

30th March 2009

OXFORD CATALYSTS GROUP PLC
(“Oxford Catalysts” or “the Group”)

Preliminary Results for the Year Ended 31 December 2008

Oxford Catalysts Group PLC, the leading catalyst innovator for clean fuels, announces today its preliminary results for the year ended 31 December 2008.

Highlights

- Focus on synthetic fuels market greatly enhanced by acquisition of Velocys, Inc. for \$35.0m
 - Velocys is the recognised world leader in microchannel process technology for production of synthetic fuels
 - Combined performance of both companies’ technology proven at pilot scale, paving way for smaller scale GTL applications such as for flared and stranded gas reserves
 - Successfully raised £10.3m in challenging financial market conditions
 - Acquisition provides critical mass, particularly in smaller scale synthetic fuels production – a potential market of up to 25 million barrels of fuel a day
- Substantial increase in revenue to £1,298,000 (2007: £163,000)
- Year-end cash and short term investments at £16.3m (2007: £15.6m)
- Sizeable US presence qualifies Group for new US Recovery Programme grant applications
- Strong group of core partnerships including Toyo Engineering, MODEC and PTT
- Commercial scale demonstrations beginning in 2009
- Well positioned to weather economic downturn and build significant market share

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

“2008 was a transformational year for the Group as we become one of the world leaders in the exciting small scale synthetic fuels market.

“Our mission is clear – working with our core partners to achieve successful demonstration of our technologies in the field, thereby clearing the path to commercial adoption. Delivering on this will create significant value for our shareholders.

“Notwithstanding the deteriorating macroeconomic environment, interest in the Group’s technology for synthetic fuels has never been stronger and the prospects pipeline remains strong.”

There will be a conference call for analysts at 8:30am this morning; dial-in details can be obtained from Financial Dynamics (see below).

For further information, please contact:

| | |
|---|---------------|
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Notes to Editors

Oxford Catalysts Group PLC designs and develops technology for the production of clean fuels from both conventional fossil fuels and renewable sources such as biowaste.

The Group is primarily focused on the emerging market for distributed smaller scale production of synthetic fuels (via Fischer-Tropsch) – a market that has the potential of producing as much as 25 million barrels of fuel a day.

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

Other applications of the Group’s technology include hydro-desulphurisation (“HDS”), the most commonly used process in the multi-billion dollar refining industry for the removal of sulphur from crude oil fractions. The Group has developed a novel class of highly active HDS catalysts with significantly better performance characteristics than traditional catalysts.

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

Oxford Catalysts Group PLC is listed on London’s AIM market (LSE: OCG). The Group has some 90 employees with facilities near Abingdon, Oxfordshire, UK and Columbus, Ohio, USA.

www.oxfordcatalysts.com
www.velocys.com

CHAIRMAN'S STATEMENT

Pierre Jungels, CBE

The Board is pleased with the Group's position, three years after its flotation on the AIM market of the London Stock Exchange. We have built a strong team and an exciting business, and are well positioned to take advantage of the major changes that are taking place in the world's energy markets.

Of particular note during the reporting period, was the completion, in November, of the acquisition of Velocys, Inc. ("Velocys"), the recognised world leader in microchannel process technology for the production of synthetic fuels. At the same time, we raised £10.3m (before expenses) in challenging financial markets a strong endorsement of Oxford Catalysts' business and the logic of the acquisition.

This acquisition was a transformational event for Oxford Catalysts. The enlarged Group is now primarily focussing on the emerging market for synthetic fuels (via Fischer-Tropsch), and on delivering successful demonstrations of the technology with our existing partners. Whilst the Group has numerous other opportunities by virtue of its platform technologies, several of which are currently being pursued, the Board believes that the size of the synthetic fuels opportunity, combined with the Group's potential competitive advantage, means that maximum shareholder value can be created by concentrating efforts on this market.

The acquisition has strengthened our position as a leading innovator in clean fuel technologies, especially in the market for smaller scale synthetic fuels production. Importantly, it has enabled Oxford Catalysts to attain critical mass with some 90 employees internationally. I am pleased to report that the integration and realisation of synergies is progressing well.

Following the acquisition, the Battelle Memorial Institute is now the Group's largest single shareholder with 17.5% of the issued share capital. Battelle is the world's leading independent science and technology organisation, conducting over \$4bn of annual R&D and managing many of the US National Laboratories, including the National Renewable Energy Laboratory. We are delighted to have such a major force in science and technology on our shareholder register.

Group revenues for the year, excluding contribution from the acquisition of Velocys, were ahead of expectations at £524,000, up 221% on the previous year (2007: £163,000). Including contribution from the Velocys acquisition, revenues were up substantially on the previous year at £1,298,000. Cash and short term deposits at period end were £16.3 million, up on the previous year (2007: £15.6 million).

People

The Group expanded significantly during the period; I would like to welcome our new colleagues from Velocys, a strong complementary team with core competencies in chemical engineering, process development and material science, who complement our existing capabilities in catalytic chemistry.

Velocys brings to the Group additional depth in both management and technical expertise, combining industry veterans with exceptional scientists, engineers and technicians. To highlight just a couple of examples: Tom Hickey, Managing Director of Velocys, has over 30 years of experience at ABB Lummus, one of the leading process licensors to the petrochemical industry, whilst Jan Lerou, Group CTO, has nearly 30 years industry experience in catalysis and chemical engineering, 16 of which were gained at DuPont.

During the period, we welcomed Susan Robertson, Oxford Catalysts' CFO, to the Board of Directors of the Group. At the same time, the Board's composition was streamlined to better meet corporate governance best practice guidelines; with three non-executives out of a total of five directors, the Board now has a good balance of non-executives to executives and is a

suitable size for effective decision making. Professor Malcolm Green, Dr Tiancun Xiao and Dr Will Barton were directors of the Group through the initial IPO and building up phase. I thank them for their contribution to the process.

The Board is supported by an Executive Management Committee, led by the Group CEO, that is in charge of implementing strategy, monitoring performance, managing risks, and making key decisions relating to the day-to-day operations of the Group.

2008 was a good year for the Group, with significant technical and commercial progress made. The Board is grateful to the whole Oxford Catalysts team for their continued dedication, hard work and intelligence.

Outlook

The Group is on course to capitalise on the significant growth expected in the synthetic fuels market. We have key partnerships and routes to market in place; we remain on track for commercial scale demonstrations of our technology; and the Group's cash position remains strong.

The outlook for the Group is very positive – the Board is looking to the future with confidence.

CHIEF EXECUTIVE'S REPORT

Roy Lipski

Introduction

In 2008, the Group made substantial progress both technically and commercially: revenues more than trebled from 2007 (even excluding contribution from the Velocys acquisition); both the Fischer-Tropsch ("FT") and hydro-desulphurisation ("HDS") catalysts reached the manufacturing scale-up stage; the Group's customer relationships were strengthened, such as with PTT – the Thai National Oil and Gas company – where several separate projects are now in progress; and the acquisition of Velocys was successfully completed.

The Group is pursuing a market-led, IP-based, licensing business model, with the aim of forging a small number of key strategic partnerships in each of the Group's target markets, whilst continuing to capitalise on its core competencies in catalyst and microchannel technology development.

We have an established base of partners with whom we are jointly pursuing commercialisation of our technology. Some are large multinational companies that tend to be reliable, secure, but slower moving; others are fast moving, smaller or earlier stage businesses. This balanced approach is being pursued to best deliver timely commercialisation, whilst securing maximum long-term value for the Group's shareholders; however, since the reduced availability of credit has the potential to adversely impact smaller and earlier stage companies, management is closely monitoring the Group's exposure to counter-parties, with a view to maintaining a mix of partners that is best suited to the present realities.

Oxford Catalysts is well positioned to gain market share in the current economic conditions, and emerge as a leader in the technology market for next generation clean synthetic fuels. Our objectives and priorities are clear, and the team is fully engaged delivering on the significant promise of the newly enlarged business. We have a solid base of existing partners and the prospects pipeline for 2009 remains strong.

Market Conditions

Interest in the Group's technology for synthetic fuels has never been stronger, aided by such factors as regulation, environmental and energy security concerns. To date, we have not witnessed any material change in the way major companies are regarding the market, if anything, there seems to be heightened interest in smaller scale opportunities, for which the Group's technology is ideally suited.

The offshore oil exploration and production market, which the Group is targeting through its partnership with Toyo Engineering and MODEC, is experiencing strong growth as more production shifts to deeper waters (Infield predicts that sub-sea sector expenditure will exceed \$80 billion between 2009 and 2013, up from \$46 billion in the previous five years).

Furthermore, synthetic fuel technologies are poised to benefit from various government support initiatives, and in particular from the new US Administration's Recovery Programme and its commitment to the environment. With its sizeable presence in the US, the Group is well positioned to apply for the large amounts of funding expected to be made available for renewable energy technologies.

Some of the markets of lesser importance to the Group are experiencing softness; the commodity chemicals market is undergoing a severe cyclical downturn, although in the longer term this could benefit the Group by driving restructuring and replacement of older plants with new, more efficient, smaller ones. In the short term, however, management is planning for few developments from this market.

In the Group's Instant Steam market, consumer goods companies appear to be in the process of re-appraising their investment in innovation, with some companies slowing down product development cycles, whilst others are pursuing a more aggressive pipeline.

Finally, the HDS market, which is primarily regulatory driven, remains robust, although the expected slowdown in processing of tar sands may lead to excess catalyst production capacity. This could benefit the Group in its current quest for suitable manufacturing partners.

Acquisition of Velocys

A major achievement for the Group during 2008 was the acquisition of Velocys, a company which Oxford Catalysts had been working productively with since May 2007.

With over \$160 million invested in its technology to date, Velocys now has the world's largest microchannel patent portfolio and is the recognised leader in its application to synthetic fuels. One of the key drivers for the acquisition was the strong complementarity between Oxford Catalysts' high activity catalyst technology and the Velocys microchannel reactors (microchannel reactors need high activity catalysts to be competitive, whilst high activity catalyst cannot operate in conventional reactors). Together they help enable the economic production at smaller scales of next generation clean synthetic fuels from captured flare gas, gas that is currently re-injected, stranded gas reserves, biomass and municipal waste.

The acquisition is also expected to benefit Oxford Catalysts by accelerating its time to market, broadening its product portfolio to appeal to a wider group of potential partners and customers, strengthening competitiveness and achieving critical mass.

Integration of Velocys is well underway, with some early wins identified and synergies already being realised, particularly in technology and business development. As part of the integration process, two new Group-level roles have been created (Chief Technical Officer and Director of IP and Licensing), as well as an Executive Management Committee comprising key management from both the UK and US operations.

Commercialisation

Synthetic Fuels

Demand for liquid transportation fuels is expected to rise over the next twenty years, driven by growing need from Non-OECD Asian countries and the Middle East. To help satisfy this growing demand, production of alternative fuels is set to increase faster than conventional fuels, with a sizeable proportion of the growth coming from sectors addressable by FT.

Within the synthetic fuels market, there is increasing demand for smaller scale processes (less than 5,000 bpd) that could help monetise flare gas, unlock a greater proportion of the world's stranded gas reserves, reduce feedstock transport costs and increase security of supply for Biomass-to-Liquid ("BTL"), and convert carbon-containing wastes into synthetic fuel. In total, smaller scale synthetic fuels production has the potential to produce as much as 25 million barrels of fuel a day.

The Group has two key technologies for the synthetic fuels market, a combined reactor / catalyst package for FT and separately for steam methane reforming ("SMR"). The FT package is the Group's offering to the BTL, Waste-to-Liquid ("WTL") and Coal-to-Liquid ("CTL") markets, whilst an integrated FT and SMR package will be offered to the Gas-to-Liquid ("GTL") market, including for flare gas monetisation. In addition, the Group can offer FT catalysts for conventional reactor systems.

Oxford Catalysts is concentrating its efforts on successfully demonstrating these technologies, with commercial scale demonstrations of FT due to commence in the latter part of 2009, and demonstration of FT and SMR in combination in 2010.

The first FT demonstration will be using equipment destined for the US Air Force, followed by a separate demonstration for the Group's BTL partner. The combined FT and SMR demonstration for GTL will be on behalf of the Group's partners Toyo Engineering (a global EPC company) and MODEC (the world's second largest owner / provider of FPSO's to the oil industry). Relationships with both of these partners remain strong.

Opportunities also exist to leverage some of Oxford Catalysts' pre-acquisition relationships, for example with PTT, into broader engagement with the enlarged Group's technology portfolio.

During 2008, our high activity FT catalyst was demonstrated successfully by Velocys for over 4,000 hours in a nominal two gallon per day microchannel pilot unit. This included successful demonstration of catalyst activity, selectivity, stability and regeneration, as well as recovery from upset conditions. The performance of the catalyst was better than any other catalyst Velocys had previously tested, including expensive, high performance catalysts provided by other catalyst companies. The extended pilot run also successfully demonstrated the design of the Velocys FT reactor.

Also during the period, a full length SMR microchannel was successfully operated for over 1,000 hours, meeting commercial performance targets.

Key technical milestones for 2009 include: delivery of the FT demonstration skid ultimately destined for the Air Force; completion of the SMR demonstration reactor (ready for shipping); qualification of microchannel reactor manufacturers; and successful scale up of the FT catalyst with the Group's catalyst manufacturing partner. Key commercial milestones for 2009 include obtaining formal authorisation to proceed with commercial scale demonstration plant construction (as opposed to simply reactor construction), from both the Group's BTL and GTL partners.

Other Markets

Our HDS catalysts continue to show improved performance compared to competing products. During the period, this competitive advantage was independently verified by a major refiner. The Group is focused on scaling up the manufacture of its HDS catalysts during 2009, as a precursor to more significant commercial deployment.

In the area of natural gas upgrading, we have delivered to our partner, PTT, the necessary scaled-up quantity of material to be tested in side streams on their commercial plants. Testing of the material will begin during the next turn-around cycle, expected during the second quarter of 2009, and will last some four to six months, depending on the efficacy of the material. Success in these trials will lead to demonstration in a full scale commercial unit.

In 2008, the Instant Steam fuel mixture was tested by an independent laboratory and was assessed as safe for transportation. The Group's main project in this area involves a major consumer goods company; during the period we successfully progressed past the first "go / no go" milestone of the product development cycle and have now moved to an extensive safety evaluation, by our partner, of the technology 'in use'. In the meantime, the Group's technical development work has continued to focus on safety. Whilst business development activities have centred on the consumer goods market, we continue to evaluate the technology's commercial potential alongside the required investment and general economic environment, for a number of markets including industrial applications.

Novus Energy, Oxford Catalysts' Strategic Alliance Partner, completed construction of their pilot plant in the summer of 2008, including the reforming process specified by Oxford Catalysts. During a protracted commissioning period, it became clear that the alcohols synthesis catalyst licensed by Novus Energy from a third party, was not scaling up effectively from the laboratory to the pilot plant. This led Novus Energy, in due course, to request the assistance of Oxford Catalysts in the development of an alternative catalyst for their process. The Group has taken on this challenge, after first demonstrating that its initial catalyst designs

produced credible results. This step will strengthen the Strategic Alliance between the companies and increase the proportion of the income from future plants that will flow to Oxford Catalysts. In the short term, Oxford Catalysts will see an increase in development revenues from Novus Energy as this second programme is taken on, in part offsetting the delay in commercial rollout.

Lastly, Velocys was recently successful at demonstrating the efficacy of its emulsification technology for a top 10 global cosmetics company. During 2009, the team is aiming to formulate and then pursue a clear marketing strategy for capitalising on this promising technology across the range of its potential markets.

Intellectual Property

Following the acquisition of Velocys, the Group now has a very substantial intellectual property portfolio, numbering over 500 patent filings (of which 121 have already been granted), and more than 750 invention records. The portfolio is professionally managed by dedicated internal resources, using specialised IP management tools and selected external resources, under the leadership of the Group Director of IP and Licensing.

The Group's patent strategy is to ensure that it captures the intellectual property it develops, and protects it for its own use in its current or anticipated business areas, including high-value applications of microchannel-based chemical processing and advanced catalysts. The portfolio is managed with a view to maximizing quality and minimizing cost; all IP generated through partner funded developments is assigned to the Group, whilst partners share the cost of maintaining those patents that are relevant to their application areas. The Group aims, where possible, to file broad, thematic patents, which cross multiple application areas and cover a variety of technologies. Patent enforcement outside the Group's core business areas is addressed by a contingent-fee patent enforcement law firm.

Resources

Oxford Catalysts Group now has the critical mass and resources to become a major leader in the emerging market for synthetic fuel technologies, including: strength and depth of management; relevant industry experience; technical expertise; customised facilities; and cash reserves.

The Group has a highly skilled workforce with close to 90 employees (30% in the UK, 70% in the US), of which 30% hold PhDs. The team, whose average age is 39, is managed by experienced industry veterans with an average age of 49.

The combined post-acquisition team brings together a highly complementary set of core competencies, ranging from process engineering, material science, microchannel design and computational fluid dynamics, through to catalyst design, characterisation and scale up.

Our UK operation completed a major laboratory and office expansion in 2008, which included investment in additional state-of-the-art experimental and analytical equipment. The expansion involved a total investment of £1.6 million, and resulted in a doubling of the laboratory and office space.

The Group now has some 35,000 sq. ft. of facilities, customised for the development of catalysts and microchannel process technology, that have had several £ million invested in them to date.

Financial Review

Revenue during the year was ahead of expectations, increasing to £1,298,000 (2007: £163,000), including a contribution of £774,000 from the Velocys business, owned for 6 weeks during 2008. The loss for the period was £3,297,000 (2007 £1,744,000), including a loss of £523,000 from the consolidation of Velocys and £379,000 of depreciation and amortisation expenses.

Financial resources continue to be managed prudently with £16.3 million of cash and short term investments at year end (2007: £15.6 million). Management believes that this is sufficient for several years of operation, however, in light of the broader economic uncertainties, it is continually reviewing the Group's cash burn with a view to minimising expenditure without adversely impacting time to market or the long term value of the business.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

| | Note | 2008 £'000 | 2007 £'000 |
|--|------|---------------|---------------|
| Revenue | | 1,298 | 163 |
| Cost of sales | | (768) | (131) |
| Gross profit | | 530 | 32 |
| Unfunded research and development costs | | (1,607) | (773) |
| Share-based payments | | (1,248) | (199) |
| Other administrative expenses | | (2,644) | (1,620) |
| Total administrative expenses | | (3,892) | (1,819) |
| Operating loss | | (4,969) | (2,560) |
| Finance income | 3 | 1,505 | 791 |
| Finance costs | | (12) | (21) |
| Loss on ordinary activities before tax | | (3,476) | (1,790) |
| Tax credit on ordinary activities | | 179 | 46 |
| Loss for the financial year attributable to the equity holders of the Company | | (3,297) | (1,744) |
| Loss per share attributable to the equity holders of the Company | | | |
| Basic and diluted (pence) | 4 | (7.72) | (4.49) |

All amounts relate to continuing operations.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE YEAR ENDED 31 DECEMBER 2008

| | 2008 | 2007 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Share-based payments | 1,248 | 199 |
| Foreign currency translation differences | 638 | - |
| Net income recognised directly in equity | 1,886 | 199 |
| Loss for the financial year | (3,297) | (1,744) |
| Total recognised expense for the year | (1,411) | (1,545) |

There are no movements to be recognised through the Company Statement of Recognised Income and Expense for the year ended 31 December 2008 other than profit for the year of £272,000 (2007: loss for the year of £206,000).

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2008

| | Note | 2008 £'000 | 2007 £'000 |
|---|------|----------------|---------------|
| Assets | | | |
| Non-current assets | | | |
| Intangible assets | | 26,570 | 205 |
| Property, plant and equipment | | 2,493 | 860 |
| | | <u>29,063</u> | <u>1,065</u> |
| Current assets | | | |
| Trade and other receivables | | 2,579 | 398 |
| Current income tax asset | | 172 | 46 |
| Short term investments – cash held on long-term deposit | | 8,645 | 7,000 |
| Cash and cash equivalents | | 7,667 | 8,630 |
| | | <u>19,063</u> | <u>16,074</u> |
| Total assets | | <u>48,126</u> | <u>17,139</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | | (2,521) | (484) |
| Borrowings | | (10) | - |
| | | <u>(2,531)</u> | <u>(484)</u> |
| Non-current liabilities | | | |
| Trade and other payables | | (1,319) | (122) |
| Borrowings | | (22) | - |
| | | <u>(1,341)</u> | <u>(122)</u> |
| Total liabilities | | <u>(3,872)</u> | <u>(606)</u> |
| Net assets | | <u>44,254</u> | <u>16,533</u> |
| Capital and reserves attributable to equity holders of the Company | | | |
| Called up share capital | | 596 | 405 |
| Share premium account | | 45,047 | 17,865 |
| Merger reserve | | 369 | 369 |
| Share-based payment reserve | | 3,764 | - |
| Retained earnings (deficit) | | (5,522) | (2,106) |
| Total equity | 5 | <u>44,254</u> | <u>16,533</u> |

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

| | Note | 2008 £'000 | 2007 £'000 |
|--|------|---------------------|---------------------|
| Cash flow from operating activities | | | |
| Cash consumed by operations | 6 | (5,526) | (2,048) |
| Tax credit received | | 53 | - |
| Net cash used in operating activities | | <u>(5,473)</u> | <u>(2,048)</u> |
| Cash flows from investing activities | | | |
| Acquisition of subsidiary (net of cash acquired) | | (3,041) | - |
| Purchase of property, plant and equipment | | (1,387) | (485) |
| Purchase of intangible fixed assets | | (82) | (31) |
| Interest received | | 517 | 666 |
| Increase in cash placed on deposit | | (1,645) | - |
| Net cash (used in)/generated from investing activities | | <u>(5,638)</u> | <u>150</u> |
| Cash flows generated from financing activities | | | |
| Proceeds of issuance of ordinary shares | | 9,774 | 4,000 |
| Net cash from financing activities | | <u>9,774</u> | <u>4,000</u> |
| Net (decrease)/increase in cash and cash equivalents | | <u>(1,337)</u> | <u>2,102</u> |
| Cash and cash equivalents at beginning of year | | 8,630 | 6,528 |
| Exchange gains on cash balances | | 374 | - |
| Cash and cash equivalents at end of year | | <u><u>7,667</u></u> | <u><u>8,630</u></u> |

NOTES TO THE PRELIMINARY RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2008

1. PRINCIPAL ACCOUNTING POLICIES

Basis of Preparation

The financial information presented by the Directors in this statement is derived from the Group financial statements for the year ended 31 December 2008 that have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. These accounts have been audited and the audit report is unqualified and does not contain a statement under section 237 of the Companies Act. The accounts will be delivered to the Registrar of Companies following the Company's Annual General Meeting on 12 May 2009.

Basis of Accounting

The financial statements have been prepared on the historical cost basis and are presented in UK sterling (£) which is the functional currency of the Group.

Accounting Policies

The Group has adopted a number of additional accounting policies following the acquisition of Velocys, Inc. These accounting policies are consistent with those disclosed in the Admission Document dated 3 November 2008, as published on the Company's website. Accounting policies of significant note and not disclosed in the Admission Document (by virtue of not being relevant at that date) are noted below:

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'Intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

Purchased Intangibles

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

Impairment of Non-Financial Assets

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

2. ACQUISITION OF A SUBSIDIARY

On 20 November 2008, the Group acquired 100% of the share capital of Velocys, Inc. ("Velocys"). Velocys is a US-based company engaged in the research, development and commercialisation of microchannel process technologies with customers in the US, Europe and Asia. Velocys contributed revenues of £774,000 and a net loss of £523,000 to the Group for the period from 20 November 2008 to 31 December 2008. If the acquisition had occurred on 1 January 2008, Group revenue would have been £5,000,000 and a net loss of £5,401,000 would have been incurred for the year. The amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional amortisation that would have been charged assuming the fair value adjustments to intangible assets had applied from 1 January 2008. The net loss includes costs of £1,128,000 which arose in Velocys as a result of the acquisition, prior to change of control. These include restructuring costs and acquisition related expenses.

Details of total purchase consideration are as follows:

| | |
|--|---------------|
| | £'000 |
| Cash paid | 1,797 |
| Direct costs relating to the acquisition | 1,687 |
| Fair value of shares issued | 17,599 |
| Fair value of replacement share options issued | 1,759 |
| Total purchase consideration | <u>22,842</u> |

The assets and liabilities as at 20 November 2008 arising from the acquisition and the resulting goodwill, provisionally determined, are as follows:

| | Fair value | Acquiree's |
|--|-------------------|------------------------|
| | £'000 | carrying amount |
| | | £'000 |
| Cash and cash equivalents | 443 | 443 |
| Property, plant and equipment | 592 | 592 |
| In process technology | 20,860 | 262 |
| Intangible assets | 61 | 61 |
| Trade and other receivables | 1,120 | 1,120 |
| Trade and other payables | (4,766) | (5,219) |
| Fair value of net assets | <u>18,310</u> | <u>(2,741)</u> |
| Goodwill | 4,532 | |
| Total purchase consideration | <u>22,842</u> | |
| Purchase consideration settled in cash | 3,484 | |
| Cash and cash equivalents in subsidiary acquired | (443) | |
| Cash outflow on acquisition | <u>3,041</u> | |

The goodwill is attributable to Velocys' assembled workforce of scientists and engineers.

The fair value of the shares issued was based upon the Oxford Catalysts Group PLC published share price on 20 November 2008.

The fair value adjustment to in process technology carrying values is based on discounted cash flow valuations of the technologies acquired. The adjustment to trade and other payables fair value relates to a credit for deferred income which was considered to have no fair value.

There were no acquisitions in the year ended 31 December 2007.

3. FINANCE INCOME

| | 2008 | 2007 |
|----------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Interest income on bank deposits | 810 | 791 |
| Foreign exchange gains | 695 | - |
| | <u>1,505</u> | <u>791</u> |

4. LOSS PER SHARE

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

| | 2008 | 2007 |
|---|---------------|---------------|
| Loss attributable to equity holder of the Company (£'000) | (3,297) | (1,744) |
| Weighted average number of ordinary shares in issue | 42,710,480 | 38,808,262 |
| Basic and diluted loss per share (pence) | <u>(7.72)</u> | <u>(4.49)</u> |

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

5. CHANGES IN SHARE CAPITAL AND RESERVES

| | Called up share capital £'000 | Share premium £'000 | Share- based payment £'000 | Merger reserve £'000 | Retained earnings £'000 | Total £'000 |
|-------------------------------------|--|------------------------------------|---|-------------------------------------|--|------------------------|
| At 1 January 2008 | 405 | 17,865 | - | 369 | (2,106) | 16,533 |
| Share issues (cash net of expenses) | 83 | 9,691 | - | - | - | 9,774 |
| Share issues (non-cash) | 108 | 17,491 | - | - | - | 17,599 |
| Fair value of Velocys options | - | - | 1,759 | - | - | 1,759 |
| Foreign exchange gain | - | - | - | - | 638 | 638 |
| Loss for the financial year | - | - | - | - | (3,297) | (3,297) |
| Share-based payments | - | - | 2,005 | - | (757) | 1,248 |
| At 31 December 2008 | <u>596</u> | <u>45,047</u> | <u>3,764</u> | <u>369</u> | <u>(5,522)</u> | <u>44,254</u> |

In prior years, share-based payment reserves were included within retained earnings. In order to provide fuller disclosure, these reserves are now shown separately. £757,000 of share-based payment reserves were included in retained earnings reserves as at 31 December 2007 and have been moved to the share-based payments reserve in 2008.

6. CASH OUTFLOW FROM OPERATING ACTIVITIES

| | 2008 | 2007 |
|---|----------------|----------------|
| | £'000 | £'000 |
| Operating loss | (4,969) | (2,560) |
| Depreciation and amortisation | 379 | 155 |
| Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation) | | |
| – Trade and other receivables | (262) | (15) |
| – Trade and other payables | (1,709) | 173 |
| Foreign exchange differences | (213) | - |
| Share-based payments | 1,248 | 199 |
| Net cash consumed by operations | (5,526) | (2,048) |

7. PUT AND CALL OPTION

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

8. STATUTORY INFORMATION

Copies of the 2008 Annual Report will be posted to shareholders in April 2008, and may be obtained from the date of posting for one month free of charge from the registered office of the Company, 115e Milton Park, Oxford, OX14 4RZ, as well as from the Company's web site www.oxfordcatalysts.com.

9. ANNUAL GENERAL MEETING

The annual general meeting is to be held on 12th May 2009. Notice of the AGM will be dispatched to shareholders with the Group's report and accounts.