

**Company Registration No. 02413577**

**REACTION ENGINES LIMITED**  
**Annual Report and Financial Statements**  
**For the year ended 31 December 2015**



**REACTION ENGINES LIMITED**

**REPORT AND FINANCIAL STATEMENTS 2015**

**CONTENTS**

	<b>Page</b>
Officers and professional advisers	1
Strategic report	2-3
Directors' report	4-5
Directors responsibilities statement	6
Independent auditor's report	7-8
Consolidated profit and loss account	9
Consolidated balance sheet	10
Company balance sheet	11
Consolidated and company statement of changes in equity	12
Consolidated cash flow statement	13
Notes to the financial statements	14-28

**REACTION ENGINES LIMITED**

**REPORT AND FINANCIAL STATEMENTS 2015**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

M S Thomas  
T O Scrope  
N McNair Scott (Chairman)  
D R McNair Scott  
C J Allam  
J R H Hale

**SECRETARY**

R Lee

**REGISTERED OFFICE**

Hill House  
1 Little New Street  
London  
EC4A 3TR

**AUDITOR**

Deloitte LLP  
Chartered Accountants  
London

## **REACTION ENGINES LIMITED**

### **STRATEGIC REPORT**

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

#### **Review of the business**

The business continued to develop its technologies in the year and invest in its intellectual property. 2015 was a significant year in the company's evolution in a number of areas; the Group's financial position, its management and the implementation of changes to the governance structure of the company to bring it into line with recommended best practice.

The main focus for the year for operations was delivery against the Phase 3a European Space Agency ("ESA") contract which was largely complete at the year end. Considerable effort was expended in the year to support the proposal to secure the UK Government State Aid; the Grant Offer Letter was signed on 16 December 2015. This amounts to a commitment totalling £60m, which will be drawn down in arrears against SABRE project milestones over the coming few years.

The SABRE programme is the Company's core focus for its research and development activity and continues to advance the value of the Company's intellectual property.

A number of changes to the Board were effected to implement industry governance best practice in line with FRC guidelines usually associated with public companies; this has resulted in a reduction in Board members with a balanced executive and non-executive mix, as well as the inception of Audit, Remuneration and Nomination Committees each with specific charters and constitutions.

15 more staff were recruited as it became apparent that a major step change in the pace of the programme was needed and the resources to do so were becoming available. Most significantly this entailed recruitment including a new CEO in May 2015. Staff numbers rose during the year and closed at 80, in line with the Group's plan. Whilst most staff recruits have been technical by role, there have been a number of key compliance related positions taken up in areas such as Cybersecurity, Export Controls and Health & Safety to ensure better risk management and mitigation, as well as protection of our intellectual property.

Reaction Engines also received an inward investment commitment of £20.6m from BAE Systems for ordinary shares in late 2015. Half of this was received in December 2015 and the second half received in June 2016 in line with the original agreement. This investment was made following detailed technical (and financial) due diligence, raising credibility to both Reaction Engines technology and confidence in its ability to deliver. This investment, in tandem with the Government grant commitment, has attracted a great deal of industry interest and been transformative for the company in terms of its credibility in the market place, for attracting and retaining key staff, for knowledge sharing as well as having the immediate benefit of securing the company's liquidity position.

There are no other notable post balance sheet events.

#### **Principal risks and uncertainties**

The principal risks and uncertainties the company faces have historically been associated with its ability to operate as a going concern. However, the material equity investment in late 2015 has mitigated this risk. The UK Government grant commitment is contingent on achievement of milestones; failure to deliver against milestones during the course of the programme could jeopardise the ability of the company to draw down funds in the medium and longer terms.

Technological uncertainty in the programme is inherent in projects of a cutting edge nature such as this. It is perhaps inevitable that challenges will be encountered, and these challenges will vary in their complexity and time and cost to overcome them. This does raise the risk of uncertainty of costs to completion.

## REACTION ENGINES LIMITED

### STRATEGIC REPORT (continued)

Intellectual property remains the key asset to the company and the risk of expropriation of our technology through fraud or theft is real. To mitigate this the Board have invested significant resources in people, processes and systems – particularly in the fields of export control, cybersecurity and patenting. The company is fortunate to have very low employee attrition, one of the key mitigating factors in protecting our intellectual property.

Whilst the Board are confident of our market leading position in terms of being ahead of competitors, it is hard to assess what or where competitors are given the secretive nature of this type of research and development.

#### Key Performance Indicators ("KPI's")

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

	2015 £'000	2014 £'000	Change %
Turnover	2,543	2,306	10%
Operating Loss	- 6,463	- 5,032	-28%
Loss after tax	- 6,020	- 4,356	-38%
Equity shareholders' funds	15,074	10,664	41%
Current assets : current liabilities ('quick ratio')	15.7	5.9	166%
Average number of employees	71	61	16%


#### Future developments

The directors expect the general level of activity to increase in the forthcoming year in line with its programme plan; which encompasses an increase in technical headcount, planning for new and larger test facilities as well as an expanded footprint of premises at Culham.

Details of significant events since the balance sheet date are contained in note 22 to the financial statements.

Approved by the Board of Directors and signed on behalf of the Board

Director

 6 July 2016  
P.O. Scrope

## **REACTION ENGINES LIMITED**

### **DIRECTORS' REPORT**

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 December 2015.

#### **Future developments, research and development activities and events after the balance sheet date**

Details of future developments, research and development activities and events that have occurred after the balance sheet date can be found in the Strategic Report on pages 2 and 3 and form part of this report by cross-reference.

#### **Going concern**

The directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in the Statement of accounting policies in the financial statements.

#### **Financial risk management objectives and policies**

The Group's activities expose it to a number of financial risks including cash flow risk and liquidity risk. The Group does not use derivative financial instruments for speculative purposes.

#### **Cash flow risk**

The Group's activities can expose it to the financial risks of changes in foreign currency exchange rates where contracts are undertaken for ESA, where typically receipts are Euro denominated and the majority of costs are sterling dominated. As the exchange risk posed by Brexit is therefore possibly on the upside, and the timing of these receipts is rarely fixed, to date the Board has decided the extent of risk is not deemed sufficiently material to warrant hedging these exposures.

#### **Credit risk**

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

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

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

The Group has no significant concentration of credit risk.

#### **Liquidity risk**

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the company uses a mixture of equity finance and grant income. There are no material debts and off balance sheet liabilities are limited to lease commitment on company premises.

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

## REACTION ENGINES LIMITED

### DIRECTORS' REPORT (continued)

#### DIRECTORS

The directors who served during the year except as noted, were as follows:

A Bond	(resigned 24 February 2015)
R Bond	(resigned 1 December 2015)
J G R Bridges	(resigned 14 May 2015)
J E Garrod	(resigned 20 October 2015)
G R Harrison	(resigned 1 December 2015)
S Hutchison	(resigned 1 December 2015)
N McNair Scott (Chairman)	
T O Scrope	
M S Thomas	(appointed 25 May 2015)
R A Varvill	(resigned 1 December 2015)
D R McNair Scott	
C J Allam	(appointed 1 December 2015)
J R H Hale	(appointed 9 September 2015)

#### Political contributions

No political donations were made during the year.

#### Disabled employees

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

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

#### Auditors

Each of the persons who is a director at the date of the approval of this report confirms that:

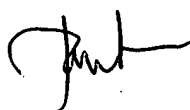
- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

The auditor, Deloitte LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006

Approved by the Board and signed on its behalf by:

Director

 T. O. SCROPE

6 July

2016

## **REACTION ENGINES LIMITED**

### **DIRECTORS' RESPONSIBILITIES STATEMENT**

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

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



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REACTION ENGINES LIMITED**

We have audited the financial statements of Reaction Engines Limited for the year ended 31 December 2015 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated and company statement of changes in equity, the consolidated cash flow statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice Board's Ethical Standards for Auditors.

### **Scope of the audit of financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements made to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion**

In our opinion the financial statements:

- give a true and fair view of the state of the Group and Company's affairs as at 31 December 2015 and of the loss of the group for that year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on matters prescribed in the Companies Act 2006**

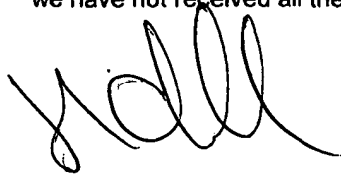
In our opinion the information in the Strategic and Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
REACTION ENGINES LIMITED (continued)**

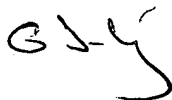
**Matters on which we are required to report by exception**

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

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



**John Charlton (Senior Statutory Auditor)**  
**for and on behalf of Deloitte LLP**  
Chartered Accountants and Statutory Auditor  
London, United Kingdom



2016

**REACTION ENGINES LIMITED**

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**Year ended 31 December 2015**

		<b>2015</b>	<b>2014</b>
	<b>Notes</b>	<b>£</b>	<b>(restated) £</b>
<b>TURNOVER</b>	<b>3</b>	2,543,635	2,306,093
Cost of sales		(1,525,974)	(1,547,160)
Gross profit		<u>1,017,661</u>	<u>758,933</u>
Administrative expenses		(7,480,383)	(5,791,190)
<b>OPERATING LOSS</b>	<b>5</b>	<u>(6,462,722)</u>	<u>(5,032,257)</u>
Finance costs (net)	<b>4</b>	(95,135)	6,677
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<u>(6,557,857)</u>	<u>(5,025,580)</u>
Tax on loss on ordinary activities	<b>7</b>	537,669	669,238
<b>LOSS FOR THE FINANCIAL YEAR</b>		<u><u>(6,020,188)</u></u>	<u><u>(4,356,342)</u></u>

All transactions derived from continuing operations.

There are no recognised gains or losses for the current or previous financial year other than as stated in the profit and loss account. Accordingly a separate Statement of Comprehensive Income has not been prepared.

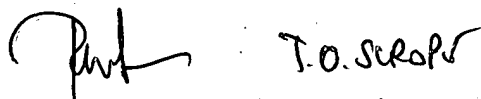
**REACTION ENGINES LIMITED**

**CONSOLIDATED BALANCE SHEET**  
**31 December 2015**

	Note	2015 £	2014 (restated) £
<b>FIXED ASSETS</b>			
Intangible assets	9	104,000	-
Tangible assets	10	<u>3,278,437</u>	<u>886,696</u>
		3,382,437	886,696
<b>CURRENT ASSETS</b>			
Stocks	11	25,850	21,986
Debtors	12	2,640,682	3,570,301
Cash at bank and in hand		<u>9,929,232</u>	<u>8,174,922</u>
		12,595,764	11,767,209
<b>CREDITORS: amounts falling due within one year</b>	13	<u>(802,524)</u>	<u>(1,990,259)</u>
<b>NET CURRENT ASSETS</b>		11,793,240	9,776,950
<b>CREDITORS: amounts falling due after more than one year</b>	14	(102,100)	-
<b>NET ASSETS</b>		<u>15,073,577</u>	<u>10,663,646</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	42,417	37,259
Share premium account		43,459,298	33,153,901
Profit and loss account		(28,428,138)	(22,527,514)
<b>SHAREHOLDER'S FUNDS</b>		<u>15,073,577</u>	<u>10,663,646</u>

The financial statements of Reaction Engines Limited, registered number 02413577, were approved by the Board of Directors and authorised for issue on

Signed on behalf of the Board of Directors

  
 Director  
 6 July 2016

**REACTION ENGINES LIMITED**

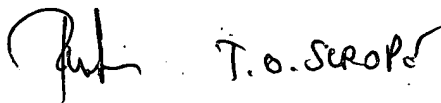
**COMPANY BALANCE SHEET**  
**31 December 2015**

	Note	2015 £	2014 (restated) £
<b>FIXED ASSETS</b>			
Intangible assets	9	104,000	-
Tangible assets	10	<u>3,278,348</u>	<u>879,198</u>
		3,382,348	879,198
<b>CURRENT ASSETS</b>			
Stocks	11	12,000	6,000
Debtors	12	2,602,729	3,565,112
Cash at bank and in hand		<u>9,903,774</u>	<u>8,161,414</u>
		12,518,503	11,732,526
<b>CREDITORS: amounts falling due within one year</b>	13	<u>(769,635)</u>	<u>(1,964,543)</u>
<b>NET CURRENT ASSETS</b>		11,748,868	9,767,983
<b>CREDITORS: amounts falling due after more than one year</b>	14	(102,100)	-
<b>NET ASSETS</b>		<u>15,029,116</u>	<u>10,647,181</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	42,417	37,259
Share premium account		43,459,298	33,153,901
Profit and loss account		(28,472,599)	(22,543,979)
<b>SHAREHOLDER'S FUNDS</b>		<u>15,029,116</u>	<u>10,647,181</u>

The financial statements of Reaction Engines Limited, registered number 02413577, were approved by the Board of Directors and authorised for issue on

Signed on behalf of the Board of Directors

Director

  
T.O. Scrope  
6 July 2016

# REACTION ENGINES LIMITED

## CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014 (restated)

	Share capital account £	Share premium account £	Profit and loss account £	Total 2014 £
<b>THE GROUP</b>				
Balance at 1 January 2014	33,895	23,066,496	(18,171,172)	4,929,219
Total comprehensive loss for the year	-	-	(4,356,342)	(4,356,342)
Issue of shares in year	3,364	10,087,405	-	10,090,769
Balance at 31 December 2014	<u>37,259</u>	<u>33,153,901</u>	<u>(22,527,514)</u>	<u>10,663,646</u>

<b>THE COMPANY</b>				
Balance at 1 January 2014	33,895	23,066,496	(18,165,834)	4,934,557
Total comprehensive loss for the year	-	-	(4,378,145)	(4,378,145)
Issue of shares in year	3,364	10,087,405	-	10,090,769
Balance at 31 December 2014	<u>37,259</u>	<u>33,153,901</u>	<u>(22,543,979)</u>	<u>10,647,181</u>

Year ended 31 December 2015

	Share capital account £	Share premium account £	Profit and loss account £	Total 2015 £
<b>THE GROUP</b>				
Balance at 1 January 2015	37,259	33,153,901	(22,527,514)	10,663,646
Total comprehensive loss for the year	-	-	(6,020,188)	(6,020,188)
Issue of shares in year	5,158	10,305,397	-	10,310,555
Equity Settled share-based payment	-	-	119,564	119,564
Balance at 31 December 2015	<u>42,417</u>	<u>43,459,298</u>	<u>(28,428,138)</u>	<u>15,073,577</u>

<b>THE COMPANY</b>				
Balance at 1 January 2015	37,259	33,153,901	(22,543,979)	10,647,181
Total comprehensive loss for the year	-	-	(6,048,184)	(6,048,184)
Issue of shares in year	5,158	10,305,397	-	10,310,555
Equity Settled share-based payment	-	-	119,564	119,564
Balance at 31 December 2015	<u>42,417</u>	<u>43,459,298</u>	<u>(28,472,599)</u>	<u>15,029,116</u>

**REACTION ENGINES LIMITED**

**CONSOLIDATED CASH FLOW STATEMENT**  
**31 December 2015**

	Note	2015 £	2014 (restated) £
<b>Net cash flows from operating activities</b>	<b>17</b>	<b>(5,616,492)</b>	<b>(3,897,654)</b>
<b>Cash flows from investing activities</b>			
Purchase of equipment		(2,809,753)	(538,530)
Purchases of patents and trademarks		(130,000)	-
<b>Net cash flows from investing activities</b>		<b><u>(8,556,245)</u></b>	<b><u>(4,436,184)</u></b>
<b>Cash flows from financing activities</b>			
Proceeds on issue of shares		10,310,555	10,090,769
<b>Net cash flows from financing activities</b>		<b><u>10,310,555</u></b>	<b><u>10,090,769</u></b>
<b>Net increase in cash and cash equivalents</b>		<b><u>1,754,310</u></b>	<b><u>5,654,585</u></b>
<b>Cash and cash equivalents at beginning of year</b>		<b>8,174,922</b>	<b>2,520,337</b>
<b>Cash and cash equivalents at end of year</b>		<b><u>9,929,232</u></b>	<b><u>8,174,922</u></b>
<b>Reconciliation to cash at bank and in hand:</b>			
Cash at bank and in hand		9,929,232	8,174,922
<b>Cash and cash equivalents</b>		<b><u>9,929,232</u></b>	<b><u>8,174,922</u></b>

## **REACTION ENGINES LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2015**

#### **1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below. They have been applied consistently throughout the year and preceding year.

##### **Basis of accounting**

Reaction Engines Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic report on pages 2 to 3.

The financial statements are prepared under the historical cost convention, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The prior year financial statements were restated for material adjustments on adoption of FRS 102 in the current year. For more information see note 24.

The functional currency of Reaction Engines Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

##### **Going concern**

The group closes the year with cash reserves of £9,929,232, net current assets of £11,793,240 and net assets of £15,073,577. Having given due consideration to the anticipated future performance of the group and forecasted cash flows for 2016 and 2017, taking into account reasonably possible changes in trading performance in light of uncertainty related to current economic conditions, the directors have been able to form a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason they adopt the going concern basis in preparing the financial statements.

##### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the company and all its subsidiaries.

##### **Turnover and income recognition**

Turnover includes grant income from the European Space Agency and other project commissioners. The company records such income under the performance model basis and recognised in the financial statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received. The value of grant income recognised in the year was £2,035,059 (2014 - £1,591,831).

Turnover is stated net of VAT and trade discounts and is recognised when the significant risks and rewards are considered to have been transferred to the buyer. Turnover from the sale of goods is recognised when the goods are physically delivered to the customer. Turnover from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the fair value of the consideration received or receivable.



## REACTION ENGINES LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

#### 1. ACCOUNTING POLICIES (continued)

##### Research and development

Research expenditure is written off as incurred. Development expenditure is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects and the expenditure is identifiable. In the current year this related to patent application costs and these were capitalised as an intangible asset and amortised over the period during which the Group is expected to benefit. This period is five years. Provision is made for any impairment.

##### Intangible fixed assets

Separately acquired patents and trademarks are included at cost and amortised in equal annual instalments over a period of 5 years which is their estimated useful economic life. Provision is made for any impairment.

##### Tangible fixed assets

Provision is made for depreciation on all tangible fixed assets at rates calculated to write off the cost or valuation less estimated residual value of each asset over its expected useful life, as follows:

Plant and equipment	15% straight line
Fixtures and fittings	15% straight line
Motor vehicles	20% straight line
Licences	33-100% straight line

##### Stocks

Stocks are stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

##### Taxation

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences, that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise on the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements.

## REACTION ENGINES LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

#### 1. ACCOUNTING POLICIES (continued)

##### Leases

Operating lease rentals are charged to income in equal annual amounts over the lease term.

##### Pension costs

The group pays pension contributions into the personal pension schemes of selected employees and directors. Contributions are charged to the profit and loss account as they become payable.

##### Foreign exchange

Foreign currency transactions are translated into sterling at the rates ruling in the month in which the transactions took place. Foreign currency monetary assets and liabilities are translated into sterling at the year end rates. All foreign currency differences are dealt with through the profit and loss account.

##### Share-based payment

The Company issues equity-settled share options to certain employees with the Group. Equity-settled share-based payment transactions are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant.

The fair value determined at the grant date of the equity-settled share-based payments is expensed in line with the requirements of FRS102 (26).

Fair value is measured by use of the Black Scholes pricing model which is considered by management to be the most appropriate method of valuation. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

#### 2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

##### **Key source of estimation uncertainty - Carrying Value of Intangible Assets (Patent Costs)**

Determining whether intangible assets are impaired requires an estimation of the value in use of each separate intangible asset. The value in use calculation requires estimates of the future cash flows expected to arise from each separately identified intangible asset and a suitable discount rate in order to calculate present value. The carrying amount of intangible assets was £104,000, and no impairment loss was recognised during 2015.

# REACTION ENGINES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2015

### 3. Turnover

An analysis of the Group's turnover is as follows:

	The Group		The Company	
	2015	2014	2015	2014
	£	£	£	£
Grant income	2,035,059	1,591,831	2,035,059	1,591,831
Sale of goods	501,576	714,262	391,691	413,905
Rendering of services	7,000	-	7,000	-
	<u>2,543,635</u>	<u>2,306,093</u>	<u>2,433,750</u>	<u>2,005,736</u>

All of the group's turnover is in the United Kingdom.

### 4. Finance costs (net)

	2015	2014
	£	£
Interest payable on director's loan	(109,122)	-
Interest payable on loans	(6,476)	-
Bank interest received	20,463	6,677
	<u>(95,135)</u>	<u>6,677</u>

# REACTION ENGINES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2015

### 5. OPERATING LOSS

	2015 £	2014 £
Operating loss is stated after charging:		
Depreciation of owned assets	418,012	96,570
Amortisation of intangible fixed assets	26,000	-
Research and development	372,837	407,713
Auditor's remuneration:		
- audit of the Company	34,500	15,000
- taxation compliance services	18,750	20,000
- other services	35,000	47,999
Loss on disposal of tangible fixed assets	-	64,850
Rent of leasehold properties	563,161	237,205
Inventories recognised as expense	93,094	155,294
Foreign exchange gain (loss)	(24,250)	20,618

### 6. EMPLOYEE INFORMATION

The monthly average number of staff (including directors) employed by the Group during the financial year was:

	2015 Number	2014 Number
Staff	71	61

The aggregate payroll costs of the above were:

Wages and salaries	3,293,394	2,355,697
Social security costs	371,110	241,217
Other pension costs	82,635	51,780
	<u>3,747,139</u>	<u>2,648,694</u>

Emoluments receivable		
Company pension contributions to money purchase schemes	<u>82,635</u>	<u>51,780</u>

Emoluments of highest paid director:

	2015 £	2014 £
Total emoluments (excluding pension contributions):	156,864	80,149
Company pension contributions to money purchase schemes	<u>7,875</u>	<u>2,897</u>

**REACTION ENGINES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 December 2015**

**6. EMPLOYEE INFORMATION (continued)**

	<b>2015</b>	<b>2014</b>
	<b>£</b>	<b>£</b>
<b>Directors' remuneration</b>		
Emoluments	626,377	556,687
Company contributions to money purchase pension schemes	24,750	15,025
	<u>651,127</u>	<u>571,712</u>
<b>The number of directors who:</b>		
Are members of a money purchase pension scheme	2	4
Had awards receivable in the form of shares under a long-term incentive scheme	2	5

**REACTION ENGINES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 December 2015**

**7. TAXATION**

	<b>2015</b> <b>£</b>	<b>2014</b> <b>£</b>
<b>Current tax</b>		
UK corporation tax charge for the year	(537,668)	(669,238)
Current tax credit	<u>(537,668)</u>	<u>(669,238)</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	-	1,037
Deferred tax not provided	-	(1,037)
<b>Total deferred tax</b>	<u>-</u>	<u>-</u>
<b>Total tax credit</b>	<u>(537,668)</u>	<u>(669,238)</u>

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 20.25% (2014 - 21.49%).

The difference between the total tax charge shown above and the amount calculated by applying standard rate of UK corporation tax to the profit before tax is as follows:

	<b>2015</b> <b>£</b>	<b>2014</b> <b>£</b>
Loss on ordinary activities before tax	<u>(6,557,857)</u>	<u>(5,025,580)</u>
Tax on profit on ordinary activities at standard rate 20.25% (2014 - 21.49%)	(1,327,474)	(996,669)
Factors affecting the credit:		
Income not taxable for tax purposes	(914,567)	(975,605)
Expenses not deductible for tax purposes	686,705	514,470
Capital allowances in excess of depreciation	-	(61,593)
Effects of other tax rates/credits	263,553	(669,238)
Utilisation of tax losses	754,115	1,518,917
Movement in short term timing differences	-	480
<b>Actual amount of tax credit for the year</b>	<u>(537,668)</u>	<u>(669,238)</u>

**REACTION ENGINES LIMITED****NOTES TO THE FINANCIAL STATEMENTS****Year ended 31 December 2015****8. LOSS ATTRIBUTABLE TO THE COMPANY**

The loss for the financial year dealt with in the financial statements of the parent Company was £6,048,184 (2014 - £4,378,145). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented in respect of the parent Company.

**9. INTANGIBLE FIXED ASSETS**

	<b>Patents</b>
	<b>£</b>
<b>The group and company</b>	
<b>Cost</b>	
At 1 January 2015	-
Additions	130,000
Disposals	-
At 31 December 2015	<u>130,000</u>
<b>Depreciation</b>	
At 1 January 2015	-
Charge for the period	26,000
On disposals	-
At 31 December 2015	<u>26,000</u>
<b>Net book value</b>	
At 31 December 2015	<u><u>104,000</u></u>
At 31 December 2014	<u><u>-</u></u>

**REACTION ENGINES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 December 2015**

**10. TANGIBLE FIXED ASSETS**

<b>The Group</b>	<b>Plant &amp; machinery £</b>	<b>Motor vehicles £</b>	<b>Fixtures &amp; fittings £</b>	<b>Test site equipment £</b>	<b>Software £</b>	<b>Total £</b>
<b>Cost</b>						
At 1 January 2015	1,298,223	23,474	7,062	94,537	-	1,423,296
Additions	2,606,173	-	-	-	203,580	2,809,753
Disposals	-	-	-	-	-	-
At 31 December 2015	<u>3,904,396</u>	<u>23,474</u>	<u>7,062</u>	<u>94,537</u>	<u>203,580</u>	<u>4,233,049</u>
<b>Depreciation</b>						
At 1 January 2015	420,150	15,008	6,905	94,537	-	536,600
Charge for the period	336,346	3,457	69	-	78,140	418,012
On disposals	-	-	-	-	-	-
At 31 December 2015	<u>756,496</u>	<u>18,465</u>	<u>6,974</u>	<u>94,537</u>	<u>78,140</u>	<u>954,612</u>
<b>Net book value</b>						
At 31 December 2015	<u>3,147,900</u>	<u>5,009</u>	<u>88</u>	<u>-</u>	<u>125,440</u>	<u>3,278,437</u>
At 31 December 2014	<u>878,073</u>	<u>8,466</u>	<u>157</u>	<u>-</u>	<u>-</u>	<u>886,696</u>

<b>The Company</b>	<b>Plant &amp; machinery £</b>	<b>Motor vehicles £</b>	<b>Fixtures &amp; fittings £</b>	<b>Test site equipment £</b>	<b>Software £</b>	<b>Total £</b>
<b>Cost</b>						
At 1 January 2015	1,156,856	12,774	-	94,537	-	1,264,167
Additions	2,606,173	-	-	-	203,580	2,809,753
Disposals	-	-	-	-	-	-
At 31 December 2015	<u>3,763,029</u>	<u>12,774</u>	<u>-</u>	<u>94,537</u>	<u>203,580</u>	<u>4,073,920</u>
<b>Depreciation</b>						
At 1 January 2015	285,221	5,211	-	94,537	-	384,969
Charge for the period	329,908	2,555	-	-	78,140	410,603
On disposals	-	-	-	-	-	-
At 31 December 2015	<u>615,129</u>	<u>7,766</u>	<u>-</u>	<u>94,537</u>	<u>78,140</u>	<u>795,572</u>
<b>Net book value</b>						
At 31 December 2015	<u>3,147,900</u>	<u>5,008</u>	<u>-</u>	<u>-</u>	<u>125,440</u>	<u>3,278,348</u>
At 31 December 2014	<u>871,635</u>	<u>7,563</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>879,198</u>

Plant and machinery with a carrying amount of £210,929 (2014 - £nil) have been pledged to secure borrowings of the Company. The Company is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.



**REACTION ENGINES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 December 2015**

11.	STOCKS	The Group		The Company	
		2015	2014	2015	2014
		£	£	£	£
	Finished goods and goods for resale	25,850	21,986	12,000	6,000

12.	DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	The Group		The Company	
		2015	2014	2015	2014
		£	£	£	£
	Trade debtors	67,458	29,023	36,422	17,713
	Prepayments and accrued income	883,379	1,265,369	869,621	1,264,840
	Corporation tax	712,004	665,062	712,004	665,062
	VAT recoverable	6,909	161,335	6,909	161,335
	Unpaid share capital	970,932	1,437,700	970,932	1,437,700
	Other debtors	-	11,812	-	11,812
	Amounts owed by group undertakings	-	-	6,841	6,650
		<u>2,640,682</u>	<u>3,570,301</u>	<u>2,602,729</u>	<u>3,565,112</u>

Included in unpaid share capital are amounts due from the directors of the Group and Company as follows:

	2015	2014
	£	£
J Hale	250,000	250,000
N McNair Scott	<u>120,848</u>	<u>579,617</u>

13.	CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	The Group		The Company	
		2015	2014	2015	2014
		£	£	£	£
	Trade creditors	298,564	1,159,257	291,140	1,144,342
	Other taxes and social security	123,153	98,423	112,288	78,146
	Accruals and deferred income	317,521	455,055	314,678	455,056
	VAT payable	6,881	-	-	-
	Other creditors	12,028	277,524	7,152	286,999
	Borrowings	44,376	-	44,376	-
		<u>802,524</u>	<u>1,990,259</u>	<u>769,635</u>	<u>1,964,543</u>

Included in other creditors are amounts due to the directors of the Group and Company as follows:

	2015	2014
	£	£
N McNair Scott	<u>-</u>	<u>275,000</u>

# REACTION ENGINES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2015

### 14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	The Group		The Company	
	2015	2014	2015	2014
Borrowings	102,100	-	102,100	-
Borrowings are repayable as follows:				
	2015	2014		
	£	£		
Between one and two years	35,700	-		
Between two and five years	66,400	-		
On demand or within one year (note 13)	44,376	-		
	146,476	-		

Borrowings are secured on certain tangible fixed assets with a carrying value of £210,939 (2014 - £nil). Interest is payable on borrowings at a rate of 7.54% on the principal amount.

### 15. CALLED UP SHARE CAPITAL

	2015	2014
	£	£
<b>Called up, allotted and fully paid</b>		
3,725,878 (2014 - 3,725,878) A ordinary shares of 1p each	37,259	37,259
515,809 (2014 - nil) B ordinary shares of 1p each	5,158	-
	42,417	37,259

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

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

The holder of B Ordinary Shares shall have consent rights in respect of certain matters of the Company's decision making.

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

The legal fees incurred during the year, a portion of which related to the issue of B Ordinary Shares, were treated as indirect costs and expensed through the profit and loss account.

**REACTION ENGINES LIMITED****NOTES TO THE FINANCIAL STATEMENTS****Year ended 31 December 2015****16. FINANCIAL COMMITMENTS****Operating lease commitments**

Total future minimum lease payments under non-cancellable operating leases are as follows:

	<b>Land and Buildings</b>	
	<b>2015</b>	<b>2014</b>
	<b>£</b>	<b>£</b>
<b>Group and company</b>		
Within one year	522,796	328,358
Between one and two years	463,465	310,167
Between two and five years	1,134,489	776,222
	<u>2,120,750</u>	<u>1,414,747</u>

Capital commitments are as follows:

	<b>2015</b>	<b>2014</b>
	<b>£</b>	<b>£</b>
Contracted for but not provided for		
- non finance lease	-	1,108,266

# REACTION ENGINES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2015

### 17. CASH FLOW STATEMENT

#### Reconciliation of net cash outflows from operations:

	2015 £	2014 £
Loss after tax	(6,020,188)	(4,356,342)
Adjustment for:		
Depreciation and amortisation	444,012	96,570
Profit on sale of tangible fixed assets	-	64,850
Equity settled share-based payment	119,564	-
Operating cash flow before movement in working capital	(5,456,611)	(4,194,922)
(Increase)/decrease in stocks	(3,864)	2,177
Decrease/(increase) in debtors	929,619	(622,750)
(Decrease)/increase in creditors	(1,085,636)	917,841
<b>Cash outflow from operations</b>	<b>(5,616,492)</b>	<b>(3,897,654)</b>

### 18. FINANCIAL INSTRUMENTS

The carrying values of the Group and Company's financial assets and liabilities are summarised by category below:

	The Group		The Company	
	2015 £	2014 £	2015 £	2014 £
<b>Financial assets</b>				
Measured at undiscounted amount receivable				
• Trade and other debtors (see note 12)	2,640,682	3,570,301	2,602,729	3,565,112
<b>Financial liabilities</b>				
Measured at amortised cost				
• Loans payable (see note 13, 14)	146,476	-	146,476	-
Measured at undiscounted amount payable				
• Trade and other creditors (see note 13)	758,148	1,990,259	725,259	1,964,543

The Group's income, expense, gains and losses in respect of financial instruments are summarised below:

#### Interest income and expense

Total interest income for financial assets at amortised cost	20,463	6,677
Total interest expense for financial liabilities at amortised cost	(115,598)	-

# REACTION ENGINES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2015 (continued)

### 19. SHARE BASED PAYMENTS

#### Equity-settled share option schemes

The Company has a share option scheme for some employees. Options are exercisable at a price equal to the market value of the Company's shares on the date of grant. There are no vesting conditions. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options are forfeited if the employee leaves the Company before exercising.

Details of the share options outstanding during the year are as follows:

	2015		2014	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of	375,595	11.9	271,695	8.9
Granted during the period	25,000	20.0	103,900	20.0
Lapsed in the period	(2,800)	20.0	-	-
Outstanding at the end of the period	397,795	12.4	375,595	11.9
Exercisable at the end of the period	397,795	12.4	375,595	11.9

The fair value of the share options at the grant date was calculated using the Black Scholes model, which is considered to be the most appropriate generally accepted valuation method of measuring fair value.

The Group recognised total expenses of £119,564 in 2015 (2014 - £nil).

### 20. INVESTMENTS HELD AS FIXED ASSETS

The parent Company and the Group have investments in the following subsidiary undertakings:

Name	Nature of business	Holding	Country of incorporation
Crossman Engineering Limited	Precision Engineering	100%	UK
Skylon Enterprise Limited	Aerospace	100%	UK
Reaction Engines Inc	Aerospace	100%	USA

### 21. RELATED PARTY TRANSACTIONS

During the year Reaction Engines Limited was invoiced £37,500 (2014 - £37,500) by Space Travel Investments Limited in respect of consultancy services for 2015. As at 31 December 2015 the balance owing to Space Travel Investments Limited was £37,500 (2014 - £75,000). Space Travel Investments Limited is controlled by Nigel McNair Scott, the chairman of Reaction Engines Limited.

Total remuneration for key management personnel for the period totalled £790,027 (2014 - £481,821), being remuneration of £670,463 (2014 - £481,821) and share-based payment expenses of £119,564 (2014 - £nil).

## REACTION ENGINES LIMITED

### NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2015

#### 22. SUBSEQUENT EVENTS

The company issued the second tranche of 515,809 additional B shares to BAE Systems (Holdings) Limited on 2 June 2016 for cash consideration of £10.3m to complete the transaction.

#### 23. ULTIMATE CONTROLLING PARTY

The Directors do not believe the group to have an ultimate controlling party.

#### 24. EXPLANATION OF TRANSITION TO FRS102

This is the first year that the Company has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year ended 31 December 2014 and the date of transition to FRS 102 was therefore 1 January 2014.

##### Reconciliation of loss for 2014

	£
Loss for the financial year under previous UK GAAP	(3,968,309)
<b>Adjustments to equity on transition to FRS 102</b>	
Grant income recognised on performance basis	(388,033)
<b>Loss for the financial year under FRS 102</b>	<u><u>(4,356,342)</u></u>

The adjustment arises upon recognising grant income on the performance basis under FRS 102 (see note 1) compared to the accruals basis under the previous UK GAAP.