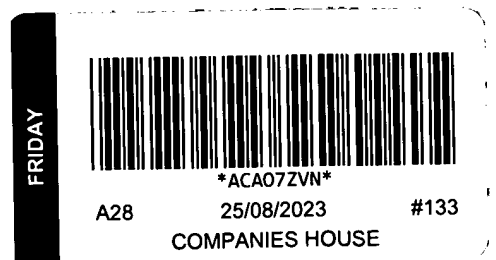


# Tokamak Energy Ltd

Registration Number 07054929

## Annual Report and Financial Statements For the year ended 31 December 2022



**Tokamak Energy Ltd**  
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**Tokamak Energy Ltd**  
**Corporate directory**  
**31 December 2022**

**Directors**

C J Martin  
E I Bonino  
D M Gray  
D R Kingham  
M Gryaznevich  
D Harding  
T Pfisterer  
M Savage  
W Matthews  
C D Kelsall

**Company secretary**

J Rackard (appointed 1 January 2023)

**Registered office**

173 Brook Drive  
Milton Park  
Abingdon  
Oxfordshire  
OX14 4SD

**Independent auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants & Statutory Auditors  
4th Floor One Reading Central  
23 Forbury Road  
Reading  
RG1 3JH

**Tokamak Energy Ltd**  
**Strategic report**  
**For the year ended 31 December 2022**

The Directors present their strategic report on the Group for the year ended 31 December 2022.

**Business review and principal activities**

Tokamak Energy Ltd (the "Company", "Tokamak Energy") and its subsidiaries (the "Group") is pioneering commercial fusion energy. The Group's key differentiator is the development of two world leading core technologies: the compact spherical tokamak ("ST") and high temperature superconductor ("HTS") magnets, both of which are essential enabling technologies central to the development of economic fusion. The principal activities in the year were research and development of these, and associated technologies.

The ST40 (the Group's largest operational spherical tokamak device) achieved the highest triple product achieved by a private fusion energy company. Triple product is a widely recognised fusion industry measure of plasma density, temperature, and confinement. This result was achieved in February 2022 at a plasma temperature of 100 million degrees Celsius, the threshold required for commercial fusion energy, in a spherical tokamak with a plasma volume of less than one cubic meter; 15 times less volume than any other tokamak which has achieved this temperature.

After a rapid upgrade programme, the ST40 returned to operations later in the year. The upgrade included the installation of a new Thomson scattering high-powered laser system to give greater insights into plasma behaviour, by measuring both temperature and density at many points in the plasma.

Tokamak Energy completed the build of a world-first set of new generation HTS magnets to be assembled and tested in fusion power plant-relevant scenarios. The Company's new Demo4 facility consists of 44 individual magnetic coils manufactured using 38 kilometres of ground-breaking HTS tape, which carries currents with zero electrical resistance and requires five times less cooling power than traditional superconducting materials. Demo4 will have a magnetic field strength of over 18 Tesla, nearly a million times stronger than the Earth's magnetic field.

**Results**

The loss incurred for the year ended 31 December 2022 was £30,338,908 (31 December 2021: loss of £19,624,169). The financial position of the Group as at 31 December 2022 included total assets of £56,723,994 (31 December 2021: £51,702,975), which included a cash balance of £35,700,084 (31 December 2021: £30,598,937).

**Principal risks and uncertainties**

**Funding**

The Group does not expect to earn significant revenues until after 2025 and may never achieve profitability. In its recent business plan, the Group is predicting to be able to start commercialising some of its new technologies with effect from 2024. However, the ability of the Group to continue its research and development is dependent on the raising of funds from external sources. See the 'Going Concern' section included in the Director's report for further information.

**Liquidity**

Steps are taken to manage cash funds carefully within the business, through detailed budgeting and forecasting and taking into consideration the need to fund operations, capital expenditure, commitments and working capital. The financial position of the business together with current forecasts are reviewed regularly. The Group manages liquidity risk by holding a level of cash that is sufficient to manage fluctuations in the working capital or forecasts.

**Technology research & development & Tokamak operational programmes**

The Group is developing ground-breaking technology and the nature of research and development ("R&D") is that unexpected or adverse results could arise at any stage in the technology development process, or from the tokamak operational campaigns. Identified risks are mitigated through a series of technology projects and this is complemented with a diversification strategy to provide optionality in case any technical risks are realised. The Group continues to maintain a wide portfolio of patents to protect its intellectual property and technology innovations.

**Key performance indicators ('KPIs')**

The nature of the Company's business is such that activities on which the KPIs are based are non-financial and are considered in respect of progress made on various projects. Progress on the ST40 and HTS magnets projects is discussed above. Whilst cash is a key focus area for management, the cash utilised during the period is consistent with expectations based on the progress made on the current projects.

**Tokamak Energy Ltd**  
**Strategic report**  
**For the year ended 31 December 2022**

**Future developments**

The UK government (the UK Atomic Energy Authority) recently announced a substantial, multi-billion-pound, 20-year project to work through consortia of private companies to deliver its Spherical Tokamak for Energy Production ("STEP") fusion demonstrator project. The first phase of the programme is to produce a concept design by 2024. It will be a spherical tokamak, connected to the National Grid and producing net energy, although it is not expected to be a commercially operating plant at this stage. This aligns very closely with the primary long-term goals of the business to deliver globally deployable commercial fusion solutions. This project is also an endorsement of the *spherical tokamak* as the most viable route to achieving commercial fusion and offers the opportunity to collaborate with experienced partners and Government backing to accelerate and de-risk the pathway to achieve this.

The Group is currently considering its response; however, it intends to tender for the UK government approved funding. As the only private spherical tokamak fusion company in the world that has the patents, know-how and experience in the design, build and operation of spherical tokamaks, the Directors consider that the Group is uniquely positioned to participate in this programme.

The Group is also exploring options to design and build its next intermediate device, subject to raising the appropriate levels of external funding.

In parallel with its primary goal, the Group also sees several opportunities to commercialise its technology, intellectual property ("IP") portfolio, and know-how. The Group has developed novel and proprietary technology, in particular around HTS magnets. These magnets have a wide range of potential uses outside of fusion which the Group will seek to exploit through establishing a commercial magnets division. These opportunities will be actively developed through a combination of IP licensing, collaborations, and spin outs.

This represents a significant change in business strategy and the Group's potential revenue generating opportunities.

Approved by the Board on 22 May 2023 and signed on its behalf by:



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Warrick Matthews  
Director

**Tokamak Energy Ltd**  
**Directors' report**  
**For the year ended 31 December 2022**

The Directors present their report, together with the audited consolidated financial statements, on the consolidated entity (referred to hereafter as the "Group") consisting of Tokamak Energy Ltd (referred to hereafter as the "Company") and the entities it controlled at the end of, or during, the year ended 31 December 2022.

**Principal activities**

During the year the principal activities of the Group and Company were research and development of spherical tokamaks with HTS magnets, as part of our programme to demonstrate the feasibility of producing low cost, globally deployable and clean fusion energy.

**Results**

The results for the year ended 31 December 2022 are as stated in the strategic report.

**Directors**

The directors of the Group and Company who were in office during the year and up to the date of signing the financial statements were:

C J Martin  
D M Gray  
D R Kingham  
M Gryaznevich  
E I Bonino  
C D Kelsall  
D Harding (appointed 1 March 2022)  
T Pfisterer (appointed 31 March 2022)  
M Savage (appointed 12 July 2022)  
W Matthews (appointed 15 March 2023)

The following director resigned during the year:

H P Wild (resigned 31 March 2022)

**Dividends**

There were no dividends paid, recommended or declared during the current or previous financial year.

**Share capital**

During the year ended 31 December 2022 1,719 shares were issued following the exercise of share options (31 December 2021: nil).

**Directors' interest in contracts of significance**

There were no contracts of significance to which the Company was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the period or at any time during the period.

**Indemnity of Directors**

The Group maintains directors and officers qualifying third party indemnity insurance to provide cover for legal action against its directors and officers. This has been in place throughout the year and remains in place at the date of approval of the financial statements.

**Going concern**

The financial statements have been prepared on a going concern basis, which assumes the Group and Company will have sufficient funds available to enable them to continue to trade for the foreseeable future. The research and development nature of the Group's and Company's strategy means that the timing of milestones and funds generated from developments are not guaranteed at this stage.

The directors have prepared financial forecasts to estimate the likely cash requirements of the Group and Company over the next 12 months from the date of approval of the financial statements. The forecasts show that the Group and Company require additional external funding towards the end of the 12-month forecast period to be able to continue as a going concern. The directors anticipate that this will come from equity investment from existing and new investors.

**Tokamak Energy Ltd**  
**Directors' report**  
**31 December 2022**

These funds are currently being sought and secured, although no binding commitment is yet in place at the date of signing of these financial statements. The Group is reviewing its strategy and approach to successfully delivering commercial fusion solutions, which includes, but is not limited to:

- An intention to tender for the recently announced UK government (the UK Atomic Energy Authority) Spherical Tokamak for Energy Production ("STEP") fusion demonstrator project;
- Exploring options to design and build its next intermediate device; and
- Exploring several opportunities to commercialise its technology, IP portfolio, and know-how, in particular around High Temperature Superconducting ("HTS") magnets. These opportunities will be actively developed through a combination of IP licensing, collaborations, and spin outs.

The directors consider the new strategic approach to be a more attractive investment opportunity. The directors are therefore confident of securing the necessary funds in good time for the Group and Company to continue as a going concern and have therefore prepared the financial statements on a going concern basis.

Should the additional funding not be finalised and secured within 12 months from the date of approval of these financial statements, the Group and Company would not be a going concern. As such, these conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would arise if the Group and Company was unable to continue as a going concern.

**Directors' responsibilities statement**

The directors are responsible for preparing the Annual Report and Financial Statements and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

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

The directors are responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

**Tokamak Energy Ltd**  
**Directors' report**  
**31 December 2022**

**Directors' confirmations**

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing its report, of which the auditors are unaware. Having made enquiries of fellow Directors and the Group's auditors, each Director has taken all the steps that they are obliged to take as a Director in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

**Matters subsequent to the end of the financial year**

The Group is currently considering its response to the UK government's recent announcement regarding its multibillion, 20-year project to deliver its STEP fusion demonstrator project. The Group intends to tender for the UK government approved funding. This represents a significant change in business strategy and the Group's potential revenue generating opportunities. The Directors have considered this change in business strategy in its assessment of going concern. There are no further impacts on the financial statements and the event is non-adjusting.

**Matters covered in the strategic report**

Disclosure of the Group and Company's business review and principal activities, results, principal risks and uncertainties, and future developments are provided in the strategic report

Approved by the Board on 22 May 2023 and signed on its behalf by:



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Warrick Matthews  
Director

# Independent auditors' report to the members of Tokamak Energy Ltd

## Report on the audit of the financial statements

### Opinion

In our opinion, Tokamak Energy Ltd's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2022 and of the Group's loss and the Group's and Company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company statements of financial position as at 31 December 2022; the Consolidated statement of comprehensive income, Consolidated and Company statements of changes in equity, Consolidated and Company statements of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the Group's and the Company's ability to continue as a going concern. In order to continue as a going concern the Group and the Company need to secure additional external funding within 12 months from the date of approval of the financial statements. At the time of the approval of the financial statements no such funding is committed. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

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.

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

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based

## **Tokamak Energy Ltd**

### **Independent auditor's report to the members of Tokamak Energy Ltd**

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 based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

### **Strategic report and Directors' report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

### **Responsibilities for the financial statements and the audit**

#### **Responsibilities of the directors for the financial statements**

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 Company or to cease operations, or have no realistic alternative but to do so.

#### **Auditors' 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 auditors' 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. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to tax legislation and Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the potential misappropriation of the Group's and Company's assets, and in particular the cash and cash equivalents. Audit procedures performed by the engagement team included:

- Held discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluated the design effectiveness of management's control activities designed to prevent and detect irregularities;
- Reviewed board minutes for consideration of known or suspected instances of non-compliance with laws and regulations or fraud;
- Challenged assumptions and judgements made by management in their significant accounting estimates and judgements, including evaluation of the business rationale of significant contracts and transactions entered. This included evaluating whether there was evidence of management bias;
- Identified and tested journal entries based on our risk assessment and evaluating whether there was evidence of management bias; and
- Incorporated elements of unpredictability into the audit procedures performed.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not

**Tokamak Energy Ltd**  
**Independent auditor's report to the members of Tokamak Energy Ltd**

detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

**Use of this report**

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

## Other required reporting

**Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Alex Upton (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Reading  
22 May 2023

**Tokamak Energy Ltd**  
**Consolidated statement of comprehensive income**  
**For the year ended 31 December 2022**

	Note	2022 £	2021 £
Administrative expenses		(40,562,240)	(30,216,882)
Other operating income	4	5,173,095	5,343,625
Operating loss		(35,389,145)	(24,873,257)
Finance income	6	143,450	40,236
Finance costs	6	<u>(3,102,281)</u>	<u>(285,700)</u>
<b>Loss before income tax</b>		<b>(38,347,976)</b>	<b>(25,118,721)</b>
Income tax	9	<u>8,009,068</u>	<u>5,494,552</u>
<b>Loss after income tax for the year attributable to the owners of Tokamak Energy Ltd</b>		<b><u>(30,338,908)</u></b>	<b><u>(19,624,169)</u></b>

The above results were derived from continuing operations.

There was no other comprehensive income.

*The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes*

**Tokamak Energy Ltd**  
**Consolidated and Company statements of financial position**  
**As at 31 December 2022**

	Note	Consolidated		Company	
		2022	2021	2022	2021
		£	£	£	£
<b>Assets</b>					
<b>Non-current assets</b>					
Investments	10	207	207	9	8
Property, plant and equipment	11	670	1,094	670	1,094
Right-of-use assets	12	3,950,548	4,487,140	3,950,548	4,487,140
<b>Total non-current assets</b>		<b>3,951,425</b>	<b>4,488,441</b>	<b>3,951,227</b>	<b>4,488,242</b>
<b>Current assets</b>					
Cash and cash equivalents		35,700,084	30,598,937	35,673,789	30,571,897
Trade and other receivables	13	3,540,879	4,847,010	3,752,219	4,924,982
Contract assets	14	-	973,297	-	973,297
Income tax asset		13,531,606	10,795,290	13,531,606	10,795,290
<b>Total current assets</b>		<b>52,772,569</b>	<b>47,214,534</b>	<b>52,957,614</b>	<b>47,265,466</b>
<b>Total assets</b>		<b>56,723,994</b>	<b>51,702,975</b>	<b>56,908,841</b>	<b>51,753,708</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Convertible loan notes	15	32,569,315	-	32,569,315	-
Lease liabilities	16	3,709,861	4,482,667	3,709,861	4,482,667
Derivative financial instruments	17	125,410	-	125,410	-
Provisions	18	168,787	168,787	168,787	168,787
<b>Total non-current liabilities</b>		<b>36,573,373</b>	<b>4,651,454</b>	<b>36,573,373</b>	<b>4,651,454</b>
<b>Current liabilities</b>					
Trade and other payables	19	5,664,259	5,673,597	5,656,235	5,672,760
Lease liabilities	16	640,686	575,097	640,686	575,097
<b>Total current liabilities</b>		<b>6,304,945</b>	<b>6,248,694</b>	<b>6,296,921</b>	<b>6,247,857</b>
<b>Total liabilities</b>		<b>42,878,318</b>	<b>10,900,148</b>	<b>42,870,294</b>	<b>10,899,311</b>
<b>Net assets</b>		<b>13,845,676</b>	<b>40,802,827</b>	<b>14,038,547</b>	<b>40,854,397</b>
<b>Equity</b>					
Share capital	20	3,331	3,331	3,331	3,331
Reserves		129,135,297	125,753,540	129,135,297	125,753,540
Accumulated losses		(115,292,952)	(84,954,044)	(115,100,081)	(84,902,474)
<b>Total equity</b>		<b>13,845,676</b>	<b>40,802,827</b>	<b>14,038,547</b>	<b>40,854,397</b>

A statement of comprehensive income has not been presented for the Company as permitted by Section 408 of the Companies Act 2006. The Company made a loss after tax of £30,197,606 for the year ended 31 December 2022 (31 December 2021 - loss of £19,572,599)

The financial statements on pages 10 to 38 were approved by the Board of Directors on 22 May 2023 and signed on its behalf by:



Warrick Matthews  
 Director

*The above Consolidated and Company statements of financial position should be read in conjunction with the accompanying notes*

**Tokamak Energy Ltd**  
**Consolidated and Company statements of changes in equity**  
**For the year ended 31 December 2022**

	Issued capital £	Share premium £	Share based payment reserve £	Accumulated losses £	Total equity £
<b>Consolidated</b>					
Balance at 1 January 2021	3,331	117,388,139	5,952,949	(65,329,875)	58,014,544
Loss after income tax for the year	-	-	-	(19,624,169)	(19,624,169)
Total comprehensive income for the year	-	-	-	(19,624,169)	(19,624,169)
<i>Transactions with owners in their capacity as owners:</i>					
Share based payments (note 23)	-	-	2,412,452	-	2,412,452
Balance at 31 December 2021	<u>3,331</u>	<u>117,388,139</u>	<u>8,365,401</u>	<u>(84,954,044)</u>	<u>40,802,827</u>
<b>Consolidated</b>					
Balance at 1 January 2022	3,331	117,388,139	8,365,401	(84,954,044)	40,802,827
Loss after income tax for the year	-	-	-	(30,338,908)	(30,338,908)
Total comprehensive income for the year	-	-	-	(30,338,908)	(30,338,908)
<i>Transactions with owners in their capacity as owners:</i>					
Share based payments (note 23)	-	-	3,376,755	-	3,376,755
Proceeds from shares issued	-	5,002	-	-	5,002
Balance at 31 December 2022	<u>3,331</u>	<u>117,393,141</u>	<u>11,742,156</u>	<u>(115,292,952)</u>	<u>13,845,676</u>
<b>Company</b>					
Balance at 1 January 2021	3,331	117,388,139	5,952,949	(65,329,875)	58,014,544
Loss after income tax for the year	-	-	-	(19,572,599)	(19,572,599)
Total comprehensive income for the year	-	-	-	(19,572,599)	(19,572,599)
<i>Transactions with owners in their capacity as owners:</i>					
Share based payments (note 23)	-	-	2,412,452	-	2,412,452
Balance at 31 December 2021	<u>3,331</u>	<u>117,388,139</u>	<u>8,365,401</u>	<u>(84,902,474)</u>	<u>40,854,397</u>

The above Consolidated and Company statements of changes in equity should be read in conjunction with the accompanying notes

**Tokamak Energy Ltd**  
**Consolidated and Company statements of changes in equity**  
**For the year ended 31 December 2022**

<b>Company</b>	<b>Issued capital £</b>	<b>Share premium £</b>	<b>Shared based payment reserve £</b>	<b>Accumulated losses £</b>	<b>Total equity £</b>
Balance at 1 January 2022	3,331	117,388,139	8,365,401	(84,902,474)	40,854,397
Loss after income tax for the year	-	-	-	(30,197,607)	(30,197,607)
Total comprehensive income for the year	-	-	-	(30,197,607)	(30,197,607)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 20)	-	5,002	-	-	5,002
Share based payments (note 23)	-	-	3,376,755	-	3,376,755
Balance at 31 December 2022	<u>3,331</u>	<u>117,393,141</u>	<u>11,742,156</u>	<u>(115,100,081)</u>	<u>14,038,547</u>

*The above Consolidated and Company statements of changes in equity should be read in conjunction with the accompanying notes*

**Tokamak Energy Ltd**  
**Consolidated and Company statements of cash flows**  
**For the year ended 31 December 2022**

	Note	Consolidated		Company	
		2022	2021	2022	2021
		£	£	£	£
<b>Cash flows from operating activities</b>					
Loss before income tax for the year		(38,347,976)	(25,118,721)	(38,206,674)	(25,067,151)
Adjustments for:					
Depreciation and amortisation	11, 12	708,287	608,249	708,287	608,249
Share-based payments	23	3,376,755	2,412,452	3,376,755	2,412,452
Foreign currency differences		(13,108)	9,829	(19,183)	9,829
Interest on loan notes	5	2,642,668	-	2,642,668	-
Impairment on Russian gyrotron	13	1,376,848	-	1,376,848	-
Interest on lease payments	16	407,556	-	407,556	-
Gain on remeasurement of right of use asset		(263,103)	-	(263,103)	-
Increase in derivative liabilities	17	52,057	-	52,057	-
		(30,060,016)	(22,088,191)	(29,924,789)	(22,036,621)
Change in operating assets and liabilities:					
Decrease/ (increase) in trade and other receivables		495,248	(2,602,577)	361,879	(2,680,301)
Decrease/ (increase) in contract assets		973,297	(717,349)	973,297	(717,349)
Increase/ (decrease) in trade and other payables		(9,338)	1,049,475	(16,525)	1,048,636
<b>Cash outflow from operations</b>		<b>(28,600,809)</b>	<b>(24,358,642)</b>	<b>(28,606,138)</b>	<b>(24,385,635)</b>
Income tax receipt	9	4,706,788	5,366,432	4,706,788	5,366,432
Interest on lease payments			285,700		285,700
<b>Net cash flows used in operating activities</b>		<b>(23,894,021)</b>	<b>(18,706,510)</b>	<b>(23,899,350)</b>	<b>(18,733,503)</b>
<b>Cash flows from investing activities</b>					
Investment in subsidiary		-	(207)	-	-
Purchase of property, plant and equipment	11	-	(11,762)	-	(11,762)
Lease payments		-	(520,276)	-	(520,276)
Proceeds from disposal of investments		-	-	(1)	-
<b>Net cash used in investing activities</b>		<b>-</b>	<b>(532,245)</b>	<b>(1)</b>	<b>(532,038)</b>
<b>Cash flows from financing activities</b>					
Proceeds on issue of convertible loan notes	15	30,000,000	-	30,000,000	-
Interest elements of lease payments	16	(407,556)	-	(407,556)	-
Principal elements of lease payments	16	(791,961)	-	(791,961)	-
Proceeds from issue of ordinary shares	20	5,002	-	5,002	-
<b>Net cash flows from financing activities</b>		<b>28,805,485</b>	<b>-</b>	<b>28,805,485</b>	<b>-</b>
Net increase/ (decrease) in cash and cash equivalents		4,911,464	(19,238,755)	4,906,134	(19,265,541)
Cash and cash equivalents at the beginning of the financial year		30,598,937	49,847,521	30,571,897	49,847,267
Effects of exchange rate changes on cash and cash equivalents		189,683	(9,829)	195,758	(9,829)
<b>Cash and cash equivalents at the end of the financial year</b>		<b>35,700,084</b>	<b>30,598,937</b>	<b>35,673,789</b>	<b>30,571,897</b>

*The above Consolidated and Company statements of cash flows should be read in conjunction with the accompanying notes*

**Tokamak Energy Ltd**  
**Notes to the financial statements**  
**For the year ended 31 December 2022**

**Note 1. General information**

The Company is a private company limited by share capital, incorporated and domiciled in England. The address of its registered office is 173 Brook Drive, Milton Park, Abingdon, Oxfordshire OX14 4SD, United Kingdom.

The principal activities of the Group and Company were research and development of spherical tokamaks with HTS magnets, as part of our programme to demonstrate the feasibility of producing low cost, globally deployable and clean fusion energy.

**Note 2. Significant accounting policies**

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**Basis of preparation**

The financial statements of the Group and Company have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. The Group and Company financial statements have been prepared on a going concern basis and under the historical cost convention, except where IFRS requires an alternative treatment.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial statements. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed in note 3.

**Going concern**

The financial statements have been prepared on a going concern basis, which assumes the Group and Company will have sufficient funds available to enable them to continue to trade for the foreseeable future. The research and development nature of the Group's and Company's strategy means that the timing of milestones and funds generated from developments are not guaranteed at this stage.

The directors have prepared financial forecasts to estimate the likely cash requirements of the Group and Company over the next 12 months from the date of approval of the financial statements. The forecasts show that the Group and Company require additional external funding towards the end of the 12-month forecast period to be able to continue as a going concern. The directors anticipate that this will come from equity investment from existing and new investors.

These funds are currently being sought and secured, although no binding commitment is yet in place at the date of signing of these financial statements. The Group is reviewing its strategy and approach to successfully delivering commercial fusion solutions, which includes, but is not limited to:

- An intention to tender for the recently announced UK government (the UK Atomic Energy Authority) Spherical Tokamak for Energy Production ("STEP") fusion demonstrator project;
- Exploring options to design and build its next intermediate device; and
- Exploring several opportunities to commercialise its technology, IP portfolio, and know-how, in particular around High Temperature Superconducting ("HTS") magnets. These opportunities will be actively developed through a combination of IP licensing, collaborations, and spin outs.

The directors consider the new strategic approach to be a more attractive investment opportunity. The directors are therefore confident of securing the necessary funds in good time for the Group and Company to continue as a going concern and have therefore prepared the financial statements on a going concern basis.

Should the additional funding not be finalised and secured within 12 months from the date of approval of these financial statements, the Group and Company would not be a going concern. As such, these conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would arise if the Group and Company was unable to continue as a going concern.

**Note 2. Significant accounting policies (continued)**

**Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities and the results of operations of all subsidiaries of the Company. A subsidiary is an entity over which the Group has control. The Group has control over an entity where the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the power over the entity to affect those returns. The results of subsidiaries acquired are consolidated from the date on which control transfers to the Group. Transactions between, and balances with, subsidiary companies are eliminated together with unrealised gains on intra-group transactions. Unrealised losses are eliminated to the extent the asset transferred is not impaired.

A statement of comprehensive income is not presented for the Company as permitted by section 408 of the Companies Act 2006. The Company made a loss after tax of £30,197,608 for the financial year ended 31 December 2022 (31 December 2021 – loss of £19,572,599).

**Other operating income**

*Grant income*

Government grants are represented by grants received or receivable principally from Department for Business, Energy & Industrial Strategy (BEIS) and UKRI Future Leaders Fellowship. The income is accounted for under the accrual model, with grants being recognised in other operating income on a systematic basis when the Group recognises the related costs for which the grant is intended to compensate.

*Advanced Modular Reactor ("AMR") contract*

The contract that the Group entered in 2020 with BEIS as part of the UK government's AMR project completed at the end of 2022. This contract was determined and continued to meet the criteria to be recognised and measured in accordance with IFRS 15 'Revenue from contracts with customers' (see note 4). Income generated from this contract is recognised in other income as the Group considers that this accurately depicts the nature of the agreement versus the anticipated future revenue streams for the Group.

Other income on this contract is recognised when control is transferred to the customer and at an amount reflecting the consideration the Group expects to receive in exchange for the research provided. In determining the performance obligations, the contract sets out separate work packages, each with several separate milestones. Each milestone in the contract has been identified as a separate performance obligation, as they are deemed to be distinct on the basis that they are separately identifiable, and work can be performed independently on each milestone. The milestones each have inherent value to the customer independently. The transaction price is the amount of consideration the Group expects to be entitled to in exchange for transferring the research to the customer. The transaction price has been determined with reference to the contract, where the transaction price per work package is defined. Hence, no estimation has been required in this area. The contract sets out multiple performance obligations, being the milestones. The transaction price is allocated to each milestone/performance obligation based on the contractually agreed price, which is determined based on the expected costs to satisfy each separate performance obligation. Income is recognised when the customer obtains control of a milestone output, that is as the performance obligation is satisfied.

For this contract it has been determined that the customer simultaneously receives and consumes the benefits of the performance obligations and as such revenue is recognised over time. To measure progress against a performance obligation, the Group uses the input method, whereby income is recognised based upon costs incurred as a proportion of total expected contract costs. This contract is nil margin. Payments for milestone deliverables are received in arrears and a contract asset is recognised for progress against a performance obligation for which costs had been incurred, but not yet invoiced.

**Tokamak Energy Ltd**  
**Notes to the financial statements**  
**For the year ended 31 December 2022**

**Note 2. Significant accounting policies (continued)**

Contract assets are recognised when the Group has transferred goods or services to the customer but where the Group is yet to establish an unconditional right to consideration. Contract assets are treated as financial assets for impairment purposes.

**Research and development**

Research expenditure is recognised as an expense in administrative expenses as incurred. Development costs are assessed to consider if they meet the capitalisation criteria set out by IAS 38. Development costs not meeting the criteria for capitalisation are expensed as incurred.

**Defined contribution pension scheme**

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contributions plans, contributions are paid to publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as an employee benefit expense when they are due.

**Foreign currency transactions and balances**

The Group's consolidated financial statements are presented in GBP. The Group determines the functional currency for each entity, based on the currency of the primary economic environment in which each subsidiary operates, and items included in the financial statements of such entity are measured using that functional currency. Refer to note 12 Investments, for a listing of the Group's wholly-owned subsidiaries.

*Transactions and balances*

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

*Group companies*

On consolidation, the assets and liabilities of the Group's operations are translated at exchange rates prevailing at the reporting date. Income and expenses items are translated at average exchange rates for the period. All resulting exchange differences are recognised in other comprehensive income.

**Tokamak Energy Ltd**  
**Notes to the financial statements**  
**For the year ended 31 December 2022**

**Note 2. Significant accounting policies (continued)**

**Tax**

The tax benefit or expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

Taxable loss differs from net loss as reported in the statement of comprehensive income because it will exclude items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Current income tax is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and it establishes provisions, when appropriate, as the basis of amounts expected to be paid to the tax authorities.

The tax credit represents the non-taxable research and development tax credit claimed under the Small or Medium-sized Enterprise "SME" scheme. The value of the claim made under the R&D expenditure credit ("RDEC") scheme, net of corporation tax, is included in other income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax will also be dealt with in equity. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The carrying amount of deferred tax assets is reviewed at each reporting date to assess the extent to which sufficient taxable profits are available to allow all or part of the asset to be recovered.

**Investment in subsidiaries**

Investments in subsidiaries are recorded at cost, less accumulated impairment losses.

**Property, plant and equipment**

Plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Property, plant and equipment	4 years
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**Note 2. Significant accounting policies (continued)**

**Financial instruments**

Financial assets and financial liabilities are recognised in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

The Group holds the following **financial assets**:

*Cash and cash equivalents*

Cash and cash equivalents include cash in hand and deposits held at call with financial institutions, other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. The term deposits held are for 30-95 days.

*Trade and other receivables*

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost less any impairment losses. The same accounting recognition and measurement basis is applied to amounts due from subsidiary undertakings, for the Company.

The Group holds the following **financial liabilities**:

*Convertible loan notes*

Convertible loan notes ("CLNs") are treated as hybrid financial instruments comprising a host contract and an embedded derivative liability.

The CLN host contract is initially recognised at fair value, net of transaction costs incurred. The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The CLN host contract is subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

The remainder of the proceeds is allocated to the conversion option. The conversion option, a derivative financial instrument is initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date.

The host contract and the derivative liability are classified as current or non-current depending on the expected period of realisation.

Both the effective interest cost on the host contract and the fair value movements in the embedded derivative liability are recognised in the statement of comprehensive income.

**Tokamak Energy Ltd**  
**Notes to the financial statements**  
**For the year ended 31 December 2022**

**Note 2. Significant accounting policies (continued)**

*Trade and other payables*

Trade and other payables are non-derivative financial liabilities with fixed or determinable payments and relate to obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are included in current liabilities, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current liabilities. The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

*Lease liabilities*

The Group assesses whether a contract is or contains a lease at inception of the contract. The Group recognises a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, 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 Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease. The Group does not enter sub-lease arrangements.

The lease liability is initially measured at the present value of the lease payments that are not paid at commencement date. Where the terms of the lease agreement include increases to the rent charge, the minimum guaranteed increase is included in the lease liability. The discount rate applied is the Group's incremental borrowing rate. They are subsequently measured by increasing the carrying amount to reflect interest of the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The lease liability will also be remeasured to reflect changes in the underlying lease agreement such as the expected lease length.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the group under residual value guarantees;
- The exercise price of a purchase option if the group is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use assets (not a financial asset or liability) comprise leasehold property and plant and equipment and reflect the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs less lease incentives that may have been received. They are subsequently measured at cost less accumulated depreciation, impairment losses and remeasurements of the underlying lease liability. Depreciation is charged to the statement of comprehensive income within administrative expenses on a straight-line basis over the shorter of the assets' useful life and the lease term of each lease agreement. The Group assesses at each reporting date whether the right-of-use asset is impaired.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

**Tokamak Energy Ltd**  
**Notes to the financial statements**  
**For the year ended 31 December 2022**

**Note 2. Significant accounting policies (continued)**

**Provisions**

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, considering the risks and uncertainties surrounding the obligation. Provisions are discounted to present value where the impact is significant, using a pre-tax rate. The effect of discounting is not significant to the Group's provisions.

**Share-based payments**

The Company operates three share-based compensation schemes, which are equity-settled and are typically conditional upon a service period vesting condition. Most options do not include performance conditions. It is the employee's responsibility to settle the tax arising from these options. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

Options are measured at fair value at the date of grant, using the Black Scholes model and are expensed over the vesting period. The key assumptions that feed into the valuation model are the share price and volatility rate of the share price. Other assumptions include annual risk-free rate, expected life and dividend yield.

At the date of grant, the Group/Company estimates the number of awards expected to vest as a result of service conditions and the fair value of this estimated number of awards is recognised as an expense in the statement of comprehensive income on a straight-line basis over the period for which services are received. Service conditions are excluded from the fair value of the award.

At each reporting date, the Group/Company revises its estimate of the number of awards expected to vest as a result of service vesting conditions and adjusts the amount recognised cumulatively in the Statement of comprehensive income to reflect the revised estimate.

When awards are exercised and the Company issues new shares, the proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

**Share capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**New and amended standards adopted by the Group**

The amendments to ISA 16 'Property, Plant and Equipment: Proceeds before Intended Use', IAS 37 'Onerous contracts – Cost of Fulfilling a Contract'; Annual Improvements to IFRS Standards 2018-2020; and IFRS 3 did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

**New standards and interpretations not yet adopted**

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods on foreseeable future transactions.

**Note 3. Critical accounting judgements, estimates and assumptions**

In applying the Group's accounting policies set out in note 2, the directors are required to make certain estimates and judgements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The actual results may differ from these estimates.

*Convertible loan notes*

In May 2022 the Group issued £30m of CLNs to new and existing investors. These loan notes will mature in May 2024, subject to certain early conversion alternatives, including a mandatory conversion on a "qualified financing", or a discretionary conversion at the option of the holders in a "non-qualified financing" event. These events both provide the same share price discount to the lowest price per share on conversion. Sale or maturity of the instrument would result in an automatic conversion into the most senior class of shares in issue. No discount would be provided under sales or maturity.

The material judgement concluded by the Directors, in conjunction with its advisors, is the likelihood that the holders would choose to convert the loan notes at the time of the non-qualified financing event. The CLN would subsequently convert automatically at maturity at the price paid in the non-qualified financing (or another future financing event) but without the discount applied. As such, reflecting the fact that the same discount is provided on a qualified financing event, it was considered that a rational investor would be expected to also elect to convert the CLN at the time of a non-qualified financing. There is therefore no practical difference between a non-qualified financing or qualified financing from an economic perspective. This was a material judgement, as it directs that the only material estimate is the likelihood of a non-qualified financing taking place prior to maturity of the loan notes.

A direct valuation of the host contract as at the issue date would be impractical, given the difficulty in accurately estimating an appropriate discount rate for a fixed income return in an early-stage, high-risk business such as the Group. Therefore the estimated value of the host contract and embedded derivative with reference to the returns associated with the different conversion events of the CLN was calculated. There were a number of assumptions within this income approach, including the probability of a financing event, cash flow forecasts, timing of an exit and related valuation multiple and the discount rate (i.e. the rate of return required by investors). The only significant estimate and material assumption in the assessment, both for initial and subsequent measurement was the likelihood of a non-qualified financing taking place prior to maturity of the loan notes. The high probability assigned reflected the Directors expectation that a funding event of some magnitude is almost certain, see the going concern included in the basis of preparation above for further details.

**Tokamak Energy Ltd**  
**Notes to the financial statements**  
**For the year ended 31 December 2022**

*Research and development*

The ST40 (the Group's largest operational spherical tokamak device) achieved the highest triple product achieved by a private fusion energy company. Triple product is a widely recognised fusion industry measure of plasma density, temperature, and confinement. This result was achieved in February 2022 at a plasma temperature of 100 million degrees Celsius, the threshold required for commercial fusion energy, in a spherical tokamak with a plasma volume of less than one cubic meter; 15 times less volume than any other tokamak which has achieved this temperature.

Following the achievement of this milestone, the Group has undertaken a reassessment of its programme expenditure to determine whether any items should be capitalised. There are criteria for internally generated intangible assets to be capitalised under IAS 38 'Intangible Assets' to assess the transition from the "research" to the "development" phase. The Group does not consider that any items should be capitalised in accordance with this standard as the prototype devices do not meet all of the specified criteria for "development", specifically the technical feasibility of completing the intangible asset so that it will be available for use or sale that will generate probable future economic benefits for the Group.

Additionally, in accordance with IAS 16 'Property, Plant and Equipment', physical assets can be capitalised that are used for "administrative purposes", if it is probable that future economic benefits will flow to the entity. Future economic benefits may comprise *revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity, however, an impairment assessment would require the asset to be valued at the higher of value in use ("ViU") or fair value less costs of disposal ("FVLCOD")*. On this basis, consideration was given to the use of the items purchased and whether they are consumed in the creation of the prototype or if there was a possibility that they could be used across multiple prototypes. Following this review, the Group do not consider that any of the programme expenditure should be capitalised, as all the expenditure incurred is utilised in forming part of the prototype device. The prototypes themselves are not considered to have any material resale value or value in use, hence the fair value less costs to sell is not material and there is no future economic benefit from these items.

**Note 4. Other operating income**

The analysis of the Group's other operating income for the year is as follows:

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>£</b>	<b>£</b>
AMR contract	4,503,329	4,411,301
Research & Development Expenditure Credit	475,556	414,543
Grant income	169,705	446,525
Other operating income	24,505	71,256
	<u>5,173,095</u>	<u>5,343,625</u>

(i) AMR contract

This income relates to a contract with the Department for Business, Energy and Industrial Strategy (BEIS) as part of the UK government's AMR project. The contract was initially due to conclude in March 2022, but it was extended until October 2022. All outstanding amounts had been received by the reporting date. The administration relating to the project was concluded in March 2023.

(ii) Research & Development Expenditure Credit

This comprises the tax credit related to the Group's qualifying research and development expenditure on grant funded projects which cannot be claimed under the small company scheme.

**Tokamak Energy Ltd**  
**Notes to the financial statements**  
**For the year ended 31 December 2022**

(iii) Grant income

The Company has received government grant income of £169,705 (31 December 2021: £446,525) being £168,705 from UKRI Future Leaders Fellowship (31 December 2021 - £220,670) and £nil (31 December 2021: £225,855) from UK Innovation and Science Seed Fund. There are no unfulfilled conditions or other contingencies attached to these grants. There has been no other significant government grant assistance from which the Group has directly benefited. There were no government grants received in relation to the purchase of property, plant and equipment.

(iv) Other operating income

Other income comprises primarily of consultancy income, which has not arisen through the principal activity of the business.

**Note 5. Finance income and finance costs**

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>£</b>	<b>£</b>
<b>Finance income</b>		
Interest income on bank deposits	143,450	40,236
<b>Finance costs</b>		
Interest on lease liabilities	(407,556)	(285,700)
Interest on convertible loan note	(2,642,668)	-
Fair value movement on derivative liability	(52,057)	-
	<u>(2,958,831)</u>	<u>(245,464)</u>

**Note 6. Operating loss**

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>£</b>	<b>£</b>
Depreciation expense (note 11)	424	1,445
Depreciation on right of use assets (note 12)	707,863	606,804
Foreign exchange (gains)/losses	(189,683)	9,829
Employee benefits expense (note 7)	19,943,961	14,814,861
Research and development cost	11,781,920	9,965,586
Administrative expenses	6,940,907	4,818,359
Impairment of prepayment (note 13)	1,376,848	-

During the financial year the following fees were paid or payable for services provided by PricewaterhouseCoopers LLP, the auditors of the Group

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>£</b>	<b>£</b>
<i>Audit services</i>		
Fees payable to the Company's auditors for the audit of the Company and consolidated financial statements	<u>131,700</u>	<u>102,540</u>

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**Note 7. Average number of employees and employee benefits expense**

The average monthly number of persons employed by the Group (including directors) during the year, analysed by category was as follows:

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
Administration and support	11	10
Research and development	199	160
	<u>210</u>	<u>170</u>

The compensation paid to employees (including executive directors) for employee services were as follows:

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>£</b>	<b>£</b>
Wages and salaries	13,751,566	10,311,776
Social security costs	1,506,234	1,124,458
Other pension costs	1,322,783	990,409
Share-based payments	3,363,378	2,388,218
	<u>19,943,961</u>	<u>14,814,861</u>

**Note 8. Directors' and key management remuneration**

*Directors' remuneration*

The Directors' remuneration for the year was as follows:

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>£</b>	<b>£</b>
Aggregate emoluments	1,061,903	1,125,838
Contributions paid to money purchase schemes	31,974	41,740
Highest paid Director - aggregate emoluments	603,087	527,106
Highest paid Director - pension contributions made during the year	27,974	19,742

During the year, no directors were awarded share options (31 December 2021: one). No directors exercised any options during the year (31 December 2021: nil).

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*Key management remuneration*

Key management includes those persons with authority and responsibility for controlling the activities of the Company, including executive and non-executive directors, some members of senior management, and the Company Secretary. The compensation paid or payable to key management for employee services is shown below.

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>£</b>	<b>£</b>
Salaries and other short term benefits	1,856,802	1,224,613
Other long term benefits	476,038	411,217
Share-based payments	1,522,369	1,314,332
	<u>3,855,209</u>	<u>2,950,162</u>

**Note 9. Income tax**

Tax credited in the statement of comprehensive income:

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>£</b>	<b>£</b>
<i>Current taxation</i>		
Research and development relating to current year	(8,009,068)	(5,499,172)
Adjustment for over provision in prior period	-	4,620
	<u>(8,009,068)</u>	<u>(5,494,552)</u>
<i>Numerical reconciliation of income tax and tax at the statutory rate</i>		
Loss before income tax	<u>(38,347,976)</u>	<u>(25,118,721)</u>
Tax at the statutory tax rate of 19%	(7,286,115)	(4,772,557)
Tax effect amounts which are not deductible in calculating taxable income:		
Share-based payments	<u>3,366,111</u>	<u>2,393,408</u>
	(3,920,004)	(2,379,149)
Adjustment for over provision in prior period	-	4,620
Deferred tax expense from unrecognised tax loss	3,920,004	2,379,149
Adjustment in research development tax credit	<u>(8,009,068)</u>	<u>(5,499,172)</u>
Income tax	<u>(8,009,068)</u>	<u>(5,494,552)</u>

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*Deferred tax*

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>£</b>	<b>£</b>
<b>Unrecognised deferred tax asset</b>		
Losses	32,697,286	21,736,672
Share based payments	11,619,027	12,750,329
	<u>44,316,313</u>	<u>34,487,001</u>
<b>Corporation tax rate of 19% (2021 - 19%)</b>		
Losses	6,212,484	4,129,968
Share based payments	2,207,615	2,422,562
<b>Unrecognised deferred tax asset</b>	<u>8,420,099</u>	<u>6,552,530</u>

Deferred tax assets relating to share-based payments and losses carried forward have not been recognised due to uncertainty over the timing to achieve future profitability.

With effect from 1 April 2023 the headline corporation tax rate has increased to 25%, with the exception of companies with profits under £50,000 for which the rate will remain at 19%. As it is not expected for the Group to generate substantial profits in the near future, unrecognised deferred taxes at the balance sheet date have been measured using the small company's rate and reflected in these financial statements.

**Note 10. Non-current assets - investments**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Investment - Tokamak Solutions EBT Limited	-	-	1	1
Investment - Tokamak Energy Inc	-	-	8	7
Investment - Tokamak Energy Ltd	207	207	-	-
	<u>207</u>	<u>207</u>	<u>9</u>	<u>8</u>

Details of the Company's subsidiaries as at 31 December 2022 and 2021 are as follows:

<b>Name of subsidiary</b>	<b>Principal Activity</b>	<b>Registered Office</b>	<b>Proportion of ownership interest and voting rights held %</b>
Tokamak Solutions EBT Limited	Employee Benefit Trust - United Kingdom	173 Brook Drive, Milton park, Abingdon, Oxfordshire, OX14 4SD United Kingdom	100.00%
Tokamak Energy Inc	Establishing R&D collaborations with US organisations	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle Court, Delaware, 19801 United States of America	100.00%

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**Note 11. Non-current assets - property, plant and equipment**

**Group and Company**

	<b>2022</b>	<b>2021</b>
	<b>£</b>	<b>£</b>
<b>Cost</b>		
At 1 January and 31 December	<u>75,548</u>	<u>75,548</u>
<b>Accumulated depreciation</b>		
At 1 January	(74,454)	(73,009)
Charge for the year	<u>(424)</u>	<u>(1,445)</u>
At 31 December	<u>(74,878)</u>	<u>(74,454)</u>
<b>Net book value</b>		
At 31 December	<u>670</u>	<u>1,094</u>

**Note 12. Non-current assets - right-of-use assets**

**Group and Company**

	<b>Buildings</b>	<b>Equipment</b>	<b>Total</b>
<b>Cost</b>			
At 1 January 2022	5,084,339	40,016	5,124,355
Remeasurement	-	(10,168)	(10,168)
At 31 December 2022	<u>5,084,339</u>	<u>29,848</u>	<u>5,114,187</u>
<b>Accumulated depreciation</b>			
At 1 January 2022	420,540	35,236	455,776
Charge for the year	736,283	13,929	750,212
Remeasurement	-	(42,349)	(42,349)
At 31 December 2022	<u>1,156,823</u>	<u>6,816</u>	<u>1,163,639</u>
<b>Net book value</b>			
At 31 December 2022	<u>3,927,516</u>	<u>23,032</u>	<u>3,950,548</u>

**Group and Company**

	<b>Buildings</b>	<b>Equipment</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>Cost</b>			
At 1 January 2021	1,838,212	40,016	1,878,228
Additions	1,935,229	-	1,935,229
Remeasurement	1,310,898	-	1,310,898
At 31 December 2021	<u>5,084,339</u>	<u>40,016</u>	<u>5,124,355</u>
<b>Accumulated depreciation</b>			
At 1 January 2021	781,548	21,898	803,446
Charge for the year	625,788	13,338	639,126
Remeasurement	(986,796)	-	(986,796)
At 31 December 2021	<u>420,540</u>	<u>35,236</u>	<u>455,776</u>
<b>Net book value</b>			
At 31 December 2021	<u>4,663,799</u>	<u>4,780</u>	<u>4,668,579</u>

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**Note 13. Current assets - trade and other receivables**

	Consolidated		Company	
	2022	2021	2022	2021
	£	£	£	£
Trade receivables	481	308,874	481	308,874
RDEC receivable	819,605	-	819,605	-
Amount due from subsidiary undertaking	-	-	211,340	77,972
Prepayments and accrued income	2,123,487	4,216,372	2,123,487	4,216,372
Other receivables	597,306	321,764	597,306	321,764
	<u>3,540,879</u>	<u>4,847,010</u>	<u>3,752,219</u>	<u>4,924,982</u>

The other receivables balance is primarily made up of VAT receivable £523,732 (31 December 2021 - £248,190) and grant income debtor £50,000 (31 December 2021 - £50,000), which are carried at amortised cost. There are no significant differences with respect to their fair value.

In the prior year financial statements, the RDEC receivable of £565,964 was included within the income tax receivable asset (reference note 9). This error was immaterial for restatement purposes.

Prepayments, gyrotron impairment - As a result of the ongoing conflict in Eastern Europe relating to Russia and Ukraine there has been an increase in trade and finance sanctions against Russia. It has become apparent that due to the difficulties in making payments for the outstanding balances and the logistics of arranging delivery, the Group does not expect to be able to take possession of the two bespoke gyrotrons ordered and where partial payments in advance have been made. Legal advice has been sought on the specific issues and the Group has subsequently taken the decision to impair the full amount of £1.4m included in prepayments. The impairment is included in the statement of comprehensive income, within administrative expenses.

**Note 14. Current assets - contract assets**

The Group has recognised the following contract asset, which represents accrued income on the AMR contract:

	Consolidated		Company	
	2022	2021	2022	2021
	£	£	£	£
Contract asset relating to AMR funding	-	973,297	-	973,297

The AMR contract was concluded in October 2022, and all amounts settled during the year.

**Note 15. Non-current liabilities - Convertible loan notes**

	Consolidated		Company	
	2022	2021	2022	2021
	£	£	£	£
Convertible loan notes	<u>32,569,315</u>	-	<u>32,569,315</u>	-

In May 2022, Tokamak Energy Ltd issued £30m of unsecured CLNs. The CLNs have a maturity date of May 2024 and have early conversion features (see note 3). The fair value of the host contract at the issue date was £29,926,647 and £31,767,260 at the 31 December 2022.

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**Note 15. Non-current liabilities - Convertible loan notes (continued)**

The convertible loan notes are presented in the balance sheet as follows:

**Group and Company**

	<b>2022</b>	<b>2021</b>
	<b>£</b>	<b>£</b>
Fair value of host contract on recognition	29,926,647	-
Accrued interest	<u>2,642,668</u>	<u>-</u>
	<u><u>32,569,315</u></u>	<u><u>-</u></u>

Interest expense is calculated by applying the effective interest rate of 15.6% to the host contract.

**Note 16. Lease liabilities**

This note provides information for leases where the Group and Company is a lessee.

**(i) Amounts recognised in the balance sheet**

	<b>2022</b>	<b>2021</b>
	<b>£</b>	<b>£</b>
Current	640,686	575,097
Non-current	<u>3,709,861</u>	<u>4,482,667</u>
	<u>4,350,547</u>	<u>5,057,764</u>
Additions to the right-of-use asset during the financial year	<u>-</u>	<u>1,935,229</u>

The contractual undiscounted cash flows are included in note 21.

**(ii) Amounts recognised in the statement of comprehensive income**

The statement of comprehensive income shows the following amounts relating to leases:

	<b>2022</b>	<b>2021</b>
	<b>£</b>	<b>£</b>
<b>Depreciation charge of right-of-use assets</b>		
Buildings	736,283	389,067
Equipment	<u>(28,420)</u>	<u>13,338</u>
	<u>707,863</u>	<u>402,405</u>
Interest expense (included in finance cost)	407,066	285,700
Expenses relating to short-term and low-value leases (included in administrative expenses)	<u>36,400</u>	<u>87,201</u>
	<u><b>2022</b></u>	<u><b>2021</b></u>
	<u><b>£</b></u>	<u><b>£</b></u>
The total cash outflow for leases	1,235,917	520,276

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**Note 17. Non-current liabilities - derivative financial instruments**

**Group and Company**

	<b>2022</b>	<b>2021</b>
	£	£
Derivative liability	<u>125,410</u>	<u>-</u>
	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	£	£
Fair value of derivative liability on initial recognition	73,353	-
Movement in fair value during the year	<u>52,057</u>	<u>-</u>
Fair value of derivative liability at 31 December	<u>125,410</u>	<u>-</u>

**Note 18. Non-current liabilities - provisions**

	<b>Consolidated</b>	<b>Consolidated</b>
	<b>2022</b>	<b>2021</b>
	£	£
Provisions	<u>168,787</u>	<u>168,787</u>

The provision balance of £168,787 is a dilapidation provision relating to the cost of returning the premises to a condition comparable to that at the inception of the lease. The costs predominantly relate to structural changes made to the premises to facilitate tokamak operations. These costs would unwind at the point of exiting the building 173 lease, which is currently assumed to be at least a year from the date of signing.

**Note 19. Current liabilities - trade and other payables**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	£	£	£	£
Trade payables	1,510,378	1,497,167	1,501,566	1,496,627
Other taxes and social security	504,333	334,230	504,333	334,230
Accrued expenses	<u>3,649,548</u>	<u>3,842,200</u>	<u>3,650,336</u>	<u>3,841,903</u>
	<u>5,664,259</u>	<u>5,673,597</u>	<u>5,656,235</u>	<u>5,672,760</u>

**Note 20. Equity - share capital**

**Allotted, called up and fully paid shares**

	31 December	31 December	31 December	31 December
	2022	2022	2021	2021
	No.	£	No.	£
Ordinary of £0.0001 each	23,503,335	2,350	23,501,616	2,350
A Ordinary of £0.0001 each	1,689,863	169	1,689,863	169
B Ordinary of £0.0001 each	<u>8,120,462</u>	<u>812</u>	<u>8,120,462</u>	<u>812</u>
	<u>33,313,660</u>	<u>3,331</u>	<u>33,311,941</u>	<u>3,331</u>

Tokamak Solutions EBT Limited holds 2,065,563 shares in Tokamak Energy Ltd (31 December 2021 – 2,069,000).

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**Note 20. Equity - Share capital (continued)**

**New shares allotted**

In February 2022, there was one election to exercise 1,719 of options which converted into Ordinary shares.

**Rights, preferences and restrictions**

Ordinary shares have no special rights or restrictions.

A Ordinary shares can be converted to Ordinary shares in the event of an IPO. The conversion ratio is 4 Ordinary shares for 1 A Ordinary share. A Ordinary share have 4 times the voting rights and dividend rights of Ordinary shares. B Ordinary shares have a liquidation preference over Ordinary shares and A Ordinary shares.

The return of any capital is paid to shareholders in the following order of priority:

- B Ordinary shares at full subscription price.
- Ordinary and A Ordinary shares at the nominal value per share, with A Ordinary shares followed by Ordinary shares.
- Ordinary and A Ordinary shares at the share premium paid, with A Ordinary shares followed by Ordinary shares
- Levelling up of Ordinary shares to B Ordinary shares and levelling up of A Ordinary shares to equal 4 times an Ordinary share.
- Any remaining capital surplus then repaid to shareholders in proportion to their voting and dividend rights.

**Note 21. Financial instruments and financial risk review**

**Financial assets measured at amortised cost**

	Consolidated		Company	
	2022	2021	2022	2021
	£	£	£	£
Trade receivables	481	308,874	481	308,874
Other receivables excluding prepayment and VAT receivable	73,574	73,574	284,914	151,546
Cash and cash equivalents	35,700,084	30,598,937	35,673,790	30,571,897
	<u>35,774,139</u>	<u>30,981,385</u>	<u>35,959,185</u>	<u>31,032,317</u>

**Financial liabilities measured at amortised cost**

	Consolidated		Company	
	2022	2021	2022	2021
	£	£	£	£
Trade and other payables excluding social security and other taxes	5,159,925	5,339,367	5,151,902	5,338,530
Lease liability	4,350,547	5,057,764	4,350,547	5,057,764
	<u>9,510,473</u>	<u>10,397,131</u>	<u>9,502,449</u>	<u>10,396,294</u>

The Group and Company's operations may expose it to a variety of financial risks that include credit risk, liquidity risk and foreign exchange risk. The Company, through its Board of Directors, seeks to limit the adverse effects on the financial performance of the Company as follows:

**Foreign currency risk**

The Group makes purchases in foreign currencies. In order to mitigate significant exposure to foreign currencies, the Group holds cash balances in the appropriate currencies to meet obligations as they fall due and also to service a proportion of future obligations.

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**Note 21. Financial instruments and financial risk review (continued)**

**Credit risk**

The credit risk of liquid funds is limited through a Group treasury policy, maintained to ensure that liquid assets are only placed with highly rated institutions. Risk is assessed using an external credit rating agency's short-term rating. For banks and financial institutions, only independently rated parties with a minimum rating of 'BBB' are accepted.

**Liquidity risk**

The Group maintains sufficient cash balances to meet anticipated requirements. Cash flow forecasts are regularly reviewed, and cash balances required for the next 1-2 months are held as immediately available funds. Surplus funds are placed on time deposits of varying duration. At 31 December the surplus cash in time deposits was:

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>£</b>	<b>£</b>
95 day account	2,075,277	4,045,517
32 day account	4,988,010	8,971,643
31 day account	7,500,000	7,500,000

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows:

31 December 2022	Less than 1 year £	Between 1 and 2 years £	Between 2 and 5 years £	Over 5 years £
Trade and other payables	5,159,926	-	-	-
Lease liabilities	1,955,265	670,071	1,701,733	23,478
	<u>7,115,191</u>	<u>670,071</u>	<u>1,701,733</u>	<u>23,478</u>
At 31 December 2021	Less than 1 year £	Between 1 and 2 years £	Between 2 and 5 years £	Over 5 years £
Trade and other payables	5,339,367	-	-	-
Lease liabilities	1,097,895	978,815	2,936,445	1,572,605
	<u>6,437,262</u>	<u>978,815</u>	<u>2,936,445</u>	<u>1,572,605</u>

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**Note 21. Financial instruments and financial risk review (continued)**

**Financing**

The Group's cash inflow arises predominantly from financing activities from both dilutive equity sources and non-dilutive grant funding. Tokamak Energy Ltd and its subsidiaries are reliant on the support of a small group of significant shareholders and also plans to raise additional funds from new investors in the future.

The Board recognises that additional funding will be required to execute our ambitious plans and that there are a number of uncertainties around the timing and composition of future funding.

The Group continues to take measures to preserve cash in order to protect against unforeseen project risks.

**Capital management**

Equity forms the primary basis of the Group's capital. Its objectives when managing this capital are:

- To secure its ability to continue as a going concern
  - To preserve sufficient funds to protect it against unforeseen project events and risks .
- This is achieved through a combination of forecasting and cost control methods.

**Note 22. Related party transactions**

There were no transactions with related parties during the current and previous financial year, with the exception of remuneration paid to the Group's and Company's Directors and key management (see note 7). Amounts due from the Company's subsidiary undertakings are included in note 13.

**Note 23. Share-based payments**

Tokamak Energy issues share options to directors, selected employees and selected consultants.

The number of options outstanding at 31 December 2022 and 2021 and the expense recognised in the statement of comprehensive income for these schemes are:

	31 December 2022		31 December 2021	
	Options outstanding No.	Income statement £	Options outstanding No.	Income statement £
EMI	660,512	19,044	908,812	406,669
CSOP	690,400	2,030,128	737,400	387,330
Other share options	805,027	1,327,583	1,315,087	1,618,453
	<u>2,155,939</u>	<u>3,376,755</u>	<u>2,961,299</u>	<u>2,412,452</u>

An expense of £13,378 (31 December 2021: £42,729) relating to non-employees has been recognised in the statement of comprehensive income.

There was no grant of options under any of the schemes during the year.

**EMI Scheme**

Due to the size of the Group, no further grants may be made under the EMI scheme. At the time it was available, this scheme was offered only to employees and Directors.

At the Board's discretion, selected employees were granted share options after one year's service. The options vested either 1 or 3 years after the date of grant, subject to the employee completing a corresponding service period. The options expire ten years after the date of grant.

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**Note 23. Share-based payments (continued)**

The exercise prices are based on the Company's share price at the date of grant, with an adjustment to reflect the situation of a small minority shareholding in an unlisted company. This adjustment has been explicitly agreed with HMRC on several occasions.

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

	31 December 2022			31 December 2021		
	Weighted av. exercise price	Number of options	Weighted av. fair value	Weighted av. exercise price	Number of options	Weighted av. fair value
As at beginning of year	£1.7340	908,812	£3.66	£1.7661	1,018,263	£3.68
Forfeited	£1.1673	(244,863)	£3.64	£2.1297	(104,451)	£4.02
Exercised	£0.0001	(3,437)	£2.91	£0.0001	(5,000)	£1.57
As at end of year	£1.9531	660,512	£3.67	£1.7340	908,812	£3.66

Of the 660,512 options outstanding at 31 December 2022, 660,512 were exercisable (31 December 2021: 631,970). The weighted average exercise price of the exercisable shares was £1.9531 (31 December 2021: £0.8246).

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

Grant - vest	Expiry Date	Exercise Price	31 December 2022		31 December 2021	
			Weighted av. exercise price	Number of options	Weighted av. exercise price	Number of options
2014 - 2017	October 2024	£0.0001	£0.0001	104,000	£0.0001	104,000
2016 - 2019	August 2026	£0.0001	£0.0001	63,580	£0.0001	63,580
2017 - 2020	January 2027	£0.0001	£0.0001	25,777	£0.0001	25,777
2017 - 2020	August 2027	£0.0001	£0.0001	115,129	£0.0001	118,566
2017 - 2018	November 2027	£0.0001	£0.0001	-	£0.0001	169,447
2018 - 2021	July 2028	£3.4600	£3.4600	146,264	£3.4600	150,600
2019 - 2022	April 2029	£3.8100	£3.8100	205,762	£3.8100	276,842
				<u>660,512</u>		<u>908,812</u>

The weighted average remaining contractual life of share options outstanding at the end of the period is 4.78 years (31 December 2021: 5.9 years).

**CSOP Scheme**

This scheme is offered only to employees and Directors.

As approved by the Board, all employees who had successfully completed their 3 months' probation (subject to a cut-off date of 30 June 2021) were eligible to receive share options under the initial scheme grant in 2021. The options vest over 1 to 4 years after the date of grant, subject to the employee completing a corresponding service period, and expire after ten years.

The exercise price is based on the internally valued Tokamak Energy Ltd share price at the date of grant. This valuation for the exercise price has been explicitly agreed with HMRC prior to the grant of options.

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

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**Note 23. Share-based payments (continued)**

	31 December 2022			31 December 2021		
	Weighted av. exercise price	Number of options	Weighted av. fair value	Weighted av. exercise price	Number of options	Weighted av. fair value
As at beginning of year	£4.13	737,400	£6.41	-	-	-
Granted	-	-	-	£4.13	737,400	£6.41
Forfeited	£4.13	(47,000)	£6.41	-	-	-
As at end of year	£4.13	690,400	£6.41	£4.13	737,400	£6.41

Of the 690,400 options outstanding at 31 December 2022, none were exercisable (31 December 2021: none).

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

Grant - vest	Expiry Date	31 December 2022		31 December 2021		
		Exercise Price	Weighted av. exercise price	Number of options	Weighted av. exercise price	Number of options
2021 - 2025	October 2031	£4.13	£4.13	690,400	£4.13	737,400

The significant inputs into the model were as follows:

	31 December 2021
Weighted average share price at grant date	£8.26
Weighted average exercise price	£4.13
Expected volatility	77%
Weighted average annual risk-free rate	1%
Dividend yield	-
Weighted average expected life	6.25 years

The weighted average remaining contractual life of share options outstanding at the end of the year is 8.83 years (31 December 2021: 9.8 years).

**Other share options**

The Board approved the granting of share options to Executive and Non-Executive Directors and a small number of consultants (non-employees) who provide a strategic services to the business.

Options are granted in respect of a future service period and vest over a period typically between one and three years. They expire after ten years. The exercise prices are based on the Tokamak Energy Ltd share price at the date of grant, with an adjustment to reflect the situation of a small minority shareholding in an unlisted company. Options are fair valued using the Black Scholes model and the fair value is expensed over the vesting period.

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

	31 December 2022		31 December 2021	
	Weighted av. exercise price	Number of options	Weighted av. exercise price	Number of options
As at beginning of year	£3.71	1,315,087	£3.68	1,254,604
Granted	-	-	£4.13	60,483
Exercised	£2.91	(1,719)	-	-
Forfeited	£3.81	(508,341)	-	-
As at end of year	£3.65	805,027	£3.71	1,315,087

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**Note 23. Share-based payments (continued)**

Of the 805,027 options outstanding at 31 December 2022, 405,412 were exercisable (31 December 2021: 737,519). The weighted average exercise price of the exercisable shares as at 31 December 2022 was £3.155 (31 December 2021: £3.377).

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

Grant - Vest	Expiry Date	Exercise Price	31 December 2022		31 December 2021	
			Weighted av. exercise price	Number of options	Weighted av. exercise price	Number of options
2017 - 2020	April 2027	£2.91	£2.91	48,125	£2.91	49,844
2018 - 2021	January 2028	£1.46	£1.46	112,967	£1.46	112,967
2018 - 2021	July 2028	£3.46	£3.46	23,125	£3.46	23,125
2019 - 2022	April 2029	£3.81	£3.81	17,000	£3.81	525,341
2019 - 2023	October 2029	£3.81	£3.81	56,483	£3.81	56,483
2020 - 2024	May 2030	£4.13	£4.13	100,000	£4.13	100,000
2020 - 2024	December 2030	£4.13	£4.13	386,844	£4.13	386,844
2021 - 2025	January 2031	£4.13	£4.13	56,483	£4.13	56,483
2021 - 2025	October 2031	£4.13	£4.13	4,000	£4.13	4,000
				<b>805,027</b>		<b>1,315,087</b>

The significant inputs into the model were as follows:

	<b>31 December 2021</b>
Weighted average share price at grant date	£8.26
Weighted average exercise price	£4.13
Expected volatility	75%
Weighted average annual risk-free rate	0.25%
Dividend yield	0%
Weighted average expected life	6.25 years

The weighted average remaining contractual life of share options outstanding at the end of the year is 7.09 years (31 December 2021: 7.8 years).

**Note 24. Events after the reporting period**

The Group is currently considering its response to the UK government's recent announcement regarding its multibillion, 20-year project to deliver its STEP fusion demonstrator project. The Group intends to tender for the UK government approved funding. This represents a significant change in business strategy and the Group's potential revenue generating opportunities. The Directors have considered this change in business strategy in its assessment of going concern. There are no further impacts on the financial statements and the event is non-adjusting.

**Note 25. Ultimate controlling party**

There is not considered to be any one controlling party.