

# Tokamak Energy Ltd

Registration Number 07054929

## Annual Report and Financial Statements For the year ended 31 December 2023



**Tokamak Energy Ltd**  
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**31 December 2023**

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**Tokamak Energy Ltd**  
**Corporate directory**  
**31 December 2023**

Directors	C J Martin E I Bonino D M Gray D Harding T Pfisterer W Matthews W A East D Freeman R G Scott Russell
Company secretary	C Lewis (appointed 28 November 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**  
**31 December 2023**

The Directors present their strategic report on the Group for the year ended 31 December 2023.

**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. Additionally in 2023 the Company started providing consulting services into magnet development.

Following on from the record breaking plasma temperature of 100 million degrees in 2022, Tokamak Energy's ST40 device (the Group's largest operational spherical tokamak device) has been through a series of hardware upgrades to improve its capabilities, including new power supplies and diagnostic systems. The upgraded plasma control system achieved the production of diverted plasma with higher currents sustained for longer durations. Additionally, diverted H-mode plasmas across a range of parameters and developed scenarios with a high fraction of non-inductive current drive were established. These scenarios will be used in future operations to further develop key understanding of the performance of high-field spherical tokamaks.

In 2023 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. Full assembly was completed in 2023 and testing will extend into 2024, informing designs and operational scenarios for its future devices.

During 2023, Tokamak Energy's superconducting magnet system, which is being built to replicate fusion energy power plant forces, has passed significant milestone cryogenic tests. Creating clean fusion energy requires strong magnetic fields to confine and control the extremely hot hydrogen fuel, which becomes a plasma several times hotter than the centre of the Sun. Work undertaken on the Demo4 system has successfully validated electromagnetic current test results on the first of 14 toroidal field (TF) limbs in liquid nitrogen.

Tokamak Energy has continued to develop its US presence through its subsidiary Tokamak Energy Inc. It has been selected by the U.S. Department of Energy (DOE) for a \$3m award as part of its bold decadal vision for delivering commercial fusion. The DOE's multi-million dollar Milestone-Based Fusion Development Program was established to support private companies in bringing fusion energy toward technical and commercial viability. As part of the program, Tokamak Energy will team with U.S. national laboratories, universities and others to address major technical and commercialisation milestone for the successful design of a fusion pilot plant. The project is expected to commence in Q4 2024. Additionally, the U.S. DOE has awarded Tokamak Energy Inc its eighth grant through its Innovation Network for Fusion Energy (INFUSE) program.

**Results**

The loss incurred for the year ended 31 December 2023 was £31,844k (31 December 2022: loss of £30,339k). The financial position of the Group as at 31 December 2023 included total assets of £68,789k (31 December 2022: £56,724k), which included a cash balance of £54,037k (31 December 2022: £35,700k).

**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, in the short term, the ability of the Group to continue its research and development may require further 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.

**Tokamak Energy Ltd**  
**Strategic report**  
**31 December 2023**

**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.

**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 2025. 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 project aligns very closely with the primary long-term goals of the business to deliver globally deployable commercial fusion solutions and offers the opportunity to collaborate with experienced partners and Government backing to accelerate and de-risk the pathway to achieve this.

The procurement process has now commenced and is expected to complete within 12-18 months. The Group intends to tender for the UK government approved funding and as the only private spherical tokamak fusion company in the Western world that has the patents, know-how and experience in the design, build and operation of spherical tokamaks continues to believe that the Group is uniquely positioned to participate in this programme.

There is also an additional £650m Fusion Futures programme that launched in November 2023, which focuses on fusion related programmes to develop the UK Fusion industry, skills and deliver a flagship Tritium Breeder facility. This programme will run between 2024-2028 with procurement activities to start as early as 2024 and Tokamak Energy are very well placed to bid for portions of this funding either directly or in conjunction with its experienced partners.

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.

Approved by the Board on 17 July 2024 and signed on its behalf by:



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Warrick Matthews  
Director

17 July 2024

**Tokamak Energy Ltd**  
**Directors' report**  
**31 December 2023**

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' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 December 2023.

**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. Additionally in 2023 the Company started providing consulting services into magnet development.

**Results**

The results for the year ended 31 December 2023 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  
E I Bonino  
D Harding  
T Pfisterer  
W Matthews (appointed 15 March 2023)  
W A East (appointed 31 May 2023)  
D Freeman (appointed 26 September 2023)  
R G Scott Russell (appointed 21 December 2023)

The following directors resigned during the year:

C D Kelsall (resigned 31 May 2023)  
M Savage (resigned 26 September 2023)  
D R Kingham (resigned 28 November 2023)  
M Gryaznevich (resigned 28 November 2023)

**Dividends**

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

**Share capital**

Prior to the closure of the investment round, there was a share reorganisation where the A ordinary shares were converted into Ordinary shares on a 4:1 basis. During the year ended 31 December 2023 6,789,920 shares were issued following the completion of the first close in the Series C investment round (31 December 2022: 1,719). Subsequent to the investment round, the 2022 Convertible Loan notes converted into 7,242,849 shares.

**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.

**Tokamak Energy Ltd**  
**Directors' report**  
**31 December 2023**

**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.

In December 2023, the Group secured £46m of external investment from a combination of existing and new investors. This was part of a Series C investment round. Of the initial investment, £38m was received in December 2023 and the balance of £8m is due to be paid in 3 equal tranches on each 6 month anniversary to June 2025. The investment round is still open, with £12m having already been received at the date of signing these financial statements, and further additional investment expected to be received in Q3 2024.

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 do not require any additional external funding to be able to continue as a going concern during that period. The current cash runway extends to December 2025 based on current forecast spend, assuming no commercial revenue. Revenue generated from commercialising activities will extend the runway beyond this point.

The Group's strategy and approach to successfully delivering commercial fusion solutions 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;
- Participation in various Government and privately supported fusion programmes outside the UK (including the US and Japan);
- 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, spin outs, consulting and design services, manufacture and sale of magnets.

Further to the factors described above, the directors have also carried out sensitivity analysis, which considers a severe but plausible downside scenario. This sensitivity analysis concludes that the Group and Company will continue to hold sufficient funds to operate through the assessment period without requiring additional funding.

Taking these factors and conditions together, the directors do not consider that there is a material uncertainty that may cast significant doubt on the Group's and Company's ability to continue as a going concern, and consequently, the directors are comfortable that the Group and Company will have sufficient funds to continue to operate for a period of at least 12 months without impacting the core development activities of the Group and Company. Hence, these financial statements have been prepared on a going concern basis.

**Directors' responsibilities statement**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have 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 will continue in business.

**Tokamak Energy Ltd**  
**Directors' report**  
**31 December 2023**

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.

**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**

In order to facilitate interested parties, the Group has kept open its Series C investment round with a second close expected in Q3 2024. It has already received an additional £12m of funding.

On the 22 May 2024 UKAEA launched its competition to find industry partners to form a world-leading public-private alliance to deliver the STEP prototype fusion plant. The Group is collaborating with a number of industry leaders to form a consortium with the intention of bidding to participate in this program.

On 4 June 2024 Tokamak Energy Inc signed a contract with the U.S. Department of Energy as part of its multi-million dollar Milestone-Based Fusion Development Program.

**Care for our people**

Tokamak Energy is committed to the welfare, safety and development of its employees via company-wide support mechanisms and policies.

The Group encourages equality, diversity and inclusion among its workforce with an active peer-led group of volunteers supporting our 3 year strategy. It is committed to prioritising the value, safety and wellbeing of our people. Tokamak Energy is an equal opportunities employer and believes in respect, empowerment and creating an environment for each employee to reach their full potential. Our salary, benefits and reward strategy ensures we closely monitor inclusive and equitable access for all to our bonus and reward schemes and can evidence our commitment to reducing any gender pay gap or barriers to reward equity.

*Disability*

It is Group policy to give full and fair consideration to the employment needs of disabled people and those that require reasonable adjustments to support them in their role and to ensure their requirements are adequately covered and comply with any current legislation with regards to disabled persons. This includes:

- Ongoing Occupational Health referral scheme, health screening and in depth health screening for designated roles;
- The full and fair consideration of applications for employment; unconscious bias training for hiring managers and candidate experience feedback to identify and address barriers to hiring;
- Equality, Diversity & Inclusion online training for staff and managers;
- The provision of training whilst employed; and
- Ongoing opportunities for career development and promotion.

This policy is supported by competitive compensation and generous employee benefit packages with the introduction of competency frameworks, salary benchmarking and job evaluation to ensure equity for all. Our recruitment and talent management practices ensure Tokamak Energy has a gifted and diverse talent pool to help meet its business needs.

**Tokamak Energy Ltd**  
**Directors' report**  
**31 December 2023**

*Apprenticeships & Trainee Programs*

The Group continues to focus on supporting early careers and emerging talent as well as the upskilling of existing employees. The Group currently has 3 apprentices under the Apprenticeship programme focussing on growing talent in Health Physics as a globally scarce skill and gender equity through sponsorship of our 2 technical engineering apprentices. The company has provided additional training to all employees in a blended approach through face to face, digital and online training hub and has further supported 45 employees through a range of targeted development programmes including MBA, chartered accreditation, professional accreditation in Agile project management and systems engineering. We have trained over 50 STEM ambassadors and provided outreach in STEM activities to over 7,000 local students and support qualifications in First Aid and Mental Health First Aiders to support our staff teams.

In 2023 the Group held its first cohort of the "Conscious Leadership Program" a leadership development programme designed to help us cultivate new leaders with the qualities to lead our business into the future and achieve our vision. The company wants to build an engaging leadership culture across the whole team so that we can have measurable impact on business performance and continue to promote our values in our senior leaders of the future.

**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 17 July 2024 and signed on its behalf by:



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Warrick Matthews  
Director

17 July 2024

# 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 2023 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: Consolidated and Company statements of financial position as at 31 December 2023; Consolidated statement of comprehensive income, Consolidated and Company statements of changes in equity and 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.

### Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

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

### 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

## **Tokamak Energy Ltd**

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

conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report 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 2023 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 Companies Act 2006 and UK tax legislation, 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 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 inquiries of known or suspected instances of non-compliance with laws and regulations and/or fraud;
- Evaluated the design effectiveness of management's control activities designed to prevent and detect irregularities;
- Reviewed meeting minutes of the board of directors for consideration of known or suspected instances of non-compliance with laws and regulations and/or fraud;
- Challenged assumptions and judgements made by management in their significant accounting estimates and material judgements and assessed the business rationale for significant contracts and transactions entered. This included an evaluation of whether there was evidence of management bias that represented a risk of material misstatement due to fraud;
- Identified and tested journal entries based on our risk assessment;
- Incorporated elements of unpredictability into our audit procedures; and
- Reviewed the disclosures in the Annual Report against the specific legal requirements.

## **Tokamak Energy Ltd**

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

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 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.

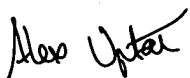
## **Other required reporting**

### **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  
17 July 2024

**Tokamak Energy Ltd**  
**Consolidated statement of comprehensive income**  
**For the year ended 31 December 2023**

	Note	Consolidated 2023 £'000	2022 £'000
Revenue	4	76	-
Cost of sales		<u>(39)</u>	<u>-</u>
Gross profit		<u>37</u>	<u>-</u>
Other operating income	5	431	5,173
Administration expenses		<u>(35,362)</u>	<u>(40,562)</u>
<b>Operating loss</b>		<b>(34,894)</b>	<b>(35,389)</b>
Finance income	6	653	143
Finance costs	6	<u>(5,246)</u>	<u>(3,102)</u>
<b>Loss before income tax</b>		<b>(39,487)</b>	<b>(38,348)</b>
Income tax	10	<u>7,643</u>	<u>8,009</u>
<b>Loss after income tax for the year attributable to the owners of Tokamak Energy Ltd</b>		<b><u>(31,844)</u></b>	<b><u>(30,339)</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 2023**

	Note	Consolidated		Company	
		2023 £'000	2022 £'000	2023 £'000	2022 £'000
<b>Assets</b>					
<b>Non-current assets</b>					
Investments	11	50	-	50	-
Property, plant and equipment	12	61	1	61	1
Right-of-use assets	13	4,310	3,950	4,310	3,950
<b>Total non-current assets</b>		<b>4,421</b>	<b>3,951</b>	<b>4,421</b>	<b>3,951</b>
<b>Current assets</b>					
Cash and cash equivalents		54,037	35,700	54,026	35,674
Trade and other receivables	14	2,720	3,541	3,127	3,752
Income tax asset		7,611	13,532	7,611	13,532
<b>Total current assets</b>		<b>64,368</b>	<b>52,773</b>	<b>64,764</b>	<b>52,958</b>
<b>Total assets</b>		<b>68,789</b>	<b>56,724</b>	<b>69,185</b>	<b>56,909</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Convertible loan notes	15	-	32,569	-	32,569
Lease liabilities	16	3,745	3,710	3,745	3,710
Derivative financial instruments	17	-	125	-	125
Provisions	18	411	169	411	169
<b>Total non-current liabilities</b>		<b>4,156</b>	<b>36,573</b>	<b>4,156</b>	<b>36,573</b>
<b>Current liabilities</b>					
Trade and other payables	19	6,262	5,665	6,176	5,657
Lease liabilities	16	831	641	831	641
<b>Total current liabilities</b>		<b>7,093</b>	<b>6,306</b>	<b>7,007</b>	<b>6,298</b>
<b>Total liabilities</b>		<b>11,249</b>	<b>42,879</b>	<b>11,163</b>	<b>42,871</b>
<b>Net assets</b>		<b>57,540</b>	<b>13,845</b>	<b>58,022</b>	<b>14,038</b>
<b>Equity</b>					
Share capital	20	5	3	5	3
Reserves		204,843	129,135	204,843	129,135
Accumulated losses		(147,308)	(115,293)	(146,826)	(115,100)
<b>Total equity</b>		<b>57,540</b>	<b>13,845</b>	<b>58,022</b>	<b>14,038</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 £31,555k for the year ended 31 December 2023 (31 December 2022 - loss of £30,198k)

The financial statements on pages 12 to 38 were approved by the Board of Directors on 17 July 2024 and signed on its behalf by:



Warrick Matthews  
Director

17 July 2024

*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 2023**

<b>Consolidated</b>	<b>Issued capital £'000</b>	<b>Share premium £'000</b>	<b>Share based payment reserve £'000</b>	<b>Accumulated losses £'000</b>	<b>Total equity £'000</b>
Balance at 1 January 2022	3	117,388	8,365	(84,954)	40,802
Loss after income tax for the year	-	-	-	(30,339)	(30,339)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(30,339)</b>	<b>(30,339)</b>
<i>Transactions with owners in their capacity as owners:</i>					
Share-based payments (note 23)	-	-	3,377	-	3,377
Proceeds from shares issued	-	5	-	-	5
<b>Balance at 31 December 2022</b>	<b>3</b>	<b>117,393</b>	<b>11,742</b>	<b>(115,293)</b>	<b>13,845</b>
<b>Consolidated</b>	<b>Issued capital £'000</b>	<b>Share premium £'000</b>	<b>Share based payment reserve £'000</b>	<b>Accumulated losses £'000</b>	<b>Total equity £'000</b>
Balance at 1 January 2023	3	117,393	11,742	(115,293)	13,845
Loss after income tax for the year	-	-	-	(31,844)	(31,844)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(31,844)</b>	<b>(31,844)</b>
<i>Transactions with owners in their capacity as owners:</i>					
Share-based payments (note 23)	-	-	527	-	527
Proceeds from shares issued	1	37,057	-	-	37,058
Conversion of loan notes (notes 15 & 17)	1	38,124	-	(171)	37,954
<b>Balance at 31 December 2023</b>	<b>5</b>	<b>192,574</b>	<b>12,269</b>	<b>(147,308)</b>	<b>57,540</b>

*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 2023**

<b>Company</b>	<b>Issued capital £'000</b>	<b>Share premium £'000</b>	<b>Shared based payment reserve £'000</b>	<b>Accumulated losses £'000</b>	<b>Total equity £'000</b>
Balance at 1 January 2022	3	117,388	8,365	(84,902)	40,854
Loss after income tax for the year	-	-	-	(30,198)	(30,198)
	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(30,198)	(30,198)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 20)	-	5	-	-	5
Share-based payments (note 23)	-	-	3,377	-	3,377
Balance at 31 December 2022	<u>3</u>	<u>117,393</u>	<u>11,742</u>	<u>(115,100)</u>	<u>14,038</u>

<b>Company</b>	<b>Issued capital £'000</b>	<b>Share premium £'000</b>	<b>Shared based payment reserve £'000</b>	<b>Accumulated losses £'000</b>	<b>Total equity £'000</b>
Balance at 1 January 2023	3	117,393	11,742	(115,100)	14,038
Loss after income tax for the year	-	-	-	(31,555)	(31,555)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(31,555)	(31,555)
<i>Transactions with owners in their capacity as owners:</i>					
Share-based payments (note 23)	-	-	527	-	527
Proceeds from shares issued	1	37,057	-	-	37,058
Conversion of loan notes (notes 15 & 17)	1	38,124	-	(171)	37,954
Balance at 31 December 2023	<u>5</u>	<u>192,574</u>	<u>12,269</u>	<u>(146,826)</u>	<u>58,022</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 2023**

	Note	Consolidated		Company	
		2023 £'000	2022 £'000	2023 £'000	2022 £'000
<b>Cash flows from operating activities</b>					
Loss before income tax for the year		(39,487)	(38,348)	(39,197)	(38,207)
Adjustments for:					
Depreciation and amortisation	12,13	893	708	893	708
Share-based payments	23	526	3,377	526	3,377
Foreign exchange differences		3	(13)	12	(19)
Interest on loan notes	6	5,139	2,642	5,139	2,642
Impairment on Russian gyrotron	14	-	1,377	-	1,377
Interest on lease payments	16	408	408	408	408
Gain on remeasurement of right of use asset		-	(263)	-	(263)
Increase in derivative liabilities	17	(316)	52	(316)	52
Interest received		(653)	-	(653)	-
		(33,487)	(30,060)	(33,188)	(29,925)
Change in operating assets and liabilities:					
Decrease/(increase) in trade and other receivables		(18)	495	(213)	362
Decrease in contract assets		-	973	-	973
Decrease in trade and other payables		(288)	(9)	(368)	(16)
		(33,793)	(28,601)	(33,769)	(28,606)
Interest received		653	-	653	-
RDEC received		820	-	820	-
Income tax receipt		13,564	4,707	13,564	4,707
Net cash used in operating activities		(18,756)	(23,894)	(18,732)	(23,899)
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	12	(66)	-	(66)	-
Net cash used in investing activities		(66)	-	(66)	-
<b>Cash flows from financing activities</b>					
Proceeds on issue of convertible loan notes	15	420	30,000	420	30,000
Interest elements of lease payments		(408)	(408)	(408)	(408)
Principal elements of lease payments		(778)	(792)	(778)	(792)
Proceeds from issue of ordinary shares		38,024	5	38,024	5
Legal expenses relating to share issue		(80)	-	(80)	-
Net cash from financing activities		37,178	28,805	37,178	28,805
Net increase in cash and cash equivalents		18,356	4,911	18,380	4,906
Cash and cash equivalents at the beginning of the financial year		35,700	30,599	35,674	30,572
Effects of exchange rate changes on cash and cash equivalents		(19)	190	(28)	196
Cash and cash equivalents at the end of the financial year		54,037	35,700	54,026	35,674

*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**  
**31 December 2023**

**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. Material accounting policy information**

**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.

In December 2023, the Group secured £46m of external investment from a combination of existing and new investors. This was part of a Series C investment round. Of the initial investment, £38m was received in December 2023 and the balance of £8m is due to be paid in 3 equal tranches on each 6 month anniversary to June 2025. The investment round is still open, with £12m having already been received at the date of signing these financial statements, and further additional investment expected to be received in Q3 2024.

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 do not require any additional external funding to be able to continue as a going concern during that period. The current cash runway extends to December 2025 based on current forecast spend, assuming no commercial revenue. Revenue generated from commercialising activities will extend the runway beyond this point.

The Group's strategy and approach to successfully delivering commercial fusion solutions 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;
- Participation in various Government and privately supported fusion programmes outside the UK (including the US and Japan);
- 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, spin outs, consulting and design services, manufacture and sale of magnets.

Further to the factors described above, the directors have also carried out sensitivity analysis, which considers a severe but plausible downside scenario. This sensitivity analysis concludes that the Group and Company will continue to hold sufficient funds to operate through the assessment period without requiring additional funding.

**Note 2. Material accounting policy information (continued)**

Taking these factors and conditions together, the directors do not consider that there is a material uncertainty that may cast significant doubt on the Group's and Company's ability to continue as a going concern, and consequently, the directors are comfortable that the Group and Company will have sufficient funds to continue to operate for a period of at least 12 months without impacting the core development activities of the Group and Company. Hence, these financial statements have been prepared on a going concern basis.

**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.

No statement of profit or loss is presented for the Company as permitted by section 408 of the Companies Act 2006. The Company made a loss after tax of £31,555k for the financial year ended 31 December 2023 (31 December 2022 – loss of £30,198k).

**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 into 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 5). 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. A final invoice was raised in January 2023 in relation to this contract.

**Research and development**

Research expenditure is recognised as an expense in administration 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.

**Note 2. Material accounting policy information (continued)**

*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.

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

**Note 2. Material accounting policy information (continued)**

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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**Right of use assets**

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.

**Current and non-current classification**

Assets and liabilities are presented in the statements of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

**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 less 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.

**Note 2. Material accounting policy information (continued)**

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.

*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 payments that are based on an index or 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.

**Note 2. Material accounting policy information (continued)**

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

**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 IAS 12 Deferred tax: deferred tax related to assets and liabilities arising from a single transaction, IFRS 17 Insurance contracts, IAS 1: non-current liabilities with covenants, IFRS 16 Leases: Lease Liability in a Sale and Leaseback and the narrow scope amendments to IAS 1, Practice statement 2 and IAS 8 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 2023 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.

*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 that has achieved this temperature

Following the achievement of this milestone, the Group undertook 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 concluded that no 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. The Group monitors its expenditure continuously and considers that the position remains the same as the prior year due the technical feasibility criterion not being satisfied.

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. During the year the Group capitalised one piece of equipment utilised across multiple areas of the business, but do not consider that any of the other 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. Revenue**

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
Revenue	76	-

**Note 5. Other operating income**

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

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
AMR contract	16	4,503
Research & Development Expenditure Credit	31	476
Grant income	169	170
Other operating income	215	25
	431	5,174

**Tokamak Energy Ltd**  
**Notes to the financial statements**  
**31 December 2023**

**Note 5. Other operating income (continued)**

(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. A final invoice was issued in January 2023 to cover some additional administration costs. All outstanding amounts had been received by the reporting date.

(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.

(ii) Grant income

The Company has received government grant income of £169k (31 December 2022: £170k) being £169k from UKRI Future Leaders Fellowship (31 December 2022 - £169k). 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 6. Finance income and finance costs**

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
<b>Finance income</b>		
Interest income on bank deposits	653	143
<b>Finance costs</b>		
Interest on lease liabilities	(408)	(408)
Interest on convertible loan note	(5,139)	(2,642)
Fair value movement on derivative liability	301	(52)
	<u>(4,593)</u>	<u>(2,959)</u>

**Note 7. Operating loss**

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
Depreciation on owned assets (note 12)	6	-
Depreciation on right of use assets (note 13)	887	708
Foreign exchange (gains)/losses	21	(190)
Employee benefits expense (note 8)	20,731	19,944
Research and development cost	7,706	11,782
Administration expenses	6,010	6,941
Impairment of prepayment (note 14)	-	1,377

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**Note 7. Operating loss (continued)**

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>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
<i>Audit services</i>		
Fees payable to the Company's auditors for the audit of the Company and consolidated financial statements	130	132
Fees payable to the Company's auditors for tax advisory services	32	-

**Note 8. 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>2023</b>	<b>2022</b>
Administration and support	20	11
Research and development	239	199
<b>Average number of employees</b>	<b>259</b>	<b>210</b>

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

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	17,446	13,752
Social security costs	1,871	1,506
Other pension costs	894	1,323
Share-based payments	520	3,363
<b>Total employee benefits expense</b>	<b>20,731</b>	<b>19,944</b>

**Note 9. Directors' and key management remuneration**

*Directors' remuneration*

The Directors' remuneration for the year was as follows:

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
Aggregate emoluments	1,697	1,062
Contributions paid to money purchase schemes	31	32
Highest paid Director - aggregate emoluments	493	603
Highest paid Director - pension contributions made during the year	24	28

The Company operates a defined contribution scheme for its employees, including Directors. No employees or Directors, including the highest paid Director have participated in a defined benefit pension scheme operated by the Company.

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**Note 9. Directors' and key management remuneration (continued)**

During the year, two directors were awarded 450,275 share options in total (31 December 2022: none). No directors exercised any options during the year (31 December 2022: nil).

*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>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
Salaries and other short term benefits	1,471	1,857
Other long term benefits	1,000	476
Share-based payments	1,125	1,522
	<u>3,596</u>	<u>3,855</u>

**Note 10. Income tax**

Tax credited in the income statement

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
<i>Current taxation</i>		
Research and development relating to current year	(7,711)	(8,009)
Adjustment for over provision in prior period	68	-
Aggregate income tax	<u>(7,643)</u>	<u>(8,009)</u>
<i>Numerical reconciliation of income tax and tax at the statutory rate</i>		
Loss before income tax	<u>(39,487)</u>	<u>(38,348)</u>
Tax at the statutory tax rate of 19%	(7,503)	(7,286)
Tax effect amounts which are not deductible in calculating taxable income:		
Entertainment expenses	11	-
Share-based payments	524	3,366
Convertible loan note interest	5,139	2,642
	<u>(1,829)</u>	<u>(1,278)</u>
Adjustment for over provision in prior period	68	-
Deferred tax expense from unrecognised tax loss	1,829	1,278
Adjustment in research development tax credit	<u>(7,711)</u>	<u>(8,009)</u>
Income tax	<u>(7,643)</u>	<u>(8,009)</u>

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**Note 10. Income tax (continued)**

*Deferred tax*

	<b>Consolidated</b>	
	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
<b>Unrecognised deferred tax asset</b>		
Losses	34,460	32,697
Share based payment	4,191	11,619
	<u>38,651</u>	<u>44,316</u>
<b>Corporation tax rate of 25% (2022 - 19%)</b>		
Losses	8,615	6,212
Share based payments	1,048	2,208
<b>Unrecognised deferred tax asset</b>	<u>9,663</u>	<u>8,420</u>

\*Prior year financial statements did not include the disclosure of the non tax deductible convertible loan note interest.

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%.

**Note 11. Non-current assets - investments**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Investment - QDot	<u>50</u>	<u>-</u>	<u>50</u>	<u>-</u>

\*Tokamak Energy Ltd holds investments in Tokamak Solutions EBT Limited and Tokamak Energy Inc. These investments have been rounded to nil.

Details of the Company's subsidiaries as at 31 December 2023 and 2022 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%
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%

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**Note 12. Non-current assets - property, plant and equipment**

**Group & Company**

	2023 £'000	2022 £'000
<b>Cost</b>		
At 1 January	76	76
Additions	66	-
At 31 December	<u>142</u>	<u>76</u>
<b>Accumulated depreciation</b>		
At 1 January	(75)	(74)
Charge for the year	(6)	-
At 31 December	<u>(81)</u>	<u>(74)</u>
<b>Net book value</b>		
At 31 December	<u>61</u>	<u>1</u>

**Note 13. Non-current assets - right-of-use assets**

**Group & Company**

	Buildings	Equipment	Total
<b>Cost</b>			
At 1 January 2023	5,084	30	5,114
Additions	242	-	242
Remeasurement	1,005	-	1,005
At 31 December 2023	<u>6,331</u>	<u>30</u>	<u>6,361</u>
<b>Accumulated depreciation</b>			
At 1 January 2023	1,157	7	1,164
Charge for the year	871	16	887
At 31 December 2023	<u>2,028</u>	<u>23</u>	<u>2,051</u>
<b>Carrying amount</b>			
At 31 December 2023	<u>4,303</u>	<u>7</u>	<u>4,310</u>

**Group & Company**

	Buildings	Equipment	Total
<b>Cost</b>			
At 1 January 2022	5,084	40	5,124
Additions	-	(10)	(10)
At 31 December 2022	<u>5,084</u>	<u>30</u>	<u>5,114</u>
<b>Accumulated depreciation</b>			
At 1 January 2022	421	35	456
Charge for the year	736	14	750
Remeasurement	-	(42)	(42)
At 31 December 2022	<u>1,157</u>	<u>7</u>	<u>1,164</u>
<b>Carrying amount</b>			
At 31 December 2022	<u>3,927</u>	<u>23</u>	<u>3,950</u>

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**Note 14. Current assets - trade and other receivables**

	Consolidated		Company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Trade receivables	300	-	300	-
RDEC receivable	31	820	31	820
Amount due from subsidiary undertaking	-	-	407	211
Prepayments and accrued income	1,902	2,123	1,902	2,123
Other receivables	487	597	487	597
	<u>2,720</u>	<u>3,540</u>	<u>3,127</u>	<u>3,751</u>

The Other receivables balance is primarily made up of VAT receivable £406k (31 December 2022 - £524k) and grant income debtor £nil (31 December 2022 - £50k), which are shown at amortised cost. There are no significant differences with respect to their fair value.

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. In the prior year it became apparent that due to the difficulties in making payments for the outstanding balances and the logistics of arranging delivery, the Group did not expect to be able to take possession of the two bespoke gyrotrons ordered and where partial payments in advance had been made. Legal advice was sought on the specific issues and the Group took the decision to impair the full amount of £1.4m included in prepayments. The impairment was recorded in the statement of comprehensive income, within administrative expenses in 2022. There has been no change to the situation in the current year.

**Note 15. Non-current liabilities - Convertible Loan Notes**

In May 2022 the Group issued £30m of CLNs to new and existing investors. It issued a further £420k of CLNs to a new investor in February 2023 on the same terms. Both sets of loan notes were set to 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 fair value of the host contract was £416k at the issue date.

	Consolidated		Company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Convertible loan notes	-	32,569	-	32,569

In December 2023 Tokamak Energy completed its investment round. The option holders opted to trigger the discretionary redemption features of the CLNs. Tokamak Energy Ltd issued 7,242,849 C shares to the CLN holders.

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**Note 15. Non-current liabilities - Convertible Loan Notes (continued)**

Following conversion, the convertible loan notes are presented in the balance sheet as follows:

**Group & Company**

	<b>2023</b> <b>£'000</b>	<b>2022</b> <b>£'000</b>
Opening fair value of host contract at 1 January	32,569	-
Fair value of host contract on recognition	416	29,927
Interest expense	5,139	2,642
Conversion of loan notes	(38,124)	-
	<u>-</u>	<u>32,569</u>
Closing fair value of host contract at 31 December	<u>-</u>	<u>32,569</u>

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

**Note 16. Non-current liabilities - lease liabilities**

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

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

**Group & Company**

	<b>2023</b> <b>£'000</b>	<b>2022</b> <b>£'000</b>
<b>Lease liabilities</b>		
Current	831	641
Non-current	3,745	3,710
	<u>4,576</u>	<u>4,351</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:

**Group & Company**

	<b>2023</b> <b>£'000</b>	<b>2022</b> <b>£'000</b>
<b>Depreciation charge of right-of-use assets</b>		
Buildings	871	736
Equipment	16	(28)
	<u>887</u>	<u>708</u>
Interest expense (included in finance cost)	408	408
Expenses relating to short-term and low-value leases (included in administrative expenses)	22	36

**Group & Company**

	<b>2023</b> <b>£'000</b>	<b>2022</b> <b>£'000</b>
The total cash outflow for leases	1,209	1,236

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

**Group & Company**

	2023 £'000	2022 £'000
Derivative liability	-	125

**Group & Company**

	2023 £'000	2022 £'000
Fair value of derivative liability at 1 January	125	-
Fair value of derivative liability on initial recognition	5	73
Movement in fair value during the year	(301)	52
Conversion of loan notes	171	-
Fair value of derivative liability at 31 December	-	125

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

**Group & Company**

	2023 £'000	2022 £'000
Opening balance at 1 January	169	169
Additions during the year	242	-
Closing balance at 31 December	411	169

The provision balance relates to a dilapidation provision for 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 and 174 leases, which is currently assumed to be at least a year from the date of signing.

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

	Consolidated		Company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Trade payables	1,340	1,511	1,258	1,503
Other taxes and social security	550	504	550	504
Accrued expenses	4,372	3,650	4,367	3,650
	<u>6,262</u>	<u>5,665</u>	<u>6,175</u>	<u>5,657</u>

Accrued expenses - 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. Tokamak Energy Ltd took possession of bespoke equipment in July 2019 and July 2020. The trade and economic sanctions imposed have made it impossible for the supplier to fulfil its obligations in terms of the warranty period and also for balancing payments to be made. Legal advice has been sought which advises that the Group would still be liable to make payment under the agreement once sanctions are lifted. However, in such a scenario, the Group would contest the payment on the basis that it did not receive the stated services.

As such, in 2023 the Group has chosen to release the accrued expenditure relating to these and record a contingent liability of £343,666. The release of accrued expenditure is included in the statement of comprehensive income, within administrative expenses.

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**Note 20. Equity - Share capital**

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

	31 December 2023	31 December 2023	31 December 2022	31 December 2022
	No.	£'000	No.	£'000
Ordinary of £0.0001 each	37,505,636	3	23,503,335	2
A Ordinary of £0.0001 each	-	-	1,689,863	-
B Ordinary of £0.0001 each	8,120,462	1	8,120,462	1
C Ordinary of £0.0001 each	6,789,920	1	-	-
	<u>52,416,018</u>	<u>5</u>	<u>33,313,660</u>	<u>3</u>

Tokamak Solutions EBT Limited holds 2,065,063 shares in Tokamak Energy Ltd (31 December 2022 - 2,065,563).

**New shares allotted**

During the year ended 31 December 2023 6,789,920 shares were issued following the completion of the first close in the Series C investment round (31 December 2022: 1,719). Subsequent to the investment round, the 2022 Convertible Loan notes converted into 7,242,849 shares.

**Rights, preferences and restrictions**

Ordinary shares have no special rights or restrictions.

C Ordinary shares have a liquidation preference over Ordinary shares and B Ordinary shares.

B Ordinary shares have a liquidation preference over Ordinary shares .

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

- C Ordinary shares at full subscription price
- B Ordinary shares at full subscription price
- Ordinary shares at the full subscription price
- 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	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Trade receivables	300	-	300	-
Other receivables excluding prepayment and VAT receivable	81	74	487	285
Cash and cash equivalents	<u>54,037</u>	<u>35,700</u>	<u>54,026</u>	<u>35,674</u>
	<u>54,418</u>	<u>35,774</u>	<u>54,813</u>	<u>35,959</u>

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

**Financial liabilities measured at amortised cost**

	Consolidated		Company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Trade and other payables excluding social security and other taxes	5,712	5,160	5,624	5,152
Lease liabilities	4,577	4,351	4,577	4,351
Convertible loan notes	-	32,569	-	32,569
Derivative liability	-	125	-	125
	<u>10,289</u>	<u>42,205</u>	<u>10,201</u>	<u>42,197</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.

**Credit risk**

The credit risk of liquid funds is limited through a Company 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:

	Consolidated	
	2023 £'000	2022 £'000
95 day account	268	2,075
32 day account	13	4,988
31 day account	47,200	7,500

The table below analyses the Group's 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 2023	Less than 1 year £	Between 1 and 2 years £	Between 2 and 5 years £	Over 5 years £
Trade and other payables	5,712	-	-	-
Lease liabilities	1,198	1,191	3,197	-
	<u>6,910</u>	<u>1,191</u>	<u>3,197</u>	<u>-</u>

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

At 31 December 2022	Less than 1 year £	Between 1 and 2 years £	Between 2 and 5 years £	Over 5 years £
Trade and other payables	5,160	-	-	-
Lease liabilities*	996	986	2,936	607
Convertible Loan Notes*	-	32,569	-	-
Derivative liability*	-	125	-	-
	6,156	33,680	2,936	607
	6,156	33,680	2,936	607

Contractually, the convertible loan notes were set to mature in May 2024. On completion of the investment round in December 2023, the discretionary redemption features of the CLNs were invoked (see note 15).

\*Prior year financial statements incorrectly categorised the lease liability across the remaining period and excluded the detail relating to the convertible loan notes and associated derivative liability; corrected above.

**Financing**

The Group's cash inflow arises predominantly from financing activities from both dilutive equity sources and non-dilutive grant/public sector 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; and
- 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 9). Amounts due from the Company's subsidiary undertakings are included in note 14.

**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 2023 and 2022 and the expense recognised in the statement of comprehensive income for these schemes are:

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

	31 December 2023		31 December 2022	
	Options outstanding No.	SOCI £'000	Options outstanding No.	SOCI £'000
EMI	636,755	-	660,512	19
ESOP	604,100	798	690,400	2,030
Other share options	1,227,802	(272)	805,027	1,328
	<u>2,468,657</u>	<u>526</u>	<u>2,155,939</u>	<u>3,377</u>

An expense of £6,443 (31 December 2022: £13,378) relating to non-employees has been recognised in the statement of comprehensive income.

**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 vest 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.

The exercise prices are based on the Company's share price at the date of grant. The share price incorporates 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 2023			31 December 2022		
	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	£1.9531	660,512	£3.67	£1.7340	908,812	£3.66
Forfeited	£2.6253	(23,257)	£4.42	£1.1673	(244,863)	£3.64
Exercised	£1.0381	(500)	£3.27	£0.0001	(3,437)	£2.91
As at end of year	£1.9293	636,755	£3.64	£1.9531	660,512	£3.67

Of the 636,755 options outstanding at 31 December 2023, 636,755 were exercisable (31 December 2022: 660,512). The weighted average exercise price of the exercisable shares was £1.9293 (31 December 2022: £1.9531).

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

Grant - vest	Expiry Date	31 December 2023			31 December 2022	
		Exercise Price	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	63,230	£0.0001	63,580
2017 - 2020	January 2027	£0.0001	£0.0001	22,340	£0.0001	25,777
2017 - 2020	August 2027	£0.0001	£0.0001	111,692	£0.0001	115,129
2018 - 2021	July 2028	£3.4600	£3.4600	142,216	£3.4600	146,264
2019 - 2022	April 2029	£3.8100	£3.8100	193,277	£3.8100	205,762
				<u>636,755</u>		<u>660,512</u>

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

The weighted average remaining contractual life of share options outstanding at the end of the period is 3.75 years (31 December 2022: 4.78 years).

**ESOP Scheme**

This scheme is offered only to employees and Directors. It qualifies as a CSOP scheme with the first £30,000 per employee being tax advantaged. Any options granted above this threshold carry no tax advantages.

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:

	31 December 2023			31 December 2022		
	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	690,400	£6.41	£4.13	737,400	£6.41
Forfeited	£4.13	(86,300)	£6.41	£4.13	(47,000)	£6.41
As at end of year	£4.13	604,100	£6.41	£4.13	690,400	£6.41

Of the 604,100 options outstanding at 31 December 2023, 302,072 were exercisable (31 December 2022: 172,634).

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

Grant - vest	Expiry Date	31 December 2023		31 December 2022		
		Exercise Price	Weighted av. exercise price	Number of options	Weighted av. exercise price	Number of options
2021 - 2025	October 2031	£4.13	£4.13	604,100	£4.13	690,400

The weighted average remaining contractual life of share options outstanding at the end of the year is 7.83 years (31 December 2022: 8.83 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 service 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.

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

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

	<b>31 December 2023</b>	<b>31 December 2023</b>	<b>31 December 2022</b>	<b>31 December 2022</b>
	<b>Weighted av. exercise price</b>	<b>Number of options</b>	<b>Weighted av. exercise price</b>	<b>Number of options</b>
As at beginning of year	£3.65	805,027	£3.71	1,315,087
Granted	£0.00	809,619	£0.00	-
Exercised	-	-	£2.91	(1,719)
Forfeited	£4.13	(386,844)	£3.81	(508,341)
As at end of year	£3.20	1,227,802	£3.65	805,027

Of the 1,227,802 options outstanding at 31 December 2023, 308,701 were exercisable (31 December 2022: 405,412). The weighted average exercise price of the exercisable shares as at 31 December 2023 was £2.849 (31 December 2022: £3.155).

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 2023		31 December 2022	
			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	48,125
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	17,000
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	-	£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
2023 - 2027	July 2033	£4.20	£4.20	130,448	£0.00	-
2023 - 2027	July 2033	£4.20	£4.20	56,483	£0.00	-
2023 - 2027	July 2033	£4.20	£4.20	393,792	£0.00	-
2023 - 2027	October 2033	£4.20	£4.20	98,448	£0.00	-
2023 - 2027	December 2023	£4.20	£4.20	98,448	£0.00	-
2023 - 2027	December 2023	£4.20	£4.20	32,000	£0.00	-
				<u>1,227,802</u>		<u>805,027</u>

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

The significant inputs into the model were as follows:

	<b>31 December 2023</b>	<b>31 December 2022</b>
Weighted average share price at grant date	£5.60	-
Weighted average exercise price	£4.20	-
Expected volatility	86% - 91%	-
Weighted average annual risk-free rate	3.36% - 4.62%	-
Dividend yield	0%	-
Weighted average expected life	5.29 - 6.95 years	-

The weighted average remaining contractual life of share options outstanding at the end of the year is 8.17 years (31 December 2022: 7.09 years).

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

In order to facilitate interested parties, the Group has kept open its Series C investment round with a second close expected in Q3 2024. It has already received an additional £12m of funding.

On the 22 May 2024 UKAEA launched its competition to find industry partners to form a world-leading public-private alliance to deliver the STEP prototype fusion plant. The Group is collaborating with a number of industry leaders to form a consortium with the intention of bidding to participate in this program.

On 4 June 2024 Tokamak Energy Inc signed a contract with the U.S. Department of Energy as part of its multi-million dollar Milestone-Based Fusion Development Program.

**Note 25. Ultimate controlling party**

There is not considered to be any one controlling party.