</u>	<u>989,660</u>
At 31 December 2021	<u>–</u>	<u>523,961</u>	<u>–</u>	<u>523,961</u>

Fees for obtaining patents are amortised over their useful economic life of 5 years. An impairment loss is recognised when no future economic benefits are expected from their use. Amortisation has been included as an allowable deduction for corporation tax within administrative expenses.

During the year ended 31 December 2022 the Group entered into an agreement to acquire enterprise resource planning software, to support the planning and administration of the Group's operations. Amortisation shall begin when the asset is available for use.

As of 31 December 2022, the Group has entered into non-cancellable contractual commitments of £853,509 (2021 - £nil) in respect of ongoing ERP development costs over the next 5 years.

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

14. Tangible assets

Group	Plant and machinery £	Fixtures and fittings £	Motor vehicles £	Licences (restated) £	Test sites £	Total £
Cost						
At 1 Jan 2022	8,646,755	1,726,619	12,627	–	1,721,845	12,107,846
Additions	928,707	–	–	–	–	928,707
Disposals	(5,395)	–	–	–	–	(5,395)
Net exchange differences	–	209,535	708	–	208,955	419,198
At 31 Dec 2022	9,570,067	1,936,154	13,335	–	1,930,800	13,450,356
Depreciation						
At 1 Jan 2022	5,941,180	986,415	10,295	–	68,874	7,006,764
Charge for the year	948,879	258,993	875	–	68,874	1,277,621
Disposals	(5,395)	–	–	–	–	(5,395)
Net exchange differences	–	151,137	531	–	16,716	168,384
At 31 Dec 2022	6,884,664	1,396,545	11,701	–	154,464	8,447,374
Carrying amount						
At 31 Dec 2022	2,685,403	539,609	1,634	–	1,776,336	5,002,982
At 31 Dec 2021	2,705,575	740,204	2,332	–	1,652,971	5,101,082
Company			Plant and machinery £	Motor vehicles £	Licences (restated) £	Total £
Cost						
At 1 January 2022			8,647,842	6,795	–	8,654,637
Additions			928,707	–	–	928,707
Disposals			(5,395)	–	–	(5,395)
At 31 December 2022			9,571,154	6,795	–	9,577,949
Depreciation						
At 1 January 2022			5,941,329	6,795	–	5,948,124
Charge for the year			948,879	–	–	948,879
Disposals			(5,395)	–	–	(5,395)
At 31 December 2022			6,884,813	6,795	–	6,891,608
Carrying amount						
At 31 December 2022			2,686,341	–	–	2,686,341
At 31 December 2021			2,706,513	–	–	2,706,513

As of 31 December 2021, software licences were included as tangible assets where they enabled items of IT hardware to be used for their intended purposes. The Group now writes off the cost directly to the profit and loss account over the period of the licence with any carrying value included within prepayments. Accordingly, the Group has restated its 2021 results as a result of this change in accounting policy.

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

15. Acquisitions

On 1 July 2022 the Company acquired 65.19% of the voting equity interests of Sunborne Systems Limited through an acquisition of shares, thereby gaining control. Details of the business combination are as follows:

	£
Fair value of consideration transferred	—
Recognised amounts of identifiable net assets	
Other debtors	5
Total	5
Gain on bargain purchase	(5)
Non-controlling interest	2
Parent discount on acquisition recognised in income statement	3

The share capital acquired was in exchange for the use of the Company's background intellectual property; consideration was zero. Accordingly, the Company has recognised a gain on acquisition which was recognised in administrative expenses in the profit and loss. This gain is equivalent to the share of net assets acquired at acquisition.

The consideration transferred to acquire Sunborne Systems Ltd was estimated to be £Nil, on the basis that there was £Nil cash transferred and the fair value of the background intellectual property supplied to the subsidiary was deemed to be £Nil, on the basis that no market currently exists, and the level of uncertainty around the development of a market was deemed too great for any value to be attributed at this time.

16. Interests in subsidiaries

Composition of the Group

Set out below are the details of the subsidiaries held directly by the Group:

Name	Principal activities	Country of incorporation	% equity interest	
			2022	2021
Reaction Engines Incorporated	Aerospace	United States	100	100
Reaction Engines Manufacturing Solutions Limited	Manufacturing	United Kingdom	100	100
Sunborne Systems Limited	Scientific research	United Kingdom	65	—

Reaction Engines Manufacturing Solutions Limited was dissolved on 8 February 2022.

Controlling interest in Sunborne Systems Limited was acquired during 2022 for £Nil consideration (see Note 15).

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

16. Interests in subsidiaries *(continued)*

Subsidiary with material non-controlling interests

The Group includes one subsidiary, Sunborne Systems Limited, with material non-controlling interests (NCI):

	Note	2022
Proportion of ownership interests and voting rights held by the NCI (%)		34.81
Comprehensive Loss for the year (£)		(1,318,233)
Total comprehensive loss allocated to NCI (£)		(458,877)
NCI of Fair Value of assets on acquisition (£)	15	2
Accumulated NCI (£)		(458,875)

Summarised financial information for Sunborne Systems Limited, before intragroup eliminations, is set out below:

	2022
	£
Administrative expenses	(1,414,310)
Tax on loss	96,077
Total comprehensive loss for the year	(1,318,233)
Total comprehensive loss attributable to owners of the parent	(859,356)
Total comprehensive loss attributable to NCI	(458,877)
	<u>(1,318,233)</u>

	2022
	£
Intangible assets	6,365,365
Current assets	936,110
Current liabilities	(1,252,238)
Net assets	6,049,142
Equity attributable to owners of the parent	6,508,019
Non-controlling interests	(458,875)
Total equity	6,049,142

	2022
	£
Net cash from operating activities	(546,256)
Net cash from financing activities	1,002,105
Net cash inflow	455,849

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

17. Trade and other receivables

Group	2022	2021 <i>(restated)</i>
	£	£
Trade receivables	363,454	1,382,108
Called up share capital not paid	5	–
Prepayments	1,185,581	696,338
Contract assets	–	20,069
Research & development tax credit	6,194,373	2,577,758
Other debtors	899,666	457,562
	<u>8,643,079</u>	<u>5,133,835</u>
Company	2022	2021 <i>(restated)</i>
	£	£
Trade receivables	359,450	1,095,373
Called up share capital not paid	–	–
Prepayments	1,001,423	691,655
Research & development tax credit	6,098,296	2,577,758
Other debtors	603,777	457,562
	<u>8,062,946</u>	<u>4,822,348</u>

Trade receivables are non-interest bearing and are generally settled on terms of 30 days. Research and development tax credit includes the 2021 tax claim, payment was received for this in June 2023.

Ageing of trade receivables

Group	2022	2021
	£	£
Not overdue	334,232	1,099,583
Overdue 0 to 30 days	14,772	18,220
Overdue 31 to 60 days	–	238,855
Overdue more than 60 days	14,450	25,450
	<u>363,454</u>	<u>1,382,108</u>
Company	2022	2021
	£	£
Not overdue	330,228	812,848
Overdue 0 to 30 days	14,772	18,220
Overdue 31 to 60 days	–	238,855
Overdue more than 60 days	14,450	25,450
	<u>359,450</u>	<u>1,095,373</u>

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

18. Trade and other payables

Group	2022	2021
	£	£
Trade payables	2,582,499	1,995,112
Accruals	2,545,630	2,975,151
Contract liabilities	–	271,111
Social security and other taxes	390,265	311,529
Other payables	109,373	1,951
	<u>5,627,767</u>	<u>5,554,854</u>
Company	2022	2021
	£	£
Trade payables	2,514,509	1,925,366
Accruals	2,379,532	2,487,014
Social security and other taxes	390,265	311,529
Other payables	109,372	1,951
	<u>5,393,678</u>	<u>4,725,860</u>

Trade and other payables are non-interest bearing and are normally settled on terms of 30 days.

19. Financial assets and financial liabilities

Capital management policy

The Group manages its capital to ensure entities within the Group are able to continue operating on a going concern basis. The capital structure of the Group consists of debt, which includes the borrowings disclosed below, cash and cash equivalents and equity attributable to equity holders of the parent comprising issued capital, reserves and retained earnings as disclosed in Note 24 and the Statement of Changes in Equity.

Financial assets

Group	2022	2021
	£	£
Debt instruments at amortised cost		
Trade receivables (Note 17)	363,454	1,382,108
Contract assets (Note 17)	–	20,069
Total current financial assets	<u>363,454</u>	<u>1,402,177</u>
Company	2022	2021
	£	£
Debt instruments at amortised cost		
Trade receivables (Note 17)	359,451	1,095,373
Total current financial assets	<u>359,451</u>	<u>1,095,373</u>

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

19. Financial assets and financial liabilities *(continued)*

Financial liabilities

Financial liabilities: interest-bearing loans and borrowings

Other interest-bearing loans comprise advances to purchase specified software licences. These loans have an effective interest rate of 8% and are repayable over periods between 1 and 3 years. The loans are unsecured and are repayable immediately in the event of default.

Interest charged on these loans during the year £12,912 (2021: £16,317).

Current interest-bearing loans and borrowings

Group	2022 £	2021 £
Lease liabilities (Note 21)	616,842	569,707
Other interest-bearing loans	262,174	180,445
Total current interest-bearing loans and borrowings	879,016	750,152
Company	2022 £	2021 £
Lease liabilities (Note 21)	514,941	500,642
Other interest-bearing loans	262,174	180,445
Total current interest-bearing loans and borrowings	777,115	681,087

Non-current interest-bearing loans and borrowings

Group	2022 £	2021 £
Lease liabilities (Note 21)	703,925	988,980
Other interest-bearing loans	151,868	64,300
Total non-current interest-bearing loans and borrowings	855,793	1,053,280
Company	2022 £	2021 £
Lease liabilities (Note 21)	353,083	886,111
Other interest-bearing loans	151,868	64,300
Total non-current interest-bearing loans and borrowings	504,951	950,411

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

19. Financial assets and financial liabilities *(continued)*

Other financial liabilities at amortised cost, other than interest-bearing loans and borrowings

Group	2022	2021
	£	£
Trade and other payables (Note 18)	2,582,499	1,995,112
Contract liabilities (Note 18)	—	271,111
Total other financial liabilities	<u>2,582,499</u>	<u>2,266,223</u>
Total current	2,582,499	2,266,223
Total non-current	—	—
Company	2022	2021
	£	£
Trade and other payables (Note 18)	2,514,509	1,925,366
Total other financial liabilities	<u>2,514,509</u>	<u>1,925,366</u>
Total current	2,514,509	1,925,366
Total non-current	—	—

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

20. Provisions, contingent assets and contingent liabilities

Provision for liabilities

Group	Onerous contracts £	Dilapidations £	Total £
Cost			
At 1 January 2022	1,023,406	326,914	1,350,320
Utilised during the year	(1,023,406)	(115,523)	(1,138,929)
Unwinding of discount	–	(35,148)	(35,148)
At 31 December 2022	–	176,243	176,243
Current	–	–	–
Non-current	–	176,243	176,243
Company		Dilapidations £	Total £
Cost			
At 1 January 2022		326,914	326,914
Arising during the year		(115,523)	(115,523)
Unwinding of discount		(35,148)	(35,148)
At 31 December 2022		176,243	176,243
Current		–	–
Non-current		176,243	176,243

Dilapidations

This provision relates to reinstatement costs that will be incurred on leasehold properties. The provision was calculated by reference to a settlement cost agreed with the landlord which was settled in March 2022 and a corresponding estimate for the other unit on the site.

Contingent assets

The Group is involved in litigation with a 3rd party over a land and property dispute and is seeking damages for costs incurred and consequential losses. The Group has obtained judgment in its favour and is in the process of mediation; management therefore consider an inflow of economic benefits to be probable. The Group has applied the expedient given in paragraph 92 of IAS37 to not disclose the quantum of probable inflows since to do so would likely undermine the Group with regard to continuing negotiations.

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

21. Leases

Group as a lessee

The Group has lease contracts for office premises and various items of plant and machinery and other equipment used in its operations. Leases of office premises generally have lease terms between 5 and 10 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets.

Certain lease contracts include extension and termination options and these options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises judgement in determining whether these extension and termination options are reasonably certain to be exercised.

The Group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

Group

	Office premises £
Cost	
At 1 January 2022	2,996,660
Additions	390,058
Disposals	(175,761)
Net exchange differences	14,731
At 31 December 2022	3,225,688
Depreciation	
At 1 January 2022	1,446,747
Charge for the year	604,111
On disposals	(125,981)
Net exchange differences	15,675
At 31 December 2022	1,940,552
Carrying amount	
At 31 December 2022	1,285,136
At 31 December 2021	1,549,913

All depreciation on right-of-use assets is recognised within Administrative expenses.

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

21. Leases *(continued)*

Company	Office premises £
Cost	
At 1 January 2022	2,699,507
Additions	-
At 31 December 2022	<u>2,699,507</u>
Depreciation	
At 1 January 2022	1,309,433
Charge for the year	523,732
At 31 December 2022	<u>1,833,165</u>
Carrying amount	
At 31 December 2022	<u>866,342</u>
At 31 December 2021	<u>1,390,074</u>

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

	Group		Company	
	2022 £	2021 £	2022 £	2021 £
As at 1 January	1,558,687	2,149,876	1,386,753	1,913,748
Additions	390,058	-	-	-
Disposals	(53,216)	-	-	-
Accretion of interest	23,836	89,185	35,340	78,750
Net exchange differences	12,912	-	-	-
Payments	(611,510)	(680,374)	(554,070)	(605,745)
As at 31 December	<u>1,320,767</u>	<u>1,558,687</u>	<u>868,023</u>	<u>1,386,753</u>
Current (Note 19)	616,842	569,707	514,940	500,642
Non-current (Note 19)	703,925	988,980	353,083	886,111

The following are the amounts recognised in profit or loss:

	Group		Company	
	2022 £	2021 £	2022 £	2021 £
Depreciation expense of right of use assets	604,111	723,373	523,732	654,716
Interest expense on lease liabilities	23,836	89,185	35,340	78,750
Total amount recognised in profit or loss	<u>627,947</u>	<u>812,558</u>	<u>559,072</u>	<u>733,466</u>

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

22. Employee benefits

Defined contribution plans

The amount recognised in profit or loss as an expense in relation to defined contribution plans was £522,054 (2021: £450,449), of which £74,524 (2021: £60,362) related to key management personnel.

23. Share-based payments

Senior Executive Plan (SEP)

Under the Senior Executive Plan (SEP), share options of the parent company are granted to certain senior employees. The exercise price of the share options is equal to the market value of the Company's shares on the date of grant. There are no vesting conditions.

The fair value of the share options at the grant date was calculated using the Black Scholes (BS) model, which is considered to be the most generally accepted valuation method of measuring fair value, taking into account the terms and conditions on which the share options were granted.

If the options remain unexercised after a period of ten years from the date of grant the options expire. There are no cash settlement alternatives for employees. The Group does not have a past practice of cash settlement for these awards. The Group accounts for the SEP as an equity-settled plan.

Company Share Option Plan (CSOP)

The Company also runs a Company Share Option Plan (CSOP) under which the Company, at its discretion, may grant share options of the parent to employees more generally. The exercise price of the share options is a discounted rate of the market value of the Company's shares on the date of grant as agreed with HM Revenue and Customs. These options vest in stages over a period of 3 years and expire if an employee resigns before they vest.

The fair value of the share options at the grant date was calculated using the Black Scholes (BS) model, which is considered to be the most generally accepted valuation method of measuring fair value, taking into account the terms and conditions on which the share options were granted.

If the options remain unexercised after a period of ten years from the date of grant the options expire. There are no cash settlement alternatives for employees. The Group does not have a past practice of cash settlement for these awards. The Group accounts for the CSOP as an equity-settled plan.

Details of the number and weighted average exercise prices (WAEP) of share options during the year are as follows:

Group and Company	2022		2021	
	No.	WAEP	No.	WAEP
Outstanding at 1 January 2022	782,029	23.03	633,799	21.79
Granted during the year	78,520	35.49	156,000	28.25
Forfeited during the year	(233,839)	9.75	(7,770)	27.00
Outstanding at 31 December 2022	<u>626,710</u>	29.54	<u>782,029</u>	23.03
Exercisable at 31 December 2022	<u>511,597</u>	29.83	<u>782,029</u>	23.03

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

23. Share-based payments *(continued)*

The following table lists the inputs to the models used for the two grants made under the plan for the years ended 31 December 2021 and 2022:

Group	2022		2021	
	SEP	CSOP	SEP	CSOP
Weighted average fair values at the measurement rate (£)	8.93	13.99	7.63	15.14
Dividend yield (%)	0	0	0	0
Expected volatility (%)	26	26	26	26
Risk-free interest rate (%)	3.5	3.5	1	1
Expected life of share options (years)	3	3	3	3
Exercise price of the option (£)	40	30.8	40	27
Model used	BS	BS	BS	BS

The total expense recognised in the income statement for the year is as follows:

	Group	
	2022	2021 (restated)
	£	£
Equity-settled share-based payments.	<u>783,473</u>	<u>1,625,022</u>

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

The equity-settled share-based payment for 2021 was restated to accurately reflect the staged vesting of the CSOP. (Note 28).

24. Equity

Called up share capital

Issued, called up and fully paid

	REL	REL	REL	REL	Company	Sunborne	Group
	A	B	C	D	Total	Ordinary	Total
	Ordinary	Ordinary	Ordinary	Ordinary			
	No.	No.	No.	No.	No.	No.	No.
At 1 Jan 2022	4,558,205	1,094,118	165,625	625,000	6,442,948	–	6,442,948
Issued on 28 Apr 2022	560	–	–	–	560	–	560
Issued on 1 July 2022	–	–	–	–	–	3,552	3,552
Issued on 19 Aug 2022	5,500	–	–	–	5,500	–	5,500
Issued on 9 Sep 2022	875,000	–	–	–	875,000	–	875,000
Issued on 12 Oct 2022	31,250	62,500	–	–	93,750	–	93,750
Issued on 15 Nov 2022	29,037	–	–	–	29,037	–	29,037
	<u>941,347</u>	<u>62,500</u>	<u>–</u>	<u>–</u>	<u>1,003,847</u>	<u>3,552</u>	<u>1,007,399</u>
At 31 Dec 2022	<u>5,499,552</u>	<u>1,156,618</u>	<u>165,625</u>	<u>625,000</u>	<u>7,446,795</u>	<u>3,552</u>	<u>7,450,347</u>

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

24. Equity *(continued)*

	REL A Ordinary £	REL B Ordinary £	REL C Ordinary £	REL D Ordinary £	Company Total £	Sunborne Ordinary £	Group Total £
At 1 Jan 2022	45,582	10,941	1,656	6,250	64,429	–	64,429
Issued on 28 Apr 2022	6	–	–	–	6	–	6
Issued on 1 July 2022	–	–	–	–	–	35	35
Issued on 19 Aug 2022	55	–	–	–	55	–	55
Issued on 9 Sep 2022	8,750	–	–	–	8,750	–	8,750
Issued on 12 Oct 2022	313	625	–	–	938	–	938
Issued on 15 Nov 2022	290	–	–	–	290	–	290
	<u>9,414</u>	<u>625</u>	<u>–</u>	<u>–</u>	<u>10,039</u>	<u>35</u>	<u>10,074</u>
At 31 Dec 2022	<u>54,996</u>	<u>11,566</u>	<u>1,656</u>	<u>6,250</u>	<u>74,468</u>	<u>35</u>	<u>74,503</u>

The B, C and D Ordinary Shares are non-redeemable ordinary shares conferring on the member (or any proxy of the member) the same rights as for A Ordinary Shares; one vote on a show of hands and one vote per share and on a poll and with full, equal and unfettered rights to participate in dividends and capital distributions, whether on a winding up or otherwise.

The holder of B Ordinary Shares shall be entitled to appoint, remove and replace up to two directors of the Company or one director and one board observer, depending on the aggregate number of directors on the board of the Company from time to time.

The holder of B, C and D Ordinary Shares shall have the right, on a dilutive issue and allotment of shares in the Company, to subscribe for such number of B, C and D Ordinary Shares as are required to maintain the percentage which the total number of shares held by it represents a proportion of the total number of all shares allotted and issued by the Company immediately prior to such issue and allotment.

Sunborne Ordinary Shares were issued to parties outside the group. They are subject to a Share Purchase agreement which defines the rights of specific shareholders with more than a 10% share to appoint, remove and replace up to two directors, or in the absence of an appointed director so long as they hold more than 5% the appointment of one board observer. The shares have one vote on a show of hands and one vote per share, and on a poll.

Share premium

	Company £	Sunborne £	Group £
At 1 Jan 2022 ¹	113,199,034	–	113,199,034
Cash or assets received in excess of cost of ordinary shares:	15,114	–	–
On 12 Apr 2022	–	–	15,114
On 1 July 2022	–	2,367,976	2,367,976
On 19 Aug 2022	43,945	–	43,945
On 9 Sep 2022	34,991,250	–	34,991,250
On 12 Oct 2022	3,749,062	–	3,749,062
On 15 Nov 2022	1,161,190	–	1,161,190
Legal costs relating to share issue 9 Sep 2022	(191,643)	–	(191,643)
Legal costs relating to share issue 12 Oct/15 Nov 2022	(522,137)	–	(522,137)
	<u>39,246,781</u>	<u>2,367,976</u>	<u>41,614,757</u>
At 31 Dec 2022	<u>152,445,815</u>	<u>2,367,976</u>	<u>154,813,791</u>

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

24. Equity *(continued)*

On 12 April 2022 560 A Ordinary shares were issued for £15,120.

On 1 July 2022 3,552 £0.01 Ordinary shares in Sunborne Systems Limited were issued to parties outside the group for £1,002,005 in cash and £1,366,007 non-cash consideration

On 19 August 2022 5,500 A Ordinary shares were issued for £44,000.

On 9 September 2022 875,000 A Ordinary shares were issued for £35,000,000.

On 12 October 2022 31,250 A Ordinary shares were issued for £1,250,000 and 62,500 B Ordinary shares were issued for £2,500,000.

On 15 November 2022 29,037 A Ordinary shares were issued for £1,161,480.

Translation reserve

	£
At 1 January 2022	–
Exchange differences on translating foreign operations	245,681
At 31 December 2022	<u>245,681</u>

25. Events after the end of the reporting period

On 16 February 2023 the Company received £4m for an additional equity investment of 100,000 shares from a strategic investor.

The Group resolved the litigation with a 3rd party over a land and property dispute (Note 20) through mediation in October 2023.

26. Related party transactions

Total remuneration for key management personnel for the period totalled £2,729,669 (2021: £2,102,402), being remuneration of £2,581,258 (2021: £1,931,041) and share-based payment expenses of £148,411 (2021: £171,361).

The Company provided for debts of £1,165,658 (2021: £nil) owing from Sunborne Systems Limited respectively, as the Company does not consider these debts recoverable at 31 December 2022.

27. Group information

Ultimate controlling party

The Directors do not believe the Group or Company to have an ultimate controlling party as Reaction Engines Limited has no parent company or controlling shareholder.

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

28. Prior year restatement

Change of Policy. As of 31 December 2021, software licences were included as tangible assets where they enabled items of IT hardware to be used for their intended purposes. Licences have been switched to annual licences, mostly cloud based, the Group now writes off the cost directly to the profit and loss account over the period of the licence with any carrying value included within prepayments. Accordingly, the company has restated its 2021 opening balances and results to reflect the change in policy.

Group	Note	As at 31 December 2020 £	Change in Accounting Policy £	As at 01 January 2021 (restated) £
Assets				
Non-current assets				
Intangible assets	13	476,412	–	476,412
Property, plant and equipment	14	6,651,657	(533,023)	6,118,634
Right of use assets	21	2,273,286	–	2,273,286
		9,401,355	(533,023)	8,868,332
Current assets				
Trade and other receivables	17	2,837,939	533,023	3,370,962
Cash and cash equivalents		5,684,639	–	5,684,639
		8,522,578	533,023	9,055,601
Total assets		17,923,933	–	17,923,933
Liabilities				
Non-current liabilities				
Interest-bearing loans and borrowings	19	(1,599,857)	–	(1,599,857)
Provision for liabilities	20	(310,972)	–	(310,972)
		(1,910,829)	–	(1,910,829)
Current liabilities				
Trade and other payables	18	(3,606,144)	–	(3,606,144)
Interest-bearing loans and borrowings	19	(778,394)	–	(778,394)
Provision for liabilities	20	(2,354,354)	–	(2,354,354)
		(6,738,892)	–	(6,738,892)
Total liabilities		(8,649,721)	–	(8,649,721)
Net assets		9,274,212	–	9,274,212
Issued capital and reserves				
Called up share capital	24	58,554	–	58,554
Share premium account	24	90,488,677	–	90,488,677
Translation reserve		–	–	–
Profit and loss account		(81,273,019)	–	(81,273,019)
Total equity		9,274,212	–	9,274,212

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

28. Prior year restatement *(continued)*

Company	Note	As at 31 December 2020 £	Change in Accounting Policy £	As at 01 January 2021 <i>(restated)</i> £
Assets				
Non-current assets				
Intangible assets	13	476,412	–	476,412
Property, plant and equipment	14	3,943,859	(533,023)	3,410,836
Right of use assets	21	2,044,790	–	2,044,790
		6,465,061	(533,023)	5,932,038
Current assets				
Trade and other receivables	17	2,833,315	533,023	3,366,338
Cash and cash equivalents		5,589,163	–	5,589,163
		8,422,478	533,023	8,955,501
Total assets		14,887,539	–	14,887,539
Liabilities				
Non-current liabilities				
Interest-bearing loans and borrowings	19	(1,427,923)	–	(1,427,923)
Provision for liabilities	20	(310,972)	–	(310,972)
		(1,738,895)	–	(1,738,895)
Current liabilities				
Trade and other payables	18	(3,606,144)	–	(3,606,144)
Interest-bearing loans and borrowings	19	(714,200)	–	(714,200)
Provision for liabilities	20	(2,354,354)	–	(2,354,354)
		(6,674,698)	–	(6,674,698)
Total liabilities		(8,413,593)	–	(8,413,593)
Net assets		6,473,946	–	6,473,946
Issued capital and reserves				
Called up share capital	24	58,554	–	58,554
Share premium account	24	90,488,677	–	90,488,677
Profit and loss account		(84,073,285)	–	(84,073,285)
Total equity		6,473,946	–	6,473,946

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

28. Prior year restatement *(continued)*

In 2021 a new Company Share Option Purchase (CSOP) was introduced, and the full value of the share options was charged in the year of issue. This treatment was reviewed in 2022 and deemed to be incorrect. The charge is now being spread across the three-year staged vesting period, leading to a restatement of 2021. Full charge originally £2,016,657, adjusted to £1,510,635 for 2021, a movement of £506,022. Other Share Option Scheme (EMI) charges were treated correctly.

Share issue costs should be deducted from equity under IAS32, these costs were recognised in the Statement of Profit and Loss for the year ended 31 December 2021. This has now been corrected resulting in a movement reduction in Administration costs of £783,768.

Group Consolidated Income Statement reconciliation for the year ended 31 December 2021

	Year Ended 31 December 2021 <i>(as stated)</i> £	Change in Accounting Policy £	Correction of Prior Period Misstatement £	Year Ended 31 December 2021 <i>(restated)</i> £
IT Costs		1,030,332	–	
Legal and professional fees		–	(783,768)	
Share based payments charge		–	(506,022)	
Amortisation		(1,030,332)	–	
Administrative expenses	(23,653,400)	–	1,289,790	(22,363,610)
Operating loss	(21,521,612)	–	1,289,790	(20,231,822)
Loss before taxation	(21,625,947)	–	1,289,790	(20,336,157)
Loss for the Financial Year	(19,720,078)	–	1,289,790	(18,430,288)

Group Consolidated Statement of Financial Position reconciliation as at 31 December 2021

	As at 31 December 2021 <i>(as stated)</i> £	Change in Accounting Policy £	Correction of Prior Period Misstatement £	As at 31 December 2021 <i>(restated)</i> £
Property, plant and equipment	5,701,140	(600,058)	–	5,101,082
Non-current assets	7,775,014	(600,058)	–	7,174,956
Trade and other receivables	4,533,777	600,058	–	5,133,835
Current assets	16,118,770	600,058	–	16,718,828
Share premium account	113,982,802	–	(783,768)	113,199,034
Profit and loss account	(98,862,053)	–	783,768	(98,078,285)

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

28. Prior year restatement *(continued)*

Group Consolidated Statement of Changes in Equity reconciliation as at 31 December 2021

	As at 31 December 2021 <i>(as stated)</i>	Change in Accounting Policy	Correction of Prior Period Misstatement	As at 31 December 2021 <i>(restated)</i>
	£	£	£	£
Loss for the year	(19,720,078)	–	1,289,790	(18,430,288)
Total comprehensive loss for the year	(19,720,078)	–	1,289,790	(18,430,288)
Share premium account:				
Costs related to issue of shares	–	–	(783,768)	(783,768)
Profit and loss account:				
Equity-settled share-based payments	2,131,044	–	(506,022)	1,625,022
Total investments by and distributions to owners	25,631,044	–	(1,289,790)	24,341,254

Group Consolidated Statement of cash flows reconciliation year to 31 December 2021

	Year ended 31 December 2021 <i>(as stated)</i>	Change in Accounting Policy	Correction of Prior Period Misstatement	Year ended 31 December 2021 <i>(restated)</i>
	£	£	£	£
Cash flows from operating activities				
Loss for the financial year	(19,720,078)	–	1,289,790	(18,430,288)
<i>Adjustments for:</i>				
Depreciation of tangible assets	2,448,738	(1,030,332)	–	1,418,406
Equity-settled share-based payments	2,131,044	–	(506,022)	1,625,022
Increase in trade and other receivables	(1,368,308)	(67,034)	–	(1,435,342)
Cash used from operations	(16,631,341)	(1,097,367)	783,768	(16,944,940)
Net cash used in operating activities	(15,218,343)	(1,097,367)	783,768	(15,531,942)
Purchase of tangible assets	(1,498,221)	1,097,367	–	(400,854)
Net cash used in investing activities	(1,717,299)	1,097,367	–	(619,932)
Proceeds from issues of ordinary shares	23,500,000	–	(783,768)	22,716,232
Net cash from financing activities	22,835,996	–	(783,768)	22,052,228

Reaction Engines Limited

Notes to the Annual Report and Financial Statements *(continued)* Year ended 31 December 2022

28. Prior year restatement *(continued)*

Company Income Statement reconciliation for the year ended 31 December 2021

The Loss for the financial year ended 31 December 2021 was adjusted from £18,213,169 by £1,289,790 to £16,923,379 for the change in CSOP charge treatment and the change to share issue costs.

Company Statement of Financial Position reconciliation as at 31 December 2021

	As at 31 December 2021 £	Change in Accounting Policy £	Correction of Prior Period Misstatement £	As at 31 December 2021 <i>(restated)</i> £
Property, plant and equipment	3,306,571	(600,058)	–	2,706,513
Non-current assets	5,220,606	(600,058)	–	4,620,548
Trade and other receivables	4,222,290	600,058	–	4,822,348
Current assets	15,355,487	600,058	–	15,955,545
Share premium account	113,982,802	–	(783,768)	113,199,034
Profit and loss account	(100,155,410)	–	783,768	(99,371,642)

Company Statement of Changes in Equity reconciliation as at 31 December 2021

	As at 31 December 2021 £	Change in Accounting Policy	Correction of Prior Period Misstatement £	As at 31 December 2021 <i>(restated)</i> £
Loss for the year	(18,213,169)	–	1,289,790	(16,923,379)
Total comprehensive loss for the year	(18,213,169)	–	1,289,790	(16,923,379)
Share premium account:				
Costs relating to issue of shares	–		(783,768)	(783,768)
Profit and loss account:				
Equity-settled share-based payments	2,131,044	–	(506,022)	1,625,022
Total investments by and distributions to owners	25,631,044	–	(1,289,790)	24,341,254