AFC Energy

DISPLACING DIESEL

ANNUAL REPORT

for the year ended 31 October 2023

Displacing Diesel

Our strategy is built around displacing diesel in strategic markets. We do this by commercialising our three key product offerings over the development cycle from investment to revenue.

With our S Series H-Power Generator already earning revenue, our strategy is to grow that revenue stream whilst developing the S+ H-Power Generator and Fuel conversion technology platforms to the revenue stage over the near-term and medium-term.

HIGHLIGHTS

FINANCIAL – FY 2023 and subsequent

£26.6m

Orderbook*

£27.4m

Cash at year end

£4.1m

R&D tax credit received

TECHNOLOGY being developed in FY2023

S Series generator

(30kW)

S+ Series generator

(200kW)

Small scale ammonia cracking plant

COMMERCIAL – customers in FY 2023

Strategic and distribution relationships

ABB

acciona

Speedy

تامكو Tamgo

ESG – progress in FY2023

Lost time injuries — Nil

Carbon footprint — 2022 & 2023 data captured & compared to 2021 baseline

ESG Committees — Focused on developing and empowering our people

* The aggregate of the committed and uncommitted elements within existing contracts (see also CEO report).

OUR STRATEGY AND BUSINESS MODEL

Our strategy is built around displacing diesel generators. We do this through investing in our three key product platforms over the product cycle from research to revenue.

DISPLACING

FUEL CELL

Our S Series, air cooled, generator is focussed on the construction sector and is already generating revenue.

As we continue to build market traction with the S Series, we'll be developing the S+ Series, liquid cooled, in parallel and looking to deliver revenue in the near term.

FUEL PROCESSING

Our fuel processing platform is focussed on the growing opportunities around the fast developing global green ammonia trade and will be looking to deliver revenue in the medium term.

DIESEL

PRODUCT-LED STRATEGY

	Development	Revenue
S Series H-Power Generator	Development	Revenue
S+ Series H-Power Generator	Development	Revenue
Fuel Processing	Development	Revenue
	31/10/2023	

CHAIR'S REPORT

Leading the transition

COP 28 was held in Dubai in 2023 and renewed the focus on the global need to decarbonise and the opportunities this is creating.

AFC Energy was represented by our CEO, Adam Bond, and with hydrogen high on the COP agenda, there was a lot of interest in our technology and products.

It was also a great backdrop for the fuel cell and then fuel processing announcements we made around the time.

Strategic development

The construction sector remains our primary commercial focus due to its reliance on diesel generators and the growing pressure to displace diesel when tendering for contracts.

To this end, the joint venture announced with Speedy Hire combines perfectly their marketing and logistical strength with our hydrogen fuelled equipment and technical expertise.

The first H-Power Generator passed factory acceptance testing in March 2024 and I'm delighted to report that feedback has already been very positive, particularly from the potential JV customers that have visited.

The Board

Graeme Lewis retired as chief financial officer and resigned as a director from the board on 30 November 2022. I wish to thank Graeme for his service and wish him well in retirement.

Taking over from Graeme, Peter Dixon-Clarke joined us on 1 December 2022, bringing with him his considerable fund raising and transactional experience from across the energy sector.

Jim Gibson resigned on 9 June 2023, and I wish to thank him for his five years of service. Jim's duties as chief operating officer have been shared amongst the existing C-suite.

This year saw the retirement of Joe Mangion as non-executive and chair of the Audit Committee on 31 July 2023.

I wish to thank Joe for his six-years of service and wish him well in his retirement.

Taking over from Joe on 1 August 2023, I'm delighted to welcome Duncan Neale to the Board. Duncan has both the breadth and depth of experience in the role and in the energy sector that will serve the Company well as we look to scale.

Environmental, Social and Governance (ESG)

A great deal of focus has understandably been on the important role that the Company's products can play in decarbonising the environment. However, as we grow and start to manufacture in volume, we need to take further steps ourselves as a company.

I am pleased that Monika Biddulph has taken on leading ESG activity for the Board, and especially pleased by the way that this has been embraced by all our employees. You can see more detailed information later in her ESG report on page 29.

Our employees

I would like to thank our employees for their continued commitment to what has been a milestone year.

Gary Bullard
Chair
25 March 2024

We announced the signing of our Joint Venture with Speedy Hire plc, named Speedy Hydrogen Solutions ("SHS"), and then followed that with the news, that we had demonstrated a world first in modular hydrogen production from our cracker system.

CHIEF EXECUTIVE OFFICER'S REPORT

Displacing diesel

The 2023 financial year saw the global hydrogen market grow with over half a trillion US dollars of new projects in the pipeline to support industry's decarbonisation commitments.

In recognition of how this rapidly expanding industry is evolving, and the growing importance of decarbonised ammonia as a hydrogen carrier in the facilitation of global trade, we have commenced consideration of standalone divisions within AFC Energy reflecting both the consumption (fuel cells) and production (fuel conversion or ammonia cracking) of hydrogen. This delineation would reflect the fact that whilst there is a clear overlap in technologies where ammonia cracking can facilitate fuel cell deployments, there is also a growing number of stand alone enquiries for the cracker technology that gives rise to a value proposition that perhaps is not currently reflected in the value of AFC Energy.

Across our fuel cell division, in the 2023 financial year, ten first generation 10kW H-Power Towers were successfully deployed to customer sites predominantly in the construction sector. The aim of these deployments was to:

- validate the operation of the S Series fuel cell technology in the form of generators;
- validate the plant hire business model for the UK construction market;
- validate the pain points and drivers for uptake of hydrogen powered fuel cell generators;
- obtain valuable customer feedback to build into subsequent H-Power Generator platforms;
- generate nominal revenue from the weekly rental of H-Power Towers; and
- validate a contractual order book of new generator orders.

The success of these first generation trials evidenced industry demand for our zero emission generators, which was the impetus behind our initial Heads of Agreement with Speedy Hire signed in July 2023 (which was subsequently converted to a joint venture in the form of Speedy Hydrogen Solutions post year end) and first commercial orders from Acciona and Speedy Hydrogen Solutions (post year end). These partnerships provided valuable insights that informed the 30kW generator product which, post year end, culminated in delivery of the Company's first Factory Acceptance Test (announced in March 2024) and its first independent Attestation of Conformity for CE Mark from global certification agency, TUV SUD (March 2024) – both massive achievements for the Company.

This strategy has proven highly successful and whilst not reflected in the earned revenue in the 2023 financial year, can be evidenced in the order book of £27m as at the date of this report highlighting both committed and uncommitted orders on existing contracts for S Series generators derived from customer contracts including Acciona and Speedy Hydrogen Solutions. This order book would not have been possible without the investment of time and resources throughout 2023.

In parallel with customer deployments was a programme of cost reduction that successfully represented a 50% fall in component and material costs brought about by engineering and scaled component procurement. This cost down approach to the H-Power Generator platform has continued to evidence further value enhancements into 2024, including the confirmation of a robust and globally diversified supply chain across all key components positioning AFC Energy well for manufacturing scale up.

This strategy has proven highly successful and whilst not reflected in the earned revenue in the 2023 year, can be evidenced in the order book of £27 million.

CHIEF EXECUTIVE OFFICER'S REPORT
CONTINUED

The growing displacement of the global diesel generator market represents a US$20bn per annum opportunity which, through tightened regulation and emission standards, corporate sustainability targets, and rising costs of compliance, makes AFC Energy's H-Power Generator an increasingly viable alternative to support industry's roadmap to a decarbonised future.

The vast adoption of diesel generation by industry, whether for prime or backup power, creates a sizeable prize to chase, however our immediate focus remains on the construction market with its immediate decarbonisation challenges.

Throughout this overview, a theme resonates with all our partners, that the time to displace diesel is now and whilst it will take time to transition from the material sunk cost in diesel generators in the market today, the pressure to find alternative off-grid power solutions is imminent.

Our fuel conversion division has also reached new milestones during the course of the year culminating in the launch of the world's largest modular, scalable ammonia cracker platform in late 2023. Much of 2023 was spent in the design, engineering and build phase of this platform, including the launch of the Company's next generation ammonia cracker which is designed for low cost, efficient production of hydrogen at the point of demand. Since launch, we have hosted many visitor groups from across the Globe to the site, reflecting industry's growing interest in ammonia adoption as a clean and sustainable fuel of the future.

Speedy Hydrogen Solution ("SHS") Joint Venture

SHS, our new joint venture with Speedy Hire, signed in November 2023, is a market first and aligns perfectly with our stated business model of selling H-Power Generators wholesale to plant hire companies for onward rental to the construction sector and temporary power markets.

The UK construction market is aggressively moving towards the displacement of diesel generators with high profile projects such as HS2 stating there will be no diesel generators on site by 2029. Speedy Hire and SHS are aiming to step into this void with viable alternative technologies that include hydrogen fuelled generators.

Since announcement of our first Heads of Terms with Speedy Hire in July 2023, market demand for the H-Power Generators has exceeded expectations and will surpass first year orders based on current business model projections.

The UK construction market is aggressively moving towards the displacement of diesel generators with high profile projects such as HS2 stating there will be no diesel generators on site by 2029.

Post year end, SHS committed to an initial £2.0m purchase of generators from AFC Energy. The generators are to be delivered during the first six months of calendar year 2024, with the intention of increasing orders for the first full year (12 months ended 31 October 2024) up to £4.7m. The initial focus of orders is on the S Series air-cooled fuel cell platform sized at 30kW.

The generators are exclusively available for hire, via Speedy Hire, to its customers, in the UK and Ireland. This exclusivity will apply for an initial three-year period subject to an annual minimum order quantity which increases each year.

Speedy's customers have already shown strong interest and established a growing pipeline of demand, driven particularly by changing tender requirements and emission regulations, where UK infrastructure and construction projects are targeting the removal of diesel generators by as early as 2029.

TAMGO distribution agreement

In September 2023, we announced the signing of an exclusive distribution agreement with Saudi Arabia's The Machinery Group LLC, which trades as TAMGO.

TAMGO is an approved vendor to many of Saudi Arabia's largest infrastructure and mining projects including NEOM, Red Sea Global and Qiddiya. In a number of these projects, the target of displacing diesel generators is within the current decade, and so presents a near-term growth trajectory further supporting our business model of partnering with dealers and plant hire businesses which provide immediate access to global markets in a timely cost efficient manner, enabling the Company to meet the accelerated path to decarbonisation many construction projects are on.

TAMGO are marketing both our S Series (air cooled) and S+ Series (liquid cooled) H-Power Generators to end-customers in the industrial and off-grid power markets in the Kingdom of Saudi Arabia and a further 16 countries in the MENA and surrounding region. Several client proposals have already been submitted to Saudi companies seeking to adopt hydrogen as part of their off-grid power solution.

TAMGO will provide local customer support with on the ground maintenance and servicing of our generators, along with engineering, design, commissioning and logistics support direct to customers.

We continue to believe this region presents unprecedented growth potential for the H-Power Generator platform with additional benefits of working with a partner with strong pedigree in localised manufacturing capability within the Saudi market. This positions AFC Energy and TAMGO to create a market leading positioning for our technology within the MENA region.

ACCIONA

In April 2023, having hosted our first 10kW H-Power Tower trial in 2022, ACCIONA was the first to sign a lease for our new 30kW H-Power Generator for a six-month period with an option to purchase the system at a pre-agreed price.

As part of the agreement, a battery storage unit will be harmonised for operation with the fuel cell generator, providing a total 50kVA nameplate generator package. The combined system is expected to undergo factory acceptance testing shortly with deployment to Spain thereafter.

CHIEF EXECUTIVE OFFICER'S REPORT
CONTINUED

ABB E-mobility (ABB)

In March 2023, we announced the successful operation and validation of our first high-power density, liquid cooled fuel cell stacks with ABB E-mobility. The stacks, referred to as the "S+" Series (as distinct from the Company's "S" Series air cooled technology), were delivered to Germany for successful independent validation in October 2022.

Since then, our engineers have been designing and testing the 200kW generator packaging and, following receipt of our new 140kW (gross) fuel cell stacks in 2023 and long lead component ordering, we are nearing initial operation of the 200kW H-Power system. This is a landmark moment for our latest, complementary liquid cooled generator technology allowing us to now achieve nameplate fuel cell ratings from 10kW (air cooled) through to in excess of 100kW (liquid cooled).

Following successful validation of the S+ Series technology with ABB E-mobility and their funding of this development, we entered into an agreement with ABB establishing a pipeline for the purchase of their first ten 200kW S+ Series fuel cell generators over a defined term. The first of these systems will be purchased from AFC Energy as part of the revised contract, with the subsequent nine at ABB's option. ABB also invested a further £2m into AFC Energy giving them a total equity stake of just over 2% in the Company.

Fuel Processing – Modular Ammonia Cracker

Ammonia has continued to gain international importance as a clean hydrogen carrier fuel with the announcement of billions of dollars in new ammonia production plant investment during 2023. With global hydrogen trade expected to be facilitated through the shipping of clean ammonia at scale, the importance of ammonia cracking and the reproduction of hydrogen at the point of demand from ammonia, is also growing in importance.

AFC Energy remains at the forefront of distributed ammonia cracking technology with the launch, during March 2023, of the Company's latest generation ammonia cracker reactor technology, and subsequently (post year end), its first, and the world's largest, modular, scalable ammonia cracker facility here in the UK. Delivery of the pilot cracker facility was the culmination of two years of technology development, design, engineering and build before announcing the commissioning of the 400kg per day facility in December 2023. It is being used to validate and test the design, engineering, components, operation and safety aspects of the technology.

The plant has been designed to produce fuel cell grade hydrogen with power consumed locally at a fraction of the power consumed by an equivalent sized electrolyser. This makes it an ideal source of distributed hydrogen, whether used in stationary or maritime applications.

Ammonia has continued to gain international importance as a clean hydrogen carrier fuel with the announcement of billions of dollars in new ammonia production plant investment during 2023.

Demand for such applications is growing rapidly with the Hydrogen Council, in collaboration with McKinsey, forecasting that 400 out of the 660 million tons of hydrogen needed for carbon neutrality by 2050 will be transported over long distances, with ammonia expected to account for about 45% of that 660 million tons.

To meet this demand, there is already a well-established supply chain for ammonia, which enables a lower barrier to its adoption globally as a hydrogen carrier fuel. However, the lack of commercially available ammonia cracking technologies within the existing value chain presents an enormous opportunity for AFC Energy.

During 2024, AFC Energy will be working to design and engineer a containerised ammonia cracker platform, including purification technology, to enable mobile units to produce hydrogen at the point of consumption. The containerised cracker platform, will be a standalone product capable of being sold to hydrogen consumers, positioning AFC Energy at the forefront of this emerging global market.

As an initial step in the commercialisation of this technology, we have signed our first Letter of Intent in 2023 with the trading arm of one of Europe's largest energy companies to market the potential for ammonia and green ammonia as a hydrogen carrier fuel based on a perceived demand for modular crackers from its customers. This is in addition to the growing list of customer enquiries wishing to explore the potential for networked hydrogen production through ammonia cracking across Europe.

The ammonia cracker technology platform is an exciting and key part of the global value chain and the strides forward made during 2022 and 2023 continues to position AFC Energy at the forefront of this technology.

Outlook

The 2024 financial year is all going to be about delivery. Delivery of our first 30kW H-Power Generators to Speedy Hire (through SHS) and its customers. Delivery of our first 50kVA H-Power Generator to ACCIONA. Delivery of first orders from TAMGO across the Saudi and MENA regions.

To achieve this, we have continued to focus on the securing of our supply chain, with component qualification taking place across most of 2023. We are also focussing on scaling up our manufacturing capabilities to meet the growing demand for our generators. We plan to do this through a combination of strategic partnerships within our sub-assembly supply chain and a modest investment into our on-site assembly capabilities. This will ensure effective management of working capital.

Work on the liquid cooled generator for ABB continues, with initial testing expected to complete within 2024, to be followed by CE marking prior to shipping. In the meantime, early pre-ordering of the 200kW H-Power Generator is available with active marketing of the system already underway with TAMGO for the Saudi market.

We continue to see interest in our hydrogen power generators from global distributors and plant hire businesses and so collaborative working with this sector to support decarbonisation requirements of their customers will also be an important part of 2024.

The Board also intends to explore options to both demonstrate and unlock the material unrecognised value of our ammonia cracking technology to the benefit of shareholders through industry partnerships and other strategic avenues.

Adam Bond
Chief Executive Officer
25 March 2024

CHIEF FINANCIAL OFFICER'S REPORT

£27.4m closing cash position

Financial highlights for the 2023 financial year were:

- £27.4m closing cash position;
- £8.5m of qualifying R&D investment;
- £4.1m of R&D tax credits received; and
- £4.3m UK Government Grant awarded.

Result for the year

After revenue of £0.2m (2022: £0.6m) the Company produced a loss after tax of £17.5m (2022: £16.4m) for the 2023 financial year.

This loss was driven by operating costs of £20.0m (2022: £19.7m) offset by interest earned of £0.5m (2022: £0.1m) and R&D tax credits of £2.1m (2022: £3.0m).

Of the £20.0m of operating costs, £4.7m (2022: £5.1m) related to R&D materials, £9.6m (2022: £7.6m) to staff costs and £5.7m (2022: £7.0m) to other administrative expenses.

Of the administrative expenses, £2.4m (2022: £3.5m) related to non-cash items, mainly depreciation and share based payments.

The reduction of expected R&D tax credits, from £3.0m to £2.1m, is due to the changes in UK Government legislation, effective 1 April 2023, which reduced the value of the uplift from 130% to 86%, as well as reducing the recovery rates and tightening definitions around qualifying expenditure.

Strong closing cash position of £27.4m

A summary of the cash flow for the 2023 financial year is set out within the table below:

Cash flow summary	**£'m**
Net loss before tax	(19.6)
Non-cash items	2.2
R&D credits received	4.1
Working capital movements	0.2
	(13.1)
Investing activities	(1.2)
Financing activities	1.5
	(12.8)
Opening cash	40.2
Closing cash	**27.4**

Operational cash burn (i.e., before investing or financing activities) of £13.1m equated to an average of £1.1m per month, suggesting a cash runway, at similar expenditure levels, of 24-months beyond the end of the 2023 financial year. This cash runway will reduce in proportion to the rate at which the Company scales up its commercial and manufacturing capabilities.

£8.5m of qualifying R&D investment

£8.5m (2022: £9.0m) of the Company's R&D invested is expected to qualify under the UK Government's R&D tax credit scheme. This was deployed as follows:

Qualifying R&D expense	**£'m**
Materials	3.3
Staff costs	4.7
Other costs	0.5
	8.5

The £8.5m was deployed approximately 40%, 25% and 35% across each of the Company's three value streams, being: air cooled generators; liquid cooled generators; and fuel processing respectively.

In the case of air cooled generators, the investment funded the customer driven evolution from the 10kW H-Power Tower to the 30kW H-Power Generator, the success of which culminated in the JV with Speedy Hire.

In the case of liquid cooled generators, the investment funded the customer driven evolution from the 100kW fuel cell laboratory test to the 200kW generator unit, currently undergoing laboratory testing.

In the case of fuel processing, the investment funded construction of our pilot modular ammonia cracker. This has been designed to a scale equivalent to a 1MW electrolyser, meaning an output of 400kg of hydrogen per day to fuel cell purity, and currently undergoing a series of onsite field tests to prove out the economics and useability.

The Company has assessed each of the three value streams against the six tests set out within the accounting standard that need to be met before the related investment can be capitalised as intangible assets.

Based on the above assessment, the Company has concluded that for the 2023 financial year the amounts invested should still be expensed as operating costs. For the 2024 financial year that is expected to change, due to the continued progress during that year.

Receipt of £4.1m in R&D tax credits

Of the £4.1m (2022: £0.5m) received, £1.1m related to the 2021 financial year and £3.0m to the 2022 financial year.

The Company received two years' worth of R&D tax credits during the 2023 financial year because it accelerated submission of its 2022 corporation tax return. The full value of the £3.0m claim, lodged in July 2023, was received in September 2023.

Award of a £4.3m UK Government Grant

In July 2023, the Company announced the award of a UK Government Grant worth up to £4.3m to the Company.

The grant was awarded by the Department for Energy Security and Net Zero under its Red Diesel Replacement scheme, which aims to displace diesel in the construction, quarrying and mining sectors.

The grant will reimburse 50% of eligible costs of the next generation air cooled and liquid cooled fuel cell generators. First receipts under the grant will occur during the 2024 financial year and will be recorded in the Statement of Comprehensive Income as other income.

CHIEF FINANCIAL OFFICER'S REPORT
CONTINUED

The developments must culminate in a field trial for both the air cooled and liquid cooled generators, alongside a hybrid battery, at one, or more, of the quarries. If the field trials are delayed beyond the March 2025 closing date then there is a high risk of under recovery.

No recoveries were made under this grant during the 2023 financial year. The first claim has now been made and receipt expected in due course.

ABB E-mobility (ABB)

During the 2023 financial year, the Sale & Development agreement with ABB was revised by both parties. Under the revised agreement, ABB has, for a pre-agreed total and defined term, a discount to be spread over the purchases of the first ten eligible fuel cell systems.

The total cash value of the original contract was £4.0m and this remained unchanged after the revision, with £2.0m having been received in the 2022 financial year and the £2.0m balance received in the 2023 financial year in return for the purchase of newly issued shares in the Company.

Joint venture (JV) with Speedy Hire

The commercial elements of the JV are covered within the CEO report.

Whilst the plan to enter into the JV was announced during the 2023 financial year, the contracts were not completed until after it.

In terms of JV funding, initial investments became unconditional on signing of the contract, with future cash injections conditional on certain pre-agreed operational milestones set out within the JV agreement.

Subsequent injections are to be funded in the form of commercial interest-bearing loan notes, issued in equal share by each of the partners. Payment is expected to be made from the existing cash resources of each company, with the option to seek external debt at a suitable point in the future.

To maintain exclusivity in the UK and Ireland, a minimum order of H-Power Generators has been agreed between the partners. This quantity increases annually and is phased over three years, being the minimum term of the exclusivity agreement.

Going concern

To deliver on the Company's intention to capitalise on its growing market opportunities it needs to scale up its manufacturing output and continue investing in research and development, both of which will require additional funding.

Whilst the Board recognises the challenges of fundraising in the current economic climate, it is confident that when the Company chooses to seek additional funding that it will be available. This view is based primarily on the:

- recent technical successes of both the fuel cell and fuel processing teams;
- UK Government requirements for construction tenders to include a non-diesel solution for onsite electricity generation;
- growing levels of interest expressed by the construction market in the recent joint venture with Speedy Hire plc;
- positive feedback from external advisors; and
- growing levels of institutional engagement, in both the fuel cell and fuel processing value streams, particularly following recent site visits.

This is further discussed in the notes to the accounts.

Outlook

At the end of February 2024, the Company held £18.0m of cash balances. Of the £9.4m of outflow since the end of the 2023 financial year, nearly half related to capital purchases, inventory build-up of £2.6m and other working capital. The average monthly cash outflow from operations therefore remained consistent with Board expectations at £1.3m per month.

The 2024 financial year has started strongly with successful factory acceptance testing of the first 30kW H-Power Generator in March and the growing pipeline of orders driven by the JV with Speedy Hire.

Peter Dixon-Clarke
Chief Finance Officer
25 March 2024

KEY PERFORMANCE INDICATORS

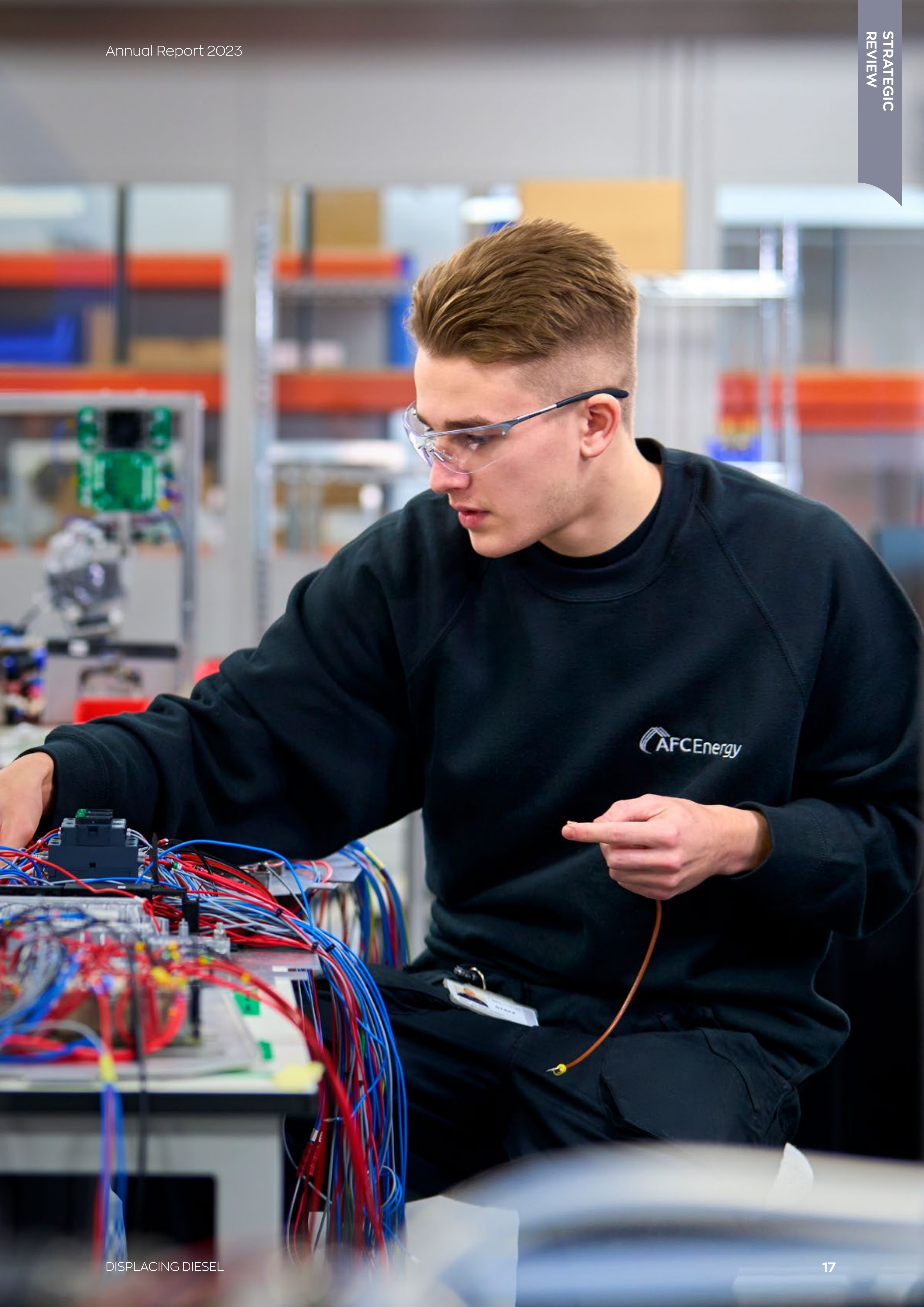
	Year ended 31 October 2023	Year ended 31 October 2022
Commercial (£000s)		
Revenue	**277**	582
Deferred revenue	**1,423**	1,600
Financial (£000s)		
Operating loss	**20,020**	19,612
Liquidity (Unrestricted cash and cash equivalents)	**27,366**	40,220
Cash absorbed by operating and investing activities	**14,381**	15,352
Scale up (average headcount)		
Support, operations and technical employees	**113**	77
Health and safety		
On-site hours	**205,982**	152,453
Near miss	**9**	10
Lost Time Injuries (LTI)	**NIL**	NIL

MARKET OPPORTUNITY – FUEL CELL

Scaling-up delivery

2024 is all about delivery. Delivery of our first H-Power Generators to our JV with Speedy Hire, to ACCIONA and to TAMGO.

To achieve this, we are focussing on securing our supply chain and scaling up our manufacturing. We'll do this through a combination of strategic partnerships within our supply chain and a modest investment into on-site assembly.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MARKET OPPORTUNITY

Fuel Processing

Ammonia has continued to gain international importance as a hydrogen carrier fuel with announcements during 2023 of billions of dollars of investment. With a global hydrogen trade to be facilitated through shipping ammonia at scale, the ability to produce hydrogen at the point of use, via ammonia cracking, will be critical.

With the launch, in December 2023, of the Company's first, and the world's largest, modular scalable cracker here in the UK, AFC Energy remains at the forefront of this technology.


AFC Energy
MOTOROLA

MARKET OPPORTUNITY

Construction

The UK construction market is aggressively moving towards the displacement of diesel generators.

With high profile projects such as HS2 stating that there will be no diesel on site by 2029, the JV with Speedy Hire PLC is perfectly placed to step into this void with its hydrogen powered generators. Market enquiries, via SHS, are already exceeding expectations and current manufacturing capacity.

MARKET OPPORTUNITY

Cracker Technology

Hydrogen, being the lightest and least dense fuel brings around challenges in moving it long distances. Ammonia is a compound that contains 75% hydrogen and can be liquified, meaning that it is easier to trade around the globe as it is moved as a liquified gas.

The AFC Energy Cracker Technology is designed to capitalise on this growing trade by converting the ammonia back into hydrogen at a high level of purity suitable for a wide range of applications.

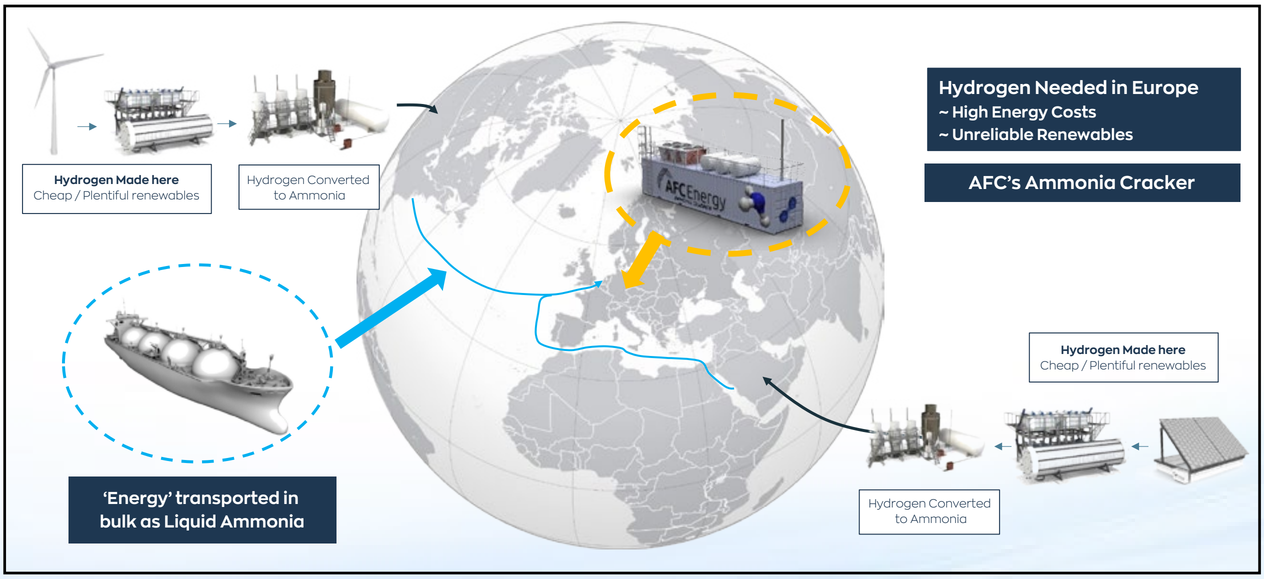
Green Hydrogen made in countries with copious and large-scale low-cost renewable energy can be readily transformed into green ammonia. Over the next few years, the number of green hydrogen plants coming on stream will increase with the bulk of them using ammonia as their method of moving the hydrogen to their ultimate global destinations.

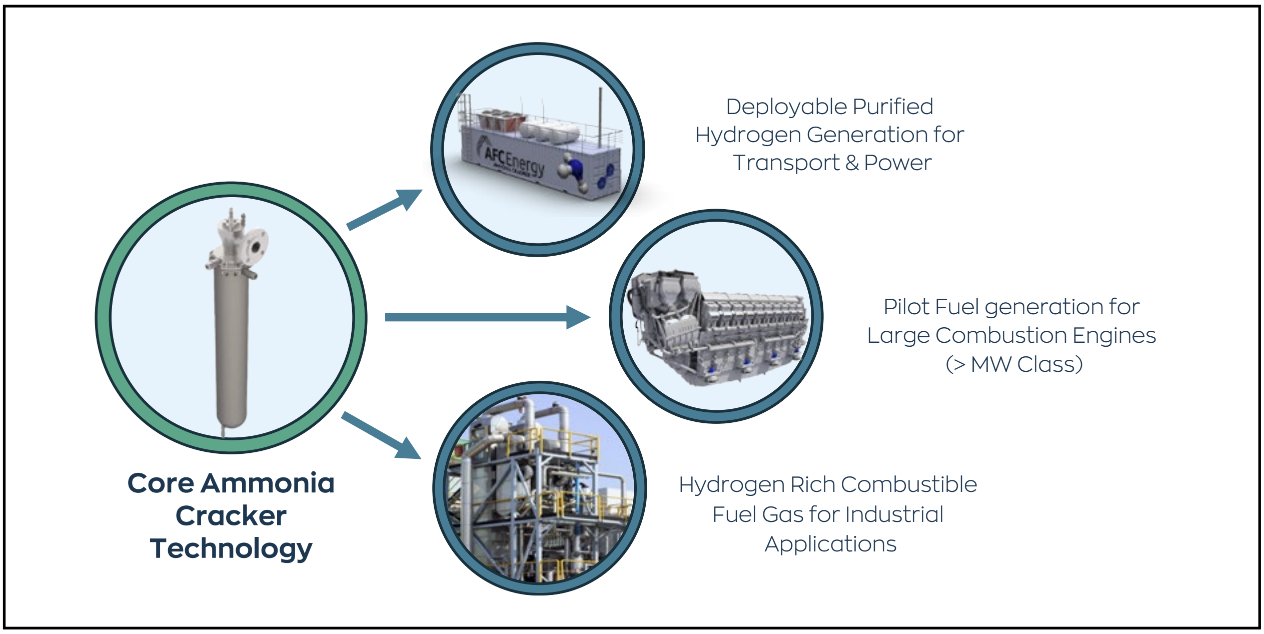
HYDROGEN - H_2

- ~ Hydrogen is a great clean fuel, but it is difficult and expensive to move in any significant volume
- ~ Conventionally moved in either pipelines or specially converted trailers

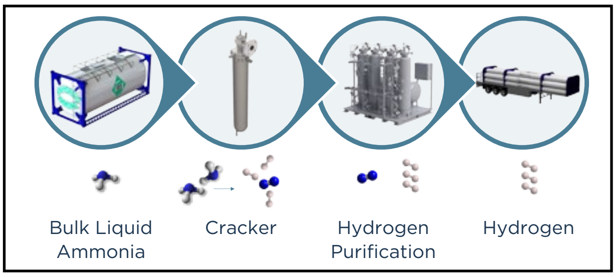
AMMONIA - NH_3

- ~ Ammonia is a widely traded commodity chemical, used in multiple industries (but predominantly fertilizer)
- ~ Transported widely as a liquid using standard tanks
- ~ Can be utilised as a 'Hydrogen-Carrier' with Ammonia Cracking Technology





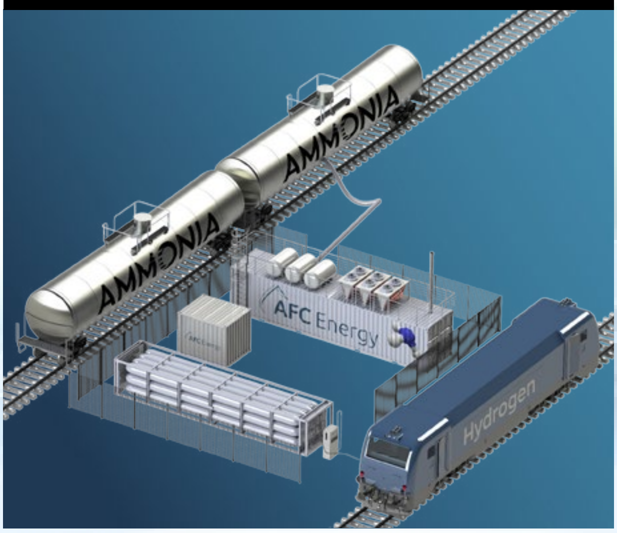
At the heart of the AFC Energy ammonia cracker will be our modular reactor. This compact reactor not only catalytically cracks the ammonia, but also thermally processes the gas streams, recovering heat where appropriate to improve and boost the efficiency. The philosophy behind the AFC Energy modular reactor is that multiple units can be combined to increase the gas throughput.



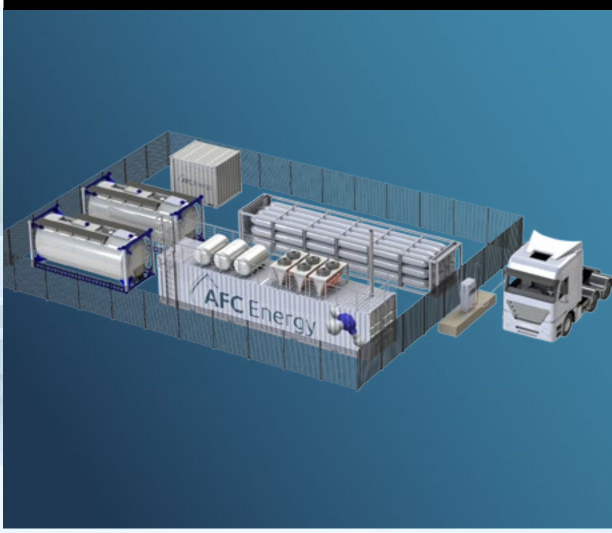
The future applications of the Cracker technology are almost limitless, however we are prioritising looking at both combustion and pure hydrogen generation applications as these appear to be the likely early adopter routes to transition away from fossil fuels into ammonia based fuels.

During the 2023 financial year we launched our pilot R&D site where we can demonstrate our prototype systems at a scale equivalent of a 1MW electrolyser (~400kg/day Hydrogen output). The intention is to prove out the operations, economics and useability on this site whilst we look to off-take the hydrogen for our fuel-cell and wider applications. At a suitable time, we will substitute the existing cracker for our own modular cracker.

TRANSPORT – RAIL



TRANSPORT – ROAD



JOINT VENTURES

AFC Energy and Speedy plc Joint Venture (JV) signed on 14 November 2023.

UK and Ireland
JV to provide dedicated hydrogen H-Powered Generator plant hire business servicing the UK and Irish construction and temporary power markets.

50:50
JV incorporated on a 50:50 basis and called Speedy Hydrogen Solutions (SHS).

4
Four directors appointed to the board of JV, two from Speedy and two from AFC Energy.

£1.25m
Initial cash injection to JV, as equity, of £1.25m (£0.625m each).

3 years
Mutual exclusivity, subject to minimum order quantity by the JV over first three years, with option to extend.

£2.0m > c.£4.7m
JV commitment to an initial order of £2.0m for delivery of generators with the contractual ability to increase orders up to c.£4.7m in the first year, by mutual consent.

Phased
Subsequent H-Power Generator sales orders and deliveries to be on a phased basis.

SMA
AFC Energy to procure and sell hydrogen fuel and provide technical and operational support under a Supply and Maintenance Agreement (“SMA”).

Speedy
Speedy to provide marketing, accounting and logistical support.

Pipeline
Strong customer interest already being generated, with growing pipeline.

SECTION 172

Companies Act 2006, Section 172(1) Directors' statement – promoting the success of the Company.

The Directors are fully aware of and understand their statutory duty under the Act. A Director of a company must act in the way he or she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members and, in doing so, have regard (amongst other matters) to the following factors:

- The likely consequences of any decision on the long-term value of the Company through the annual strategic review and risk appraisal processes which are reviewed and approved by the Board;
- The interests of the Company's employees through monitoring employee welfare and safety, annual appraisal and setting a clear remuneration policy. The Directors recognise that employees are fundamental to the future growth and success of any company. Such success depends on looking after our employees, as described further in the ESG and Remuneration Committee reports. The Board is mindful that decisions and oversight often have to balance the differing needs of stakeholders, and ensures this is taken into consideration when making critical decisions;
- The need to foster the Company's business relationships with suppliers, customers and others through the development of strategic agreements with supply chain and distribution channel partners;
- The impact of the Company's operations on the community and the environment, monitored by the ESG Committee which agrees on activities, sets goals, monitors KPIs and reviews and updates policies and procedures. An evaluation of our impact is assessed in the ESG Committee report;
- The desirability of the Company maintaining a reputation for high standards of business conduct by reviewing and updating the Company's policies and setting out the high standards and behaviours expected from those that work for us or with us; and
- The need to act fairly between members of the Company. After weighing up all relevant factors, the Directors consider which course of action best promotes the long-term success of the Company, taking into consideration the impact on stakeholders. In doing so, the Directors act fairly as between the Company's members.

The Board is ultimately responsible for the direction, management, performance and long-term sustainable success of the Company. It sets the Company's strategy and objectives, considering the interests of all its stakeholders. A good understanding of the Company's stakeholders enables the Board to factor the potential impact of strategic decisions on each stakeholder into boardroom discussions. By considering the Company's purpose, vision and values together with its strategic priorities the Board aims to make sure that its decisions are fair. The Board has always, both collectively and individually, taken decisions for the long term that align with our strategic direction and consistently aims to uphold the highest standards of business conduct. Board resolutions are always determined with reference to the interests of the Company's employees, its business relationships with suppliers and customers, and the impact of its operations on communities and the environment.

Stakeholder input to our decision making during the period has included:

- Consultation with, and site visits by, shareholders, market professionals and professional advisers to diversify and strengthen the professional experience and independence of the Board and senior managers to cover commercial, product development, technology and finance. The Nomination Committee report sets out further details of the processes followed;
- Market sounding and site validation projects confirm that end users are prepared to pay a premium to reduce emissions. Furthermore, end users and strategic partners have provided feedback identifying potential improvement to future versions of the Company's products; and
- The ESG Committee report includes an evaluation of existing programmes and day-to-day operational activity which already align with our high level commitments set out in the report to the environment, wider society and governance treating all stakeholders fairly whilst maintaining high standards of business conduct in accordance with internal policies and procedures.

This statement serves as an overview of how the Directors have performed this duty in the financial period and engaged with the Company's key stakeholders to help to inform the Board's decision-making. Further details of the consultation processes applied during this period are set out in the Nomination Committee, Remuneration Committee and Strategic reports.

These initiatives should be read in conjunction with the Corporate Governance section which sets out the decision making and risk appraisal processes together with delegation of authorities.

RISK MANAGEMENT

The Company's business exposes it to a broad range of risks. Its approach to managing these risks has therefore been to create a system of internal controls, which looks to manage, rather than eliminate, risk. Whilst the Company has an Audit & Risk Committee, responsibility for risk management lies with the entire Board.

The Board has adopted a policy of reviewing and updating the table below on a quarterly basis.

Commercial risk	Detail	Likelihood	Impact	Trend	Mitigation
Products are at an early stage of commercialisation, and so may not initially perform to customer expectations and may take time to gain traction in target markets.	The fuel cell offering comes in two platforms, being air cooled and liquid cooled. Of these, only the former is generating revenue at this stage.	High	High	▲	Strict quality control procedures during manufacturing and acceptance tests prior to shipping combined with readily available on-site support. Working with strategic partners, such as plant hire companies, will help in penetrating markets, particularly where those partners already have a presence. Suitable sparing policy such that spare fuel cell modules are made and stored as part of any production run.
Most development and commercialisation workstreams are undertaken in conjunction with, and are reliant upon, strategic partners.	Several strategic partnerships, including two with plant hire companies, are already in place and discussions around additional partnerships, beyond existing exclusivity restrictions, are ongoing.	High	High	▶	Extensive and continued due diligence to confirm financial, technical and commercial competence and alignment Pursuit of multiple partnerships, to mitigate negative impact of any single relationship. Geographic exclusivity clauses, within the plant hire and distribution agreements.
High system costs may reduce competitiveness compared to other fuel cell systems.	The Company does not yet manufacture at the scale required to generate material cost savings from operational and purchasing efficiencies.	High	High	▶	A proactive value engineering process with a clear product roadmap and bulk component purchases supported by manufacturing drop sizes. Supply chain pricing tension and resilience from using multiple suppliers, where appropriate.
Competitiveness, compared to non-hydrogen solutions, depends on the delivered price of hydrogen.	Customers', particularly plant hire companies, buying decisions are expected to be driven by the total cost of ownership, being both upfront capital expenditure and ongoing operational expenditure.	High	High	▶	Increasing levels of global investment in the hydrogen supply chain, particularly in green hydrogen. Pursuit of an integrated fuelling strategy covering both direct hydrogen and hydrogen from ammonia. Recent high success rate when applying for applicable government grants.

Technological risk	Detail	Likelihood	Impact	Trend	Mitigation
Ongoing development requires ready access to test equipment and facilities.	Increased activity in the hydrogen space means that timely access to suitable test equipment cannot be guaranteed and so may lead to delays in product development.	High	High	▶	The Company has good relations with existing suppliers, both in the UK and Europe. It is also exploring an opportunity to develop its own test facility.
The growing levels of customers; employee turnover and strategic partnerships increase the risk of "leakage" of intellectual property and/ or "know how".	H-Power Towers were first deployed in August 2022 and the first H-Power Generator was factory acceptance tested in March 2024. Average employee headcount grew during the 2023 financial year from 84 to 120.	Medium	Medium	▶	Using specialist advisers, internal controls, and employee briefings to capture; protect and exploit internally generated IP. Partner agreements contain non-disclosure and IP protection provisions. The Company does not sell into markets where there is a high risk of "reverse engineering".

Operational risk	Detail	Likelihood	Impact	Trend	Mitigation
The Company manufactures and deploys its own product to customer sites and often procures the fuel required by those customers for power generation.	Whilst many materials and sub-assemblies are sourced externally, the Company undertakes assembly operations and also handles volatile and/ or corrosive chemicals, such as hydrogen and ammonia, both on and off-site.	Medium	High	▲	The Company has a dedicated health & safety officer along with a dedicated HSE management & tracking system. The HSE system incorporates a wide range of functionality, including modules such as "Accident/ Incidents Management"; "Permit to Work" and "Risk Assessment".
The supply chain is international and certain components are sole sourced.	Most key components, by value, are sourced from within Europe and North America. Some components are sourced from China, and shipped via the Red Sea, where shipping is currently under threat from missiles and drones launched from Yemen.	Medium	High	▶	Moving away from sole sourcing for the majority of suppliers, to achieve greater resilience and cost competitiveness.
The supply chain is unproven at the scale envisaged.	Driving down costs will require material production increases over the coming years.	Medium	High	▲	Good planning, along with a growing order book and strong balance sheet will help in developing stronger and more equitable supplier relationships as output grows.
Global pandemics, such as Covid 19.	Effective collaboration, both internally and externally (particularly the ability to attend customer sites) is critical to the success of the business.	Medium	Medium	▼	The Company has a Business Continuity Plan, which includes the requirement for robust information technology systems able to support remote working if required.

RISK MANAGEMENT

Corporate risk	Detail	Likelihood	Impact	Trend	Mitigation
Failure to meet shareholder expectations.	Fundraisings in 2020 and 2021 increased expectations and poor performance could deter new investors from buying or existing investors from holding. Further, the improving macroeconomic outlook may stall and deter capital markets from further exposure.	Medium	High	▶	The Company focuses on cash burn and operates strict cost control measures on a project-by-project basis. It also has contingency plans in place to curtail certain projects if necessary to slow the rate of cash burn. The Company has adequate cash balances to meet its liabilities as they fall due for at least the next 12-months.
The Company does not purchase key person insurance.	Senior staff have highly specialised skills which would be hard to replace following an unplanned departure.	High	High	▲	The Company has a proactive remuneration committee with access to specialist advice and a mixture of shorter-term incentives, such as cash bonuses, and longer-term incentives, such as options, to retain and motivate employees.
Competition attracting & retaining skilled personnel.	In addition to the inflationary environment, the sector is seeing increasing demand for skilled personnel.	High	High	▶	The Company has a proactive remuneration committee with access to specialist advice and a mixture of shorter-term incentives, such as cash bonuses, and longer-term incentives, such as options, to retain and motivate employees.
Cyber risk.	The use of networked systems across a growing organisation, along with being a listed entity, increases the risk of cyber- attacks, such as ransom demands	Medium	High	▶	The Company is accredited under the "Cyber Essentials" programme, the government-backed scheme created by the National Cyber Security Centre.

Political risk	Detail	Likelihood	Impact	Trend	Mitigation
Customers and strategic partners in multiple jurisdictions.	The Company is UK based with customers and strategic partners in the UK; Europe and the Middle East.	Medium	High	▲	Seeking specialist external advice, particularly on tax and tariff related matters.
State sponsored aggression against other countries.	Invasions, such as those by Russia of Ukraine and Hamas of Israel, have global consequences, including material increases to the cost of energy, which drives consumer inflation and places greater pressure on salary inflation.	High	High	▲	The Company has a proactive remuneration committee with access to specialist advice and a mixture of shorter-term incentives, such as cash bonuses, and longer-term incentives, such as options, to retain and motivate employees.
Emissions targets and government support can impact customer purchasing decisions.	The Company's current customer base is in the UK; Europe and Middle East, all of which are jurisdictions where considerable support, both legislative and financial, will be required for the continued energy transition.	Medium	Medium	▶	Prioritise customers that already have the budget to proceed with their projects, rather than those still subject to government funding.

Financial risk	Detail	Likelihood	Impact	Trend	Mitigation
The Company does not yet generate positive cash flow.	The Company is at an early stage of commercialisation and so does not generate the gross margins required to support its costs. It will therefore require additional funding to scale-up at the rate envisaged.	High	High	▲	Continued sales growth and product development will drive down manufacturing costs per unit and improve product margin.
Having a multi jurisdiction supply chain exposes the Company to foreign exchange risk.	Whilst sales revenue is mainly £ denominated, the majority of inventory costs are in US$ or €.	High	High	▲	The Company holds accounts in all three of the main currencies it trades in. Production planning allows it to hedge when suitable.

The Strategic Report on pages 1 to 28 has been approved by the Directors and signed on their behalf by:

Peter Dixon-Clarke

25 March 2024

ESG COMMITTEE REPORT

Making good progress

Displacing Diesel is a route to flexible, clean energy we're passionate about along with our customers and investors.

We are proud and active players in the energy transition. Recognising the challenges around hydrogen production, as highlighted by the Hydrogen Council, we have expanded our strategy and activities to include the development of proprietary ammonia cracking technology to produce green hydrogen out of green ammonia.

Our S Series and S+ Series fuel cells and carrier fuel conversion products are a key alternative to diesel generators, often in grid constrained locations. Enabling the required shift away from diesel to hydrogen has huge potential to reduce greenhouse gas emissions, air pollution and noise pollution.

ESG is an essential and integrated part of our business, and it is what our customers, investors, suppliers, communities, and employees expect. Over the last year we have made good progress around employee wellbeing and training, governance, and health and safety and environmental programmes.

Monika Biddulph
ESG board sponsor and Non-Executive Director
25 March 2024

"Sustainability proudly sits at the heart of our business and products. Over the last year we have made good progress in several key areas, with the materiality matrix guiding the ESG Committee in the prioritisation of activities"

ESG GOVERNANCE AND STRATEGY

Governance and strategic focus

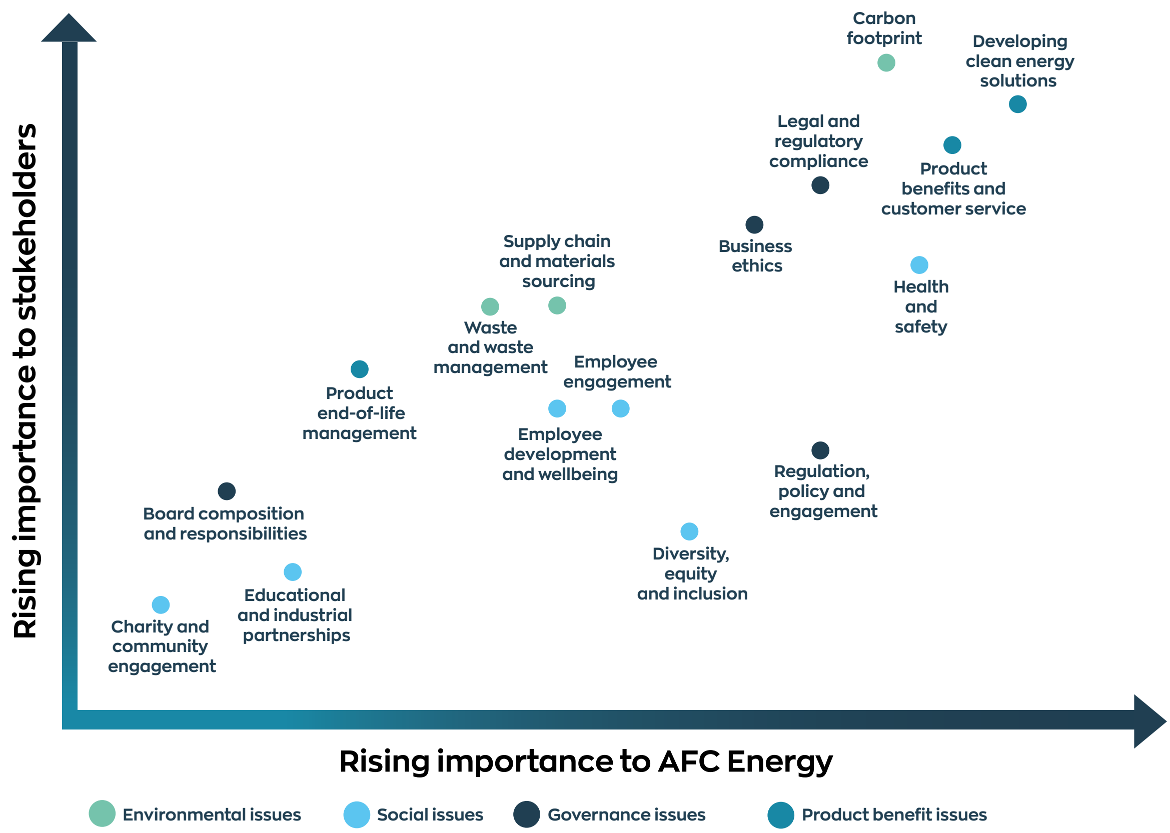
Our approach

The ESG Committee is led by Monika Biddulph, board sponsor and chair, with committee members including employee volunteers as well as specialist functions such as Health and Safety, Human Resources, Finance, Procurement, and Facilities. The Committee regularly reports to the board on its activities and makes recommendations to the board on ESG strategy.

ESG materiality assessment

As the company grows and implements manufacturing scaleup, materials sourcing and supply chain management as well as the implementation of processes across the company become increasingly important, and are a focus of the 2024 financial year. Also during the 2024 financial year, a refresh of the materiality matrix will be conducted, ensuring we concentrate our efforts on those issues that are most relevant and material for the business and our stakeholders. Further details on Governance are in the Governance section, with details on Product Benefits and ESG link to strategy in the CEO and chair section of the report.

ESG materiality matrix



The materiality matrix identifies key areas of focus for AFC Energy and its stakeholders, and helps set priorities on actions. The materiality matrix will be refreshed during the 2024 financial year to ensure that we concentrate our resources on the issues that are most material for the Company and its stakeholders.

ESG GOVERNANCE AND STRATEGY

Health and Safety

Health and Safety is at the foundation of our culture. We seek to provide and maintain a safe and healthy work environment for our employees, contractors and other people involved in our operations.

Our existing Health & Safety Policy demonstrates our commitment to the prevention of injury and ill health in accordance with the Health & Safety at Work Act (1974) and its associated regulations.

In June 2023, we introduced new HSE software, including modules on Incident, Action, Risk Assessment, Audit, Permit to Work and Advanced Root Cause Analysis. This system enables easy reporting of safety observations and tracking of actions combined with practical feasibilities for analysis, trends and dashboards.

Health and safety	2023	2022	2021
On-site hours	**205,982**	152,453	78,505
Near miss	**9**	10	2
Lost Time Injuries (LTI)	**NIL**	NIL	1
LTI per onsite hours	**NIL**	NIL	0.000013

Training

We provide all employees with access to a range of online training courses, including mandatory training modules covering health and safety and other compliance areas such as anti-bribery, anti-corruption, data security, fire awareness, and privacy policy. These are completed by all new starters during their on-boarding process, with regular refresher training for all employees.

In addition, face-to-face health & safety training is provided in-house and through third party specialists. These include Fire Marshal, First Aid, Ammonia Safety and Gas Safety training. Emergency Response Teams also received additional training such as First Aid at Work. As of November 2023, we were able to achieve the highest number of both first aiders and fire marshals in the organisation so far with more than 13% of total employees being first aiders and more than 18% being fire marshals.

Communication

Improved format H&S Committee Meetings aid and accelerate the decision-making process and action follow-up. Regular Safety Walks with members of the senior leadership team enhance the interaction and improve communication between leaders and teams.

We are proud to announce the installation of Health, Safety, and Environment General Information Boards in our main offices. These boards serve as comprehensive hubs, featuring crucial information such as our HSE Policies, KPIs and results, minutes of H&S Committee meetings and daily changing photo cards of our First Aiders and Fire Marshals.

To further enhance our emergency response capabilities, we have strategically placed Automated External Defibrillators (AEDs) adjacent to each board.

To encourage a culture of proactive reporting and continuous improvement, our HSE Podium proudly displays the employees with the highest number of safety observations.

Over the 2024 financial year we will be working towards a Health & Safety Management System (in accordance with ISO 45001: 2018) and will be implementing ISO 14001.

ENVIRONMENTAL

Continuing progress

Our employee survey results over three years say we are a society that believes climate change is an important issue in our life and at AFC Energy we want to help the world to reduce carbon emissions.

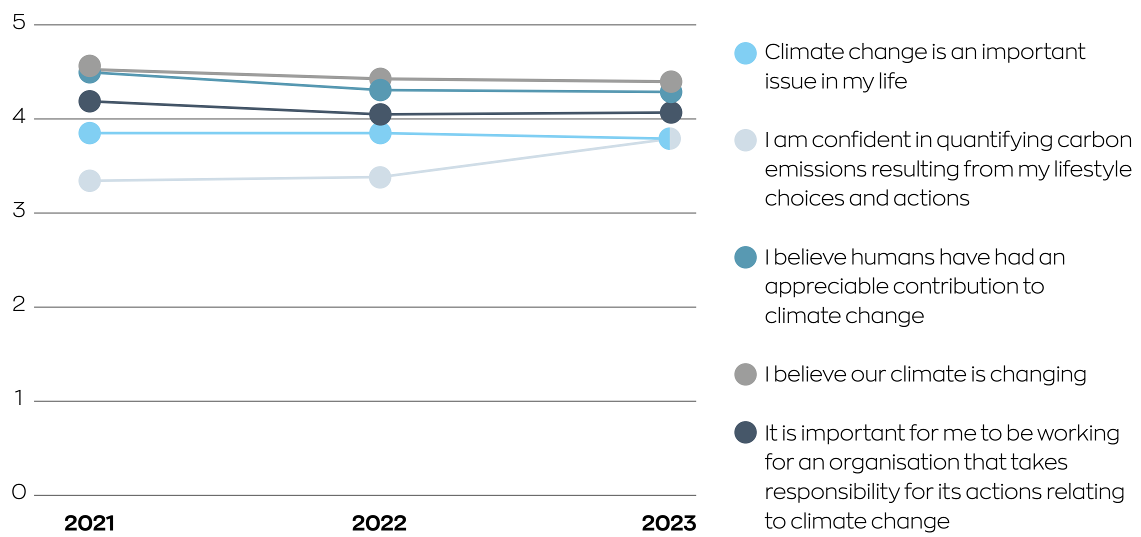
Employee Engagement & Total Emissions

In our annual carbon footprint surveys, we asked our employees about their transportation methods, fuel types, the impact of working from home, and their views on climate change and the UN sustainability goals.

We are proud to report that more than 80% of our employees believe that climate change is real and that humans have had a significant contribution to it. Additionally, over 60% of our employees think that climate change is an important issue in their lives. This shows that our employees are committed to reducing our environmental impact.

EMPLOYEE OPINION

We asked employees how much they agree or disagree with these standard questions (shown below), with the following options available for them to score their response by:
1 - Strongly Disagree, 2 - Disagree, 3 - Neutral, 4 - Agree, 5 - Strongly Agree



ENVIRONMENTAL

We have now completed carbon footprint measurements for FY 2021 through to FY 2023.

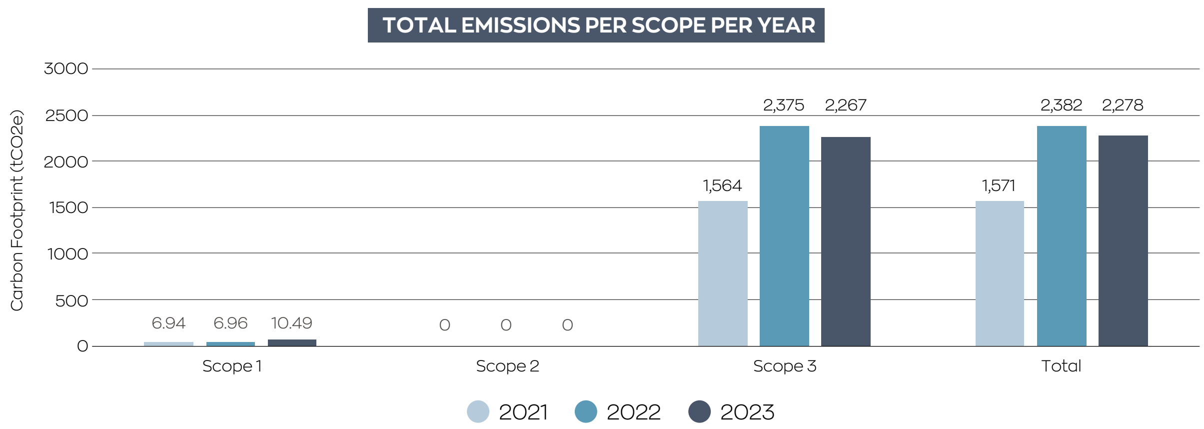
As expected in a fast-growing company that is scaling up manufacturing, we have increased our total scope 3 carbon footprint but were able to keep our scope 1 carbon footprint low, and reduce our carbon footprint per employee in all categories. As we are using wholly green electricity for heating and power, there are no scope 2 carbon emissions.

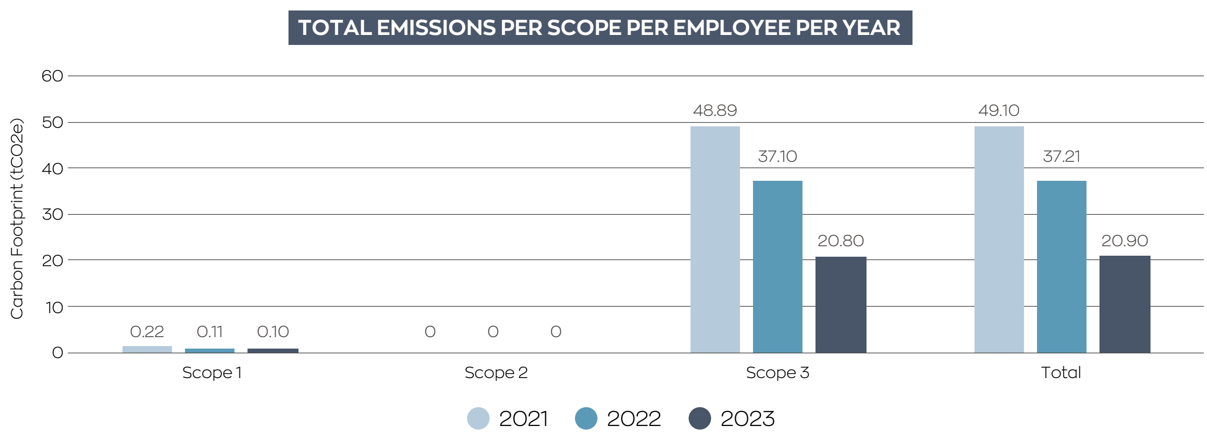
We expect that, as manufacturing scales up, our total scope 3 carbon footprint will increase and we will therefore focus on our supply chain, sustainable sourcing, and scope three emissions.

Operational Emissions

We remain committed to contributing towards a greener, more sustainable future, and we believe that our efforts will make a positive difference in the fight against climate change.

Most of our operational emissions - more than 80% of the total operational footprint are coming from employee commutes and international travel. The introduction of flexible working helped our employees to reduce their commute, resulting in a positive impact in reducing our emissions per employee.





*scope 1 of 2021 has been restated due to better data granularity

SOCIAL

Empowering people

Our people are fundamental to creating value for the business. We made good progress implementing our HR strategy this year, to engage, strengthen, grow and retain our people and teams whilst embracing diversity and inclusion and empowering people to be their authentic selves.

Developing our people

To implement our people strategy, we introduced HiBob, an HR information system. This now enables employees to update their own details, book leave and engage with others across the entire business.

During the 2023 financial year the Company's headcount continued to grow by 18% and is expected to grow further in FY24. We now have the ability to automate our onboarding process, store, and access our people data easily and accurately, which provides us with easy access to the data that is essential for our growth strategy.

Going forward, we will utilise HiBoB for objectives setting, personal development, policy and compliance and use the data it provides to achieve strong business outcomes.

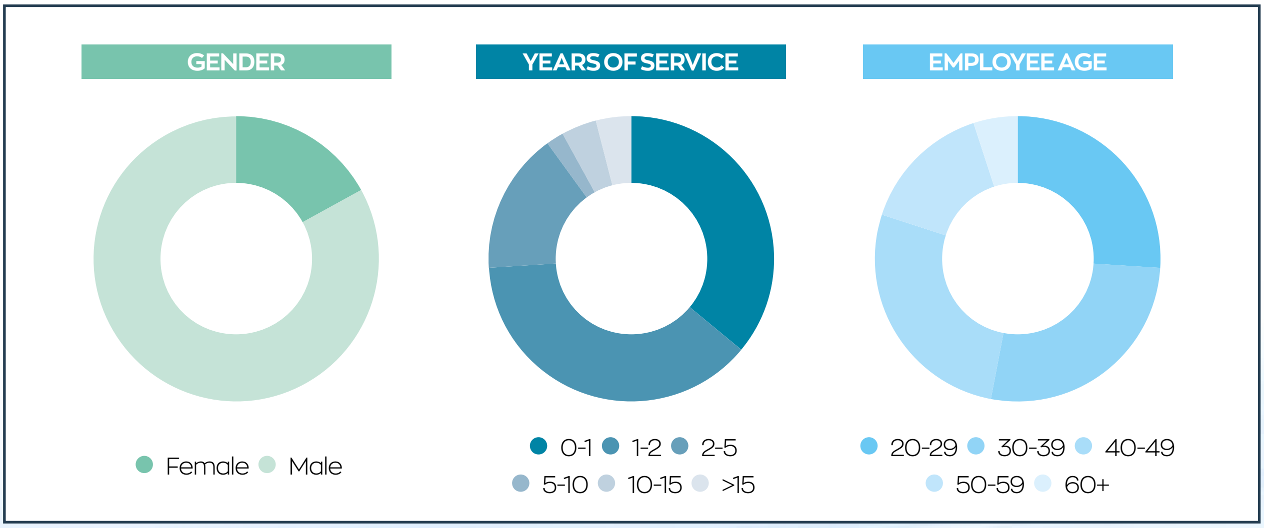
To further allow personal development our iHasco on-line training platform was expanded to give all employees access to all iHasco courses, including soft skills training, leadership and technical training, in addition to its use for mandatory training.

Employee reward and recognition

We completed both a mid-year and an end of year external salary benchmarking review to ensure that we are staying competitive not only for our new starters but for our existing teams too. We also introduced core competencies and salary bandings to enable our managers to have meaningful development discussions with their teams.

Our benefits were reviewed and a second successful save as your earn share save scheme was launched.

We also held two employee recognition events in 2023, our Summer BBQ and Christmas lunch. Colleagues were voted for by their peers and were recognised for demonstrating our corporate values.



SOCIAL

To implement our people strategy, we introduced HiBob, an HR information system. This now enables employees to update their own details, book leave and engage with others across the entire business.

SOCIAL

Community Outreach

In the 2023 financial year we partnered with a local secondary school, Glebelands. A team of five employees from different parts of the business presented a careers talk to 120 GCSE students, providing insights to different roles within STEM, and shared their personal career journeys. We have created a partnership programme with a local science academy, and, in the 2024 financial year, we will be hosting five work experience students who excel within Science and providing them with a week of real work life experiences.

A team of Engineers attended Tanbridge House School in Horsham to provide an interactive demonstration of how fuel cells work using small cars and various levels of salt water, allowing the students to race the cars and document the results.

We held a coffee morning in aid of the Royal Marsden Cancer Charity, where all proceeds (£908) from the cake sale went to the charity.

Employee Engagement, culture, and values

We strive to provide an engaging and supportive environment for our employees to work at their best. We hold regular "town hall" and team meetings to update on company progress and, of course, to celebrate our successes. In addition we have this year introduced coffee mornings with the CEO and CFO and opportunities to meet the non-executive directors.

As part of our diversity and inclusion initiatives, we have established a multi-faith/multi-purpose room to recognise those that may need a quieter room, and have introduced gender-neutral toilets.

Wellbeing has been a big focus for AFC Energy this year. We have introduced an employee assistance programme to offer employees easy access to advice, whether it be wellbeing, financial or legal.

Remote working and core hours were introduced in the 2023 financial year, allowing our colleagues to work from home and provide them with the flexibility to start and finish at a time that suits their personal needs.

Our values

Responsibility
We take care of our people and our planet

Customer first
We're driven by delivering great outcomes for our customers

Innovation
We are pioneering disruptive solutions to decarbonise the future

Accountability
We're committed owners of structured plans and outcomes

Collaboration
We diligently deliver by working together towards shared goals

COMMITMENTS

Environmental

- Development of zero-emission fuel cell generators at point of use
- Ability of systems to use multiple sources of fuel to accelerate deployment to support decarbonisation
- Development of hydrogen generation systems
- Providing a path to carbon footprint reduction
- Completing ISO 14001 Environmental certification
- Implementing effective supply chain and procurement management

Social

- Embedding effective health & safety practices into everything we do
- Supporting employees with their personal development
- Clear diversity & inclusion practices and employee wellbeing programs
- Commitment to help the communities we live in

Governance

- Strong Board oversight
- Effective decision-making embedded throughout the business
- Strong operational, financial and procurement processes
- Driving change through effective KPIs

HOW WE SUPPORT THE UN SUSTAINABILITY GOALS

Air pollution remains a significant health issue in many cities across the world, particularly amongst the young or vulnerable. The replacement of diesel generators with hydrogen fuel cells such as ours reduces air pollution.

Our fuel cell technologies produce zero emissions at the point of use, replacing their fossil fuel equivalent in use today. With increased production and availability of clean hydrogen and its falling price (forecasted to halve in price by 2030), we are playing our part in delivering affordable, clean energy.

We employ a diverse workforce with professional, technical, engineering, scientific and other highly specialised skills and experience. Our people join and stay with us because of the opportunity to work on innovation and sustainability.

We partner with industry to support the decarbonisation of hard-to-abate sectors such as construction, maritime, rail and data centres. For example our strategic partnership with Speedy, to provide H-Power Generators to the construction industry, and Tamgo, for distribution into Saudi Arabian and near east industrial and off-grid power markets.

The vision for a world without hydrocarbons often puts hydrogen centre stage. We are contributing to the global efforts to get to both net zero and real zero with our hydrogen generation and hydrogen fuel cell technologies.

CORPORATE GOVERNANCE STATEMENT

I am pleased to introduce our corporate governance report for the year ended 31 October 2023.

The Board and I take corporate governance very seriously and are committed to high standards of governance, ensuring Board procedures are robust, kept up to date and appropriate for a Company of our size. The Board reviews its procedures periodically to ensure that they evolve as the business grows.

As a publicly listed business we follow the Quoted Companies Alliance Corporate Governance Code (the QCA Code) and its principles in ensuring the business acts fairly, professionally and with integrity in all its work. Details of how the QCA Code is applied can be found at https://www.afcenergy.com/investors/aim-rule-26/corporate-governance.

During the 2023 financial year:

- The Company continued to deliver its strategy and business model, promoting long-term value creation for all our shareholders.
- The Company continued to seek to understand and meet shareholders needs and expectations, delivering our requirements under Section 172 of the Companies Act.
- The Company, and its ESG Committee considered wider stakeholder and social responsibilities and their implications for long-term success, .
- Risk management continued to be effectively embedded throughout the business, overseen by the Audit and Risk Committee.
- The Board maintained a well-functioning, balanced team that actively drives and supports the continued success of the business.
- A General Counsel and Company Secretary was appointed, further enhancing the Company's governance structure and processes to support sound decision making. A revised Delegation of Authority process was introduced earlier in the financial year.
- Through the work of the Chairman and the Company Secretary, we ensured that Directors have the necessary and up-to-date experience, skills and capabilities required to effectively discharge their functions.
- The Company continued to promote a zero-tolerance approach to bribery and corruption and maintains best practice policies for all personnel to comply with.
- The Company provided regular and timely communication to the market and shareholders on how the Company is both governed and performs, creating a "feedback loop" with our key stakeholders to ensure continuous improvement.

Gary Bullard
Chair
25 March 2024

The Directors present their report together with the audited financial statements for the 2023 financial year. The comparative period was from 1 November 2021 to 31 October 2022.

Principal activity and review of future business developments

The principal activity of AFC Energy plc (the Company) is the development of fuel cells and fuel conversion.

A review of future business developments is included within the Chair's, Chief Executive's and Chief Financial Officer's reports on pages 6 to 14.

Results and dividends

The operating loss before tax for the year was £19.6m (2022: £19.5m).

No dividends were paid in the year. No dividend will be paid in respect of the current year.

Board members

Details of the Board membership during the period are set out in the Nomination Report.

On 31 October 2023 the beneficial interests of Directors and their families in the equity share capital of the Company were:

	Number of Ordinary shares of 0.1p 2023	Number of Ordinary shares of 0.1p 2022
Gary Bullard	**500,000**	225,000
Adam Bond	**3,583,169**	3,583,169
Gerry Agnew	**621,684**	N/A

None of the other directors had a direct interest over share capital during the reporting period.

Significant shareholdings of greater than 3.00% at 15 March 2024	**%**
Hargreaves Lansdown plc	13.96
Interactive Investor	11.46
Janus Henderson Investors	6.93
HSDL Stockbrokers	6.01
Barclays Smart Investor 41	4.42
DWP Bank	3.90
ING-DIBA Frankfurt	3.50
HSBC Trinkaus & Burkhardt	3.22
AJ Bell	3.19
	56.59

Financial instruments

Financial instruments are disclosed in note 25 of the financial statements.

Liability insurance for company officers

The Company maintains Directors' and Officers' liability insurance cover for its directors and officers to the extent permitted under the Companies Act 2006.

Research and development

The Company invests substantially in research and development and makes claims under the Government's R&D tax credit scheme. In the year, relevant qualifying expenditure was £8.5m (2022: £9.1m).

Risk management

The responsibility of the Board is to determine financial risks and delegate to the finance function their management by setting policies and objectives. The management of credit, liquidity and interest rate risks are set out in note 24 to the financial statements.

Going concern

See disclosures within the CFO report and notes to the accounts.

Events after the reporting period

Details of the following events since the financial year end are provided as follows:

- launch of Speedy Hydrogen Solutions, a joint venture with Speedy Hire plc, the near-term financial impact of which will be an investment by the Company into the JV of £0.625m;
- build and commission of modular ammonia to hydrogen cracking plant, the near-term financial impact of which will not be material;
- acquisition of certain UK mobile hydrogen storage and distribution assets from Octopus Hydrogen, the near-term financial impact of which, along with some other post year end capital purchases, will be less than £1.0m;
- attestation of conformity of CE Mark, the near-term financial impact of which will not be material; and
- first factory acceptance test of 30kW generator, the near-term financial impact of which will not be material.

None of the above are considered to be adjusting events.

Disclosure of information to the auditor

The directors confirm that:

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

Auditor

A resolution to reappoint the Auditor of the Company, Grant Thornton UK LLP, will be proposed at the forthcoming Annual General Meeting. Grant Thornton UK LLP have expressed their willingness to continue as Auditor of the Company.

Brendan Keane
Company Secretary

25 March 2024

BOARD OF DIRECTORS

			
	GARY BULLARD Non-Executive Chairman	**ADAM BOND** Chief Executive Officer	**PETER DIXON-CLARKE** Chief Financial Officer
Appointed to Board	2021	2014	2022
Relevant skills and experience	Experienced Chairman, Non-Executive Director and executive in industrial and information technology industries. Broad experience in the scale up of high-volume manufacturing and supporting high value, high growth businesses in the commercialisation of technology.	Over 25 years' experience operating within the international energy sector both in executive management positions for listed energy companies, and in advisory capacities to both governments and the private sector. Adam is well networked internationally across the conventional and unconventional energy sectors and has a strong understanding of energy markets and deal making within that sector. Qualified with Bachelors' degrees in Commerce and Law and a Master in Laws (Taxation).	A Deloitte trained Chief Financial Officer with over 35 years of experience, of which 25 have been at senior management or board level.
Previous appointments	Senior management positions in IBM, BT and Logica. Non-Executive Director of Chloride plc and Rotork plc.	Director of JS Yerostigaz (Uzbekistan). Previously Non-Executive Director of AFC Energy plc 2012 - 2014.	Broad experience primarily in the Energy sector, but also in the Financial Services and Charity sectors, and always in high profile organisations undergoing strategic change. Most roles have been UK based, but usually with a strong international element and time spent overseas in countries including: USA, Norway, Kuwait, Ethiopia, Falkland Islands and Indonesia.
Other current appointments	Chairman: Gooch & Housego plc Non-Executive Director: Spirent Communications plc.		

	MONIKA BIDDULPH Non-Executive Director	GERRY AGNEW Non-Executive Director	DUNCAN NEALE Non-Executive Director
Appointed to Board	2021	2019	2023
Relevant skills and experience	Over 20 years' experience in commercial, operational and technical areas of international technology businesses. PhD in Experimental High Energy Physics from ETH Zurich.	Over 20 years' experience in fuel cell technology and systems with both Rolls-Royce and LG Fuel Cell Systems Inc. Before joining the Board of AFC Energy, Dr Agnew served as Senior Fellow on the Rolls-Royce Council of Fellows, attending the Company Chief Technology Officer's Technology Strategy workshops.	Duncan Neale is a big 4 trained Chartered Accountant and experienced Non-Executive Director and Audit Chair, with a corporate finance, fundraising, audit and M&A background.
Previous appointments	Member of Senior Leadership Team IP Products at Arm Holdings plc. Non-Executive Director Linaro Limited	Dr Agnew spent seven years as Chief Technology Officer and Chief Technology Adviser to LG Fuel Cell Systems Inc. Prior to this he was Chief Technologist of Rolls-Royce Fuel Cell Systems, Executive VP Engineering at Rolls-Royce Fuel Cell Systems and Chief Engineer Fuel Cell Systems at Rolls-Royce.	Experience primarily in the Energy sector, but also in helping to scale Technology companies. For over 25 years he has held numerous senior finance roles, including as Chief Financial Officer for listed and private companies.
Other current appointments	Non-Executive Director of Ilika plc, Celebrus plc and Power Roll Limited.		Non-Executive Director and Audit Chair of Atrato Onsite Energy plc and Gresham House Energy Storge Fund plc. Trustee of Cambodian Children's Fund UK

ROLES OF THE BOARD AND SUB-COMMITTEES

The Board is collectively responsible for the long-term success of the Company and is ultimately responsible for its strategy, management, direction, and performance.

The Board sets the strategic aims, ensures that the necessary financial and human resources are in place to meet financial and ESG objectives, reviews progress towards the achievement of these objectives and reviews the performance of management. The Board establishes the values, culture, ethics and standards of the Company and sets the framework for prudent and effective controls which enable risks to be assessed and managed. The Company currently follows the QCA Code. The Board has delegated authority to its committees to carry out the tasks defined in the Committees' terms of reference. The Committees are the Audit and Risk Committee, the Remuneration Committee and the Nominations Committee. The Board has delegated the day-to-day management of the Company to the Chief Executive Officer.

Stakeholder input to decision making

Consultation with shareholders, market professionals and professional advisers to set an appropriate aggregate cap on fees for non-executive directors to provide sufficient but not excessive flexibility over the next few years to recruit and retain suitably experienced and qualified non- executive directors to support and work with the executive team.

The Company has a remuneration policy that can attract, retain and motivate senior executives and employees in line with shareholder objectives and going forward the remuneration report will be put to vote in the AGM.

Consultation with shareholders, market professionals, customers and employees to identify their expectations and priorities in regard to ESG reporting. External advisers have been used to measure our carbon footprint and create a materiality matrix to prioritise actions and the use of resources. The results of these reports are described in more detail in the ESG report.

Deployment of our technology with strategic partners and end users real life settings to gain feedback on the market readiness of our equipment.

Board responsibilities

The Board has overall responsibility for promoting the success of the Company and balancing the interests of all stakeholders. The Executive Directors have day-to-day responsibility for the operational management of the activities. The Non-Executive Directors are responsible for bringing independent and objective judgement to Board decisions.

There is a clear separation of the roles of Chief Executive Officer and Non-Executive Chairman. The Chairman is responsible for overseeing the running of the Board, ensuring that no individual dominates the Board's decision-making and ensuring the Non-Executive Directors are properly briefed on matters. The Chairman has overall responsibility for corporate governance matters. The Chief Executive Officer has overall responsibility for implementing the strategy of the Board and managing day-to-day business activities. The Company Secretary is responsible for ensuring that Board procedures are followed, and applicable rules and regulations are complied with.

The Board is responsible to the shareholders for the proper management of the Company and meets at least six times a year and all key operational and investment decisions are subject to Board approval.

The organisational structure is clearly documented and communicated, identifying levels of responsibility, delegated authority and reporting procedures. The Board supports the highest levels of commitment and integrity from employees. Expected standards of behaviour are set out in the Employee Handbook, a copy of which is available to all employees. The Company is an equal opportunities employer, and its policy is to ensure that all job applicants and employees are treated fairly and on merit, regardless of their race, gender, marital status, age, disability, religious belief or sexual orientation.

ROLES OF THE BOARD AND SUB-COMMITTEES

The Board considers effective communication with shareholders to be especially important and encourages regular dialogue with investors. Shareholders will be given at least 21 days' notice of the Annual General Meeting, at which they will have the opportunity to discuss the Company's development and performance. The Company's website www.afcenergy.com contains full details of the Company's activities, press releases, Regulatory News Service announcements, share price details and other information.

The Directors have overall responsibility for ensuring that the Company maintains a system of internal controls to provide them with reasonable assurance that the assets of the Company are safeguarded, and that shareholders' investments are protected. The system includes internal controls appropriate for the Company.

Such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives as any system can only provide reasonable, and not absolute, assurance against material misstatement or loss. The process in place for reviewing AFC Energy's system of internal controls includes procedures designed to identify and evaluate failings and weaknesses, and to ensure that necessary action is taken to remedy the failings.

The Board has considered its policies regarding internal controls, as set out in the QCA Code, and undertakes assessments of the major areas of the business and methods used to monitor and control them. The review covers commercial, technological, operational, corporate and political risks. The risk review is an ongoing process with reviews being undertaken on a quarterly basis.

The table below shows the number of Board and Committee meetings of the Company held during the financial year, and the attendance of members.

	Board meetings	Audit Committee	Remuneration Committee	Nomination Committee
Gary Bullard	7	3*	2*	2
Monika Biddulph	7	3	2	2
Gerry Agnew	7	3	2	2
Adam Bond	7	4*	1*	—
Peter Dixon-Clarke (Appointed 1 December 2022)	6	4*	—	—
Duncan Neale (Appointed 1 August 2023)	1	—	—	—
Joe Mangion (resigned 31 July 2023)	6	4	2	—
Jim Gibson (resigned 9 June 2023)	4	—	—	—
Graeme Lewis (resigned 30 November 2022)	1	1*	—	—

*Attended as an invitee, not a member of the Committee

AUDIT AND RISK COMMITTEE REPORT

The Audit and Risk Committee (the Committee) plays a central role in the review of the Company's financial reporting, risk review and internal control processes.

The Committee's role is to assist the Board in its financial oversight of the Company and ensuring its effective financial integrity through the regular review of its financial processes and performance, and by remaining up to date with the latest regulatory changes and evolution of best practice.

The Committee's main responsibilities include:

- Satisfying itself as to the integrity of the financial statements and other formal announcements relating to financial performance and ensuring compliance with applicable accounting standards, regulations and rules;
- Supporting the Board, which retains responsibility, in monitoring and reviewing the effectiveness of internal financial controls and risk management policies and systems;
- Monitoring and reviewing the going concern status of the Company;
- Satisfying itself of the independence and effectiveness of the external auditor, and making recommendations to the Board in relation to the appointment and remuneration of the external auditor, and the policy relating to their non-audit services; and
- Considering the need for an internal audit function.

The Committee considers certain key areas of risk management and supports the Board in overseeing a company-wide approach to risk management. The Committee met four times during the period.

The Committee is composed of non-executive directors and was chaired by Joe Mangion until his resignation on 31 July 2023 and replacement by Duncan Neale from 1 August 2023. Duncan is supported by Gerry Agnew and Monika Biddulph, who were both members for the whole year.

Duncan Neale has significant senior financial experience, which is further detailed in his biography. The wider Committee is considered to have sufficient, recent and relevant financial experience and competence to discharge its responsibilities.

The Technical Advisory Board, comprising Gerry Agnew, who is also a member of the Committee, supported by external technical advisers from academia and industry, works alongside the Committee to ensure that the Company has appropriate technical risk management and processes.

Committee meetings are usually attended, as invitees, by the External Auditor, the Board Chair, the Chief Executive Officer and Chief Financial Officer. The Committee also meets with the External Auditor without the Executive Directors being present.

Assessing that the risk and control framework and processes are operating accurately

The Company prepares a Board approved budget, which includes a cash flow projection. Actual performance is compared during the year to the budget to identify variances and take action if required.

The Board is risk averse when investing the Company's cash. The Company's policy is to deposit funds with leading regulated financial institutions based in the UK.

Significant financial reporting matters

During the period, the Committee received and considered reports from the Chief Financial Officer in respect of the critical accounting estimates and judgements and subsequently approved the disclosure set out in the financial statements.

The Committee considered the following significant financial reporting matters, estimates and judgements, amongst others, when approving the financial statements for the 2023 financial year.

Onerous contracts
Throughout the year, the performance of each open contract is reviewed and the expected unavoidable cost of delivering that contract is compared to the expected revenue from doing so. Where the expected costs suggest a gross loss, the contract is treated as an onerous contract and a provision is recognised immediately through the profit and loss.

The Committee agreed that no such provisions needed to be made in the year.

Valuation and disclosure of share-based payments
Share based payments are accounted for in accordance with IFRS 2 and specific consideration has been given to:

- Application of a Black Scholes valuation model for options where the performance criteria are not market-based and application of a Monte Carlo valuation model for options where the performance criteria are market-based.
- Reviewing the assumptions, especially for share price volatility, used in the valuation models.

Independent professional advisers have been employed to provide the valuations and discuss the best treatment to adopt.

The Committee agreed with the valuation and accounting treatment adopted.

Going concern
See discussion of this within the CFO report and notes to the accounts.

Risk management and internal controls

The Committee has monitored the risk management processes and recommended that the Company's risk management matrix be reviewed, at least quarterly, by the Board.

The Committee has confirmed that the inventory management improvements being implemented will be required to support the scaling up of the business.

The Committee has not seen it as necessary to appoint an internal auditor.

Duncan Neale
Audit and Risk Committee Chair
25 March 2024

NOMINATION COMMITTEE REPORT

The Nomination Committee ensures that the Board possesses an appropriate balance of skills, knowledge, experience, diversity and independence amongst the Directors. To assist in identifying and nominating candidates for the Board, the Committee oversees succession planning for the Executive and Non-Executive Directors and Senior Management. The Nomination Committee also has responsibility for the oversight of talent development throughout the Company. The Nomination Committee also has the responsibility for ensuring there is appropriate diversity in the Company especially at senior management and Board level.

The Directors who served during the year and during the period up until the signing of these financial statements were:

Directors

Gary Bullard:	Non-Executive Chairman
Adam Bond:	Chief Executive Officer
Graeme Lewis:	Chief Financial Officer (resigned 30 November 2022)
Jim Gibson:	Chief Operating Officer (resigned 9 June 2023)
Peter Dixon-Clarke:	Chief Financial Officer (appointed 1 December 2022)
Gerry Agnew:	Non-Executive
Monika Biddulph:	Non-Executive
Joe Mangion:	Non-Executive (resigned 31 July 2023)
Duncan Neale:	Non-Executive (appointed 1 August 2023)

In accordance with the Company's Articles of Association, a director appointed during or after the year must stand for re-appointment at the first Annual General Meeting after such appointment. Further, any Director who was not elected or re-elected at either of the two preceding Annual General Meetings must stand for re-appointment at the Annual General Meeting. Duncan Neale was appointed subsequent to the most recent Annual General Meeting and therefore offers himself for election.

The Committee reviewed the balance of skills, experience and independence of the Board. For Non-Executive Directors, independence in thought and judgement is vital to facilitating constructive and challenging debate in the boardroom and is essential to the operational effectiveness of the Board. The appraisal system seeks to identify areas of concern and make recommendations for any training or development to enable the Board member to meet their objectives which will be set for the following year. The appraisal process will also review the progress made against prior year targets to ensure any identified skill gaps are addressed.

All the other directors have been re-elected at either of the prior two AGMs.

The Board considers itself to be sufficiently independent and adheres to the QCA Code recommendation that a board should have at least two independent Non-Executive Directors. The Committee determines a Non-Executive Director's independence by evaluating their character and judgement, in line with the QCA Code.

Although the recent Board changes have further improved the percentage gender balance on the Board as the company continues to grow it will be important to make further progress on our gender balance at all levels in the company. Although we ensured we had a diverse short list in the process for the appointment of the new Audit Chair role, we ultimately selected a male candidate. We are looking for an opportunity to appoint an additional female director to the Main Board, either through natural rotation or by adding an additional director.

Upon the retirement of Joe Mangion who had served as Audit Chair and Senior independent Director the Committee instigated an external search for a suitable replacement. After considering a diverse slate of suitably qualified candidates the Committee unanimously recommended the appointment of Duncan Neale as his replacement, who brings extensive finance and Audit Chair experience from a range of sectors including energy.

Directors' service contracts or appointment letters and the terms of reference of the sub-committees of the Board make provision for a director to seek personal advice independently in furtherance of his or her duties and responsibilities.

To support effective future succession and appointments, the Committee will continue to engage with external stakeholders (including shareholders and regulators) when appropriate.

During the course of the year the Committee also spent time reviewing the succession plans for executive and senior management and in reviewing what actions could be taken to increase diversity at all levels in the Company.

The Committee believes that the Company has a well-balanced Board whose skills, experience and independence covering research, product development, commercial and finance are aligned to the current business and stakeholder needs.

Gary Bullard
Nomination Committee Chair
25 March 2024

REMUNERATION COMMITTEE REPORT

On behalf of the Board, I am pleased to present the 2023 Directors' Remuneration Report, which sets out the remuneration paid to the Directors in the 2023 financial year and the implementation of our remuneration policy for the 2024 financial year.

AFC Energy is listed on the Alternative Investment Market (AIM) and therefore provides these remuneration disclosures on a voluntary basis. As such, the charts and tables included here are unaudited, but, in general, our disclosures have been prepared in accordance with best practice.

We draw attention to the following decisions of the Committee as part of our efforts to respond to shareholder feedback and continuously improve governance:

- Holding an advisory shareholder vote on the remuneration report on a voluntary basis;
- Creating and maintaining a Remuneration Committee which is made up entirely of independent Non-Executive Directors with relevant experience, and that complies with the QCA Code;
- Operating an LTIP scheme for Executive Directors and senior leaders in the business;
- Maintaining an equal pension policy for our entire workforce, including Executive Directors;
- Keeping a consistent philosophy of reward throughout the business, which for the C-suite is strongly linked to performance and transparency; and
- Consulting and maintaining an open dialogue with shareholders and advisory bodies on all key remuneration decisions.

We transitioned to new structures in 2022 following a fundamental review and feedback from investors. Although this has worked well, the committee are currently reviewing this to ensure it continues to attract and retain high quality individuals against a climate of evolving market conditions. Following this review any changes will be disclosed in next year's remuneration report.

Incentive outcomes during the year

Annual Bonus

For the year under review, stretching annual bonus targets had been set to continue the Company's drive toward achieving sustained revenue and subsequent profitability and objectives were structured so that maximum payout could only be achieved for exceptional performance.

Bonuses for the year were based on a blend of 40% financial, 50% operational and 10% ESG objectives. For the financial objectives an overall payout of 26.0% was determined reflecting a threshold performance for sales revenue and a stretch performance for overall spend. There was no payout in regard to an order book objective that was not met. All assessments were made in line with the Remuneration Policy described in detail below and first rolled out in the previous year's Annual Report.

For the operational objectives, 37.5% of a maximum 50% bonus pool was paid out. In achieving this determination, the Committee noted excellent performance in cost per kW reduction and improved resilience of fuel cell generator units. At the same time differentiating capability had been demonstrated in modular ammonia cracker implementation and novel cracker product cleanup, extending this to fuel cell standard. Mission critical areas such as health and safety and progress toward CE certification for fuel cell generators were also delivered to full requirement.

The Company continues to operate an ESG objective grouping and the Committee assessed performance in this area to warrant the full 10% payout. Overall, the bonus earned across all objective areas came to 73.5% of maximum. The Committee did not exercise any discretion in this outcome although some judgement was required in interpreting two of the more technical programme objectives and for this independent third party review was obtained.

REMUNERATION COMMITTEE REPORT

LTIP vesting

The final tranche of the legacy transition awards granted in the 2021 financial year reached the end of its performance period in March 2023. However, the share price targets were not met and 1,617,188 corresponding options lapsed. All 5,439,229 of the remaining LTIP awards have three-year vesting periods.

In light of continued changes in economic circumstances, a mid-year benchmarking review was conducted, and salaries adjusted where required. An inflationary rise of 4.03% was applied to qualifying staff and directors in November 2023.

Closing remarks

AFC Energy has grown rapidly and made significant improvements in building processes, particularly around project authorisation and budgeting, while preserving the culture that has got it to where it is now. We continue to be guided by investors, employees and other key stakeholders as we navigate our way through the challenges of ensuring we have the right people and that they are attracted and motivated not just to stay but to take the business to another level. This starts at the top and we look to reward our leaders while challenging them to go higher without excessive risk. We look forward to your continued support in this journey.

Composition of the Committee

Gerry Agnew (Chair)
Duncan Neale
Monika Biddulph
Number of meetings: 2

The Board Chair and Chief Executive Officer sometimes attend as invitees, when appropriate.

Gerry Agnew
Remuneration Committee Chair
25 March 2024

Directors' remuneration policy

This section of the report sets out the remuneration policy for Executive Directors and outlines how this policy has been implemented for the 2023 financial year and will be implemented for the 2024 financial year.

The Remuneration Policy outlines the principles and framework for remuneration allowing the Board of Directors and management to attract and retain high quality employees with a sustainable and fair approach.

The Policy focuses on Board and other members of the C-suite within the Company but equally provides a framework for all other employees regardless of seniority. The Policy acknowledges the Company's intention to:

- Promote the long-term success of the Company and ensure the alignment of interests between Senior Management, Non-Executive Directors and shareholders including but extending beyond value creation;
- Provide a remuneration structure which looks to attract and retain high quality candidates into senior roles within AFC Energy through being competitive with those of businesses of similar size; and
- Provide a long-term incentive structure to retain senior management while ensuring maximum award levels are capped.

This policy will be reviewed and updated annually by the Remuneration Committee and discussed from time to time with shareholders.

REMUNERATION COMMITTEE REPORT

The Policy adopts a framework structured around several key elements, and is summarised in the tables below:

Element (purpose and link to strategy)	Operation	Opportunity	Performance metrics	Implementation of Remuneration Policy for 2024 financial year
Base salary To reflect size and scope of the role and individual's performance and contribution.	Payable in cash. Generally, but subject to prevailing economic conditions and changes of roles and/ or responsibilities, salaries are reviewed annually with changes effective from the beginning of the financial year but may be reviewed at other times if the Committee considers this appropriate. The Committee reviews base salaries with reference to: ~ The size and scope of the individual's roles ~ The individual's performance and experience ~ Business performance and the external economic environment ~ Market practice at other companies of a similar size and complexity ~ Salary increases across the Group	While there is no maximum salary level, salary increases will generally be in line with increases awarded to other employees in the Company. However, larger increases may be made at the discretion of the Committee to take into account circumstances such as: ~ Changes in an individual's role or responsibility ~ To reflect an individual's contribution to the company ~ Where a salary is significantly behind market practice	Company and individual performance are considered when setting Executive Director base salaries.	Base salaries increased by 4.03% with effect from 1 November 2023 to: CEO £333k CFO £228k These increases match the average increase across the wider workforce.
Pension and other benefits To provide market-competitive benefits and pension.	From 1 November 2021, all employees have been eligible for a Company matching contribution towards AFC Energy's chosen pension provider of 5% of salary before taxation. Employees in this scheme also contribute 5% salary towards their pension. The Committee has discretion to make alternative arrangements on a case-by-case basis. When determining such arrangements, the Committee will consider cost and market practice.	For employees that have reached lifetime allowance limit, the Company contribution can be paid as salary but will not be grossed up. All other benefits are at an appropriate level considering market practice.	Not performance related.	In line with policy, Executive Directors will receive 5% contribution from AFC alongside their own contribution of 5% salary.
Annual bonus To incentivise executives to achieve annual financial and operational targets in line with key strategic objectives considering risk and shareholder interests. For Board Members this will also include observations from prior board effectiveness reviews.	The annual bonus is normally based on performance over the financial year and the bonus plan shall be documented and updated annually considering the Company's targets and the individual's objectives. After the year-end the Committee determines the extent to which pre-defined targets have been met. The final quantum of the bonus, which is subject to an annual cap, will be dependent upon success of the executive in delivering their targets, with flexibility to adjust up and down to reflect the overall performance of business and individual performance. Bonuses are non-pensionable.	An "on target" performance would be expected to deliver 75% of maximum. A minimum threshold achievement will deliver a bonus of not more than 25% of maximum. Maximum payout is 120% salary for the CEO and 80% for other Executive Directors .	In conjunction with the Executive Directors, measures are selected each year by the Committee to ensure continued focus on the Company's objectives and in line with the Business Plan. The Committee may decide that the bonus entitlement be subject to a minimum delivery of the Company's financial targets. Typically, but at the discretion of the Remuneration Committee, the indicative split of the annual bonus going forward should normally be 40% financial, 40% operational and 20% personal objectives.	Objectives have been set based on a blend of 40% financial, 50% operational and 10% ESG objectives.

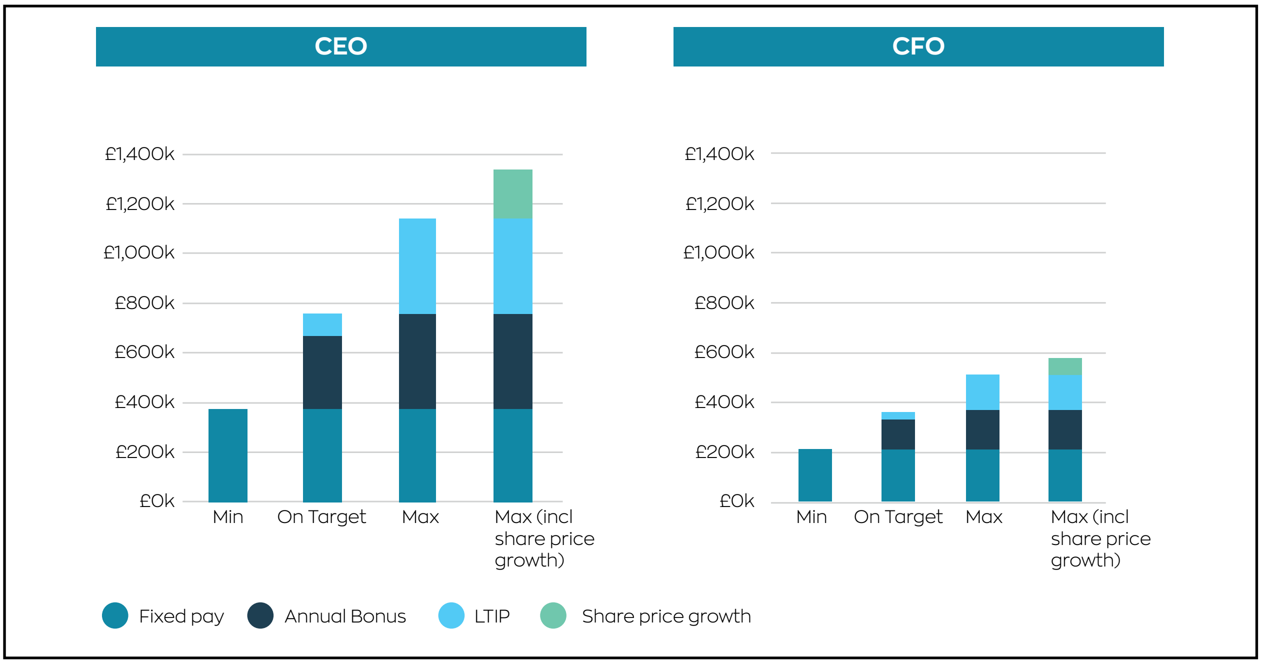
REMUNERATION COMMITTEE REPORT

Element (purpose and link to strategy)	Operation	Opportunity	Performance metrics	Implementation of Remuneration Policy for 2024 financial year
LTIP To attract and retain Executive Directors and Senior Managers of a high calibre and align their interests with the long-term objectives of the Company.	Annual grants of nil-cost options are scaled according to salary which then vest conditionally three years later based on achievement of performance targets set at grant. The performance share plan (PSP) will remain within the overall limit for all option allocations of 10% of share capital. Annual awards will normally be made after the announcement of the Interim Results to avoid potential conflicts. Good leavers* will retain pro-rated awards according to the fraction of the three-year period they work for the Company with details, along with malus and clawback terms based on advice from external advisers regarding current industry standards.	The maximum award level will be 120% of salary for the CEO with the CFO level raised from 70% to 80% salary reflecting the greater responsibility of this role with the reduction to two executive directors. Other C-suite will not automatically be eligible to the scheme but those that do will have a maximum award equal to or less than board level executives.	Performance testing will be based on Compound Annual Growth Rate (CAGR – expressed in % terms) of Total Shareholder Return (TSR), which for the time being is expected to be entirely share price based but accommodating future dividends when these become possible.	Awards are anticipated to be granted with both Relative TSR and Absolute TSR conditions, consistent with the awards granted during the 2023 financial year. 2023 financial year. However, LTIP arrangements are currently being reviewed and any changes will be disclosed in next year's remuneration report.

*Good leavers are typically those leaving through retirement, redundancy, injury or death.

Pay scenario charts

The charts below provide estimates of the potential future reward opportunity for the current Executive Directors in FY 2023-24 in line with the policy described above. The potential is split between the different elements of remuneration under four different performance scenarios: "Minimum", "On Target", "Maximum" and "Maximum with 50% share price growth".



In illustrating potential reward opportunities, the following assumptions have been made:

Component	Minimum	On-target	Maximum	Maximum + 50% price growth
Base Salary		CEO: £333k CFO: £228k		
Benefits		Based on single figure for the 2023 financial year		
Pension		5% of base salary		
Annual Bonus	No bonus payable	Target bonus (75% of maximum)	Maximum bonus	
LTIP	No LTIP Vesting	Threshold vesting (25% of maximum)	Maximum vesting	Maximum vesting with 50% share price growth

Service contracts

Executive Directors

Service contracts for all employees, including the Executive directors, shall specify reasonable notice periods, defined as normally three to six months and not exceeding one year with no additional liquidated damages clauses.

Payments due on termination shall be limited to basic salary and benefits. Annual bonus payments shall be related only to the period worked and shall not extend to periods of unworked notice or gardening leave.

Executive Director	Date of service contract
Adam Bond	1 January 2016
Peter Dixon-Clarke	1 December 2022
Jim Gibson	4 October 2018 (Resigned with effect 9 June 2023)
Graeme Lewis	31 December 2019 (Resigned with effect 30 November 2022)

Non-Executive Directors

The Non-Executive Directors signed letters of appointment with the Company for the provision of Non-Executive Directors' services for an indefinite term, which may be terminated by either party giving three months' written notice except for Gary Bullard whose contract specifies one month. The Non-Executive Directors' fees are determined by the Board.

Non-Executive Director	Date of service contract
Gary Bullard	5 March 2021
Joe Mangion	5 December 2017 (Resigned with effect 31 July 2023)
Gerry Agnew	9 September 2019
Monika Biddulph	3 December 2021
Duncan Neale	1 August 2023

Non-Executive Director policy table

Details of the policy, introduced in the 2022 financial year, on fees paid to our Non-Executive Directors and how this policy will be implemented for the 2024 financial year are set out in the table below:

Element (purpose and link to strategy)	Operation	Opportunity	Performance metrics	Implementation of Remuneration Policy for 2023-2024
Fees To attract and retain high-calibre individuals to serve as Non-Executive Directors.	Fee levels are set to reflect the time, commitment and experience of the Chairman and the Non- Executive Directors, taking into account fee levels at other companies of a similar size and complexity and to other UK companies. The fees are normally paid in cash monthly but by mutual consent may be paid in shares if this is considered appropriate. Payments of shares may be made annually instead of monthly. Non-Executive Directors receive cash fees only and will not be granted interests in share option schemes or warrants. The Chair and Non-Executive Directors shall expressly not participate in any performance related plans or bonuses. Further additional fees may be paid to reflect additional time, Committee or Board responsibilities if this is considered appropriate.	The fees of Non- Executive Directors shall normally be reviewed annually to ensure that they are in line with market conditions and any changes to said fees will be approved by the Board as a whole following a recommendation from the Chief Executive.	Not applicable.	A review of senior non-executive remuneration was undertaken in October 2023 with input from remuneration advisers regarding fees in AIM listed companies of a similar size. No significant change in NED fees was felt to be necessary, however on the basis of this advice, the staff inflationary rise of 4.0% was applied to non-executive and chair fees.

Annual report on remuneration

The following section provides details of how AFC Energy's remuneration policy was implemented during the 2023 financial year.

Remuneration Committee membership and activities in 2023

The Remuneration Committee's members at 31 October 2023 were Gerry Agnew, Chair, Monika Biddulph and Duncan Neale. All members of the Committee are independent Non-Executive Directors. Gary Bullard, Company Chairman, was also invited to attend when appropriate.

The Committee operates under Terms of Reference which set out its duties, including reviewing all senior executive appointments and determining the Group's policy in respect of the terms of employment, including remuneration packages of Executive Directors and other designated members of senior management.

The Committee's Terms of Reference are available on request from the Company Secretary. The Remuneration Committee met formally twice during the 2023 financial year and also on an ad hoc basis when required.

Remuneration Committee activities during the 2023 financial year were as follows:

- Approval of the Directors' Remuneration Report
- Review and approval of the Executive Directors' performance against the annual objectives
- Determination of performance targets for the C-suite annual bonus for the year ahead
- Determination of performance targets for the LTIP grant
- Review of developments in corporate governance and best practice
- Review of remuneration arrangements and policies for senior management/C-suite
- Overseeing the continued implementation of the all employee SAYE scheme, revised and updated in recognition of its 10 year anniversary

During the year, the Committee sought internal support from the Chief Executive Officer, who attended Committee meetings by invitation from the Committee Chair, to advise on specific questions raised by the Committee and on matters relating to the performance and remuneration of senior managers.

The Committee has appointed PricewaterhouseCoopers (PwC) to provide independent advice on executive remuneration matters. PwC is a signatory to the Code of Conduct for Remuneration Consultants in the UK. The fees paid to PwC in relation to advice provided to the Committee for the 2023 financial year were £40,000. The Committee evaluates the support provided by PwC annually and is comfortable that they remain independent. PWC provide advice in relation to the SAYE scheme and no non-remuneration related advice was provided by PwC to the Group in the year.

Remuneration Review

During the summer of 2023, the organisation undertook a significant exercise to ensure that rewards were aligned with roles and responsibilities throughout the organisation following significant expansion and with the introduction of many new staff.

At this time, annual salaries and bonus multipliers were increased for other members of the C-suite and it was considered appropriate to increase CFO annual bonus level from 70 to 80%. This quantum is within the existing maximum under our remuneration policy.

The organisation continues to evolve as the emphasis of activity shifts away from research to development and manufacture, and the Committee will continue to consider appropriate levels of pay which incentivise our senior management team to deliver on our strategy.

Single total figure of remuneration for Directors

The table below sets out a single figure for the total remuneration received by each Director for the financial year ended 31 October 2023:

	Basic salary/fees £000		Taxable benefits £000		Pension £000		Annual bonus £000		LTIP[3] £000		Total £000	
FYE	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Executive Director												
Adam Bond	**319**	309	**44**	43	**16**	16	**282**	229	**—**	241	**661**	838
Peter Dixon-Clarke[1]	**201**	—	**—**	—	**7**	—	**129**	—	**—**	—	**337**	—
Jim Gibson[4]	**235**	232	**29**	34	**12**	12	**—**	114	**—**	105	**276**	497
Graeme Lewis	**109**	176	**—**	—	**11**	22	**—**	87	**—**	—	**120**	285
Non-Executive Director												
Gary Bullard	**100**	100	**—**	—	**—**	—	**—**	—	**—**	—	**100**	100
Gerry Agnew[5]	**50**	37	**—**	—	**—**	—	**—**	—	**—**	—	**50**	37
Monika Biddulph	**50**	46	**—**	—	**—**	—	**—**	—	**—**	—	**50**	46
Joe Mangion	**38**	50	**—**	—	**—**	—	**—**	—	**—**	—	**38**	50
Duncan Neale[2]	**13**	—	**—**	—	**—**	—	**—**	—	**—**	—	**13**	—
	1,115	950	**73**	77	**46**	50	**411**	430	**—**	346	**1,645**	1,853

1 Peter Dixon-Clarke was appointed on 1 Dec 2022.
2 Duncan Neale was appointed on 1 August 2023.
3 The long-term incentive award value shown in the Single total figure of remuneration for each Director relates to LTIP share options that vested in the financial year. The stated value is calculated based on the number of shares that vested multiplied by the mid-market closing price for a share on the date of vesting.
4 Jim Gibson resigned on 9 June 2023 and received pay in lieu of holiday. He exercised all 255,136 options that vested during the previous financial year on 4 September 2023 realising a gain of £42,302.
5 In June 2023, Gerry Agnew exercised all 900,000 warrants paid in lieu of salary. These were granted without being subject to performance conditions and had vested over the prior three financial years. On exercise, these generated a gain of £86,923.
6 Graeme Lewis resigned with effect 30 November 2022. His pension arrangements pre-date the current policy.

Incentive outcomes for the 2023 financial year

Annual bonus in respect of performance

Bonuses for the year were again based on a blend of 40% financial, 50% operational and 10% ESG objectives. For the financial objectives an overall payout of 26% was determined reflecting an excellent delivery on closed sales during the year and cash balances at the year end. However, the revenue target was not met.

For the operational objectives' scorecard, 37.5% of a maximum 50% bonus pool was paid out. In achieving this determination, the Committee noted excellent performance in cost reduction and improved resilience of fuel cell generator units. At the same time differentiating capability had been demonstrated in modular ammonia cracker implementation and novel cracker product cleanup, extending this to fuel cell standard.

Mission critical areas such as health and safety and progress toward CE certification for fuel cell generators were also delivered to full requirement.

This is the second year in which an ESG objective grouping was set and the Committee were pleased to see performance in this area achieving full 10% payout. The overall bonus earned across all objective areas came to 73.5% of maximum.

Close out of transitional LTIP

The final tranche of the legacy transition awards granted in 2021 to address gaps in LTIP grant in previous years reached the end of its performance period in March 2023. The share price targets were not met and the corresponding options lapsed. All remaining LTIP awards have three-year vesting periods.

Scheme Interests awarded in the 2023 financial year

For the PSP LTIP grants made in 2022-2023, working in conjunction with external advice, continued effort was given to avoiding windfall outcomes linked to the significant sector specific changes in share price seen throughout the AIM index within the year. it was felt appropriate to continue the use of a relative element to assessing TSR improvement and consequently equal 50% weighting was applied to the relative and absolute elements. In choosing a relative metric, the AIM 100 index grouping was retained. The choice of 75th percentile performance limit seeks to expressly exclude unusual extremes in performance seen in a handful of stocks at the top end of the market that are actively considering moving onto main market listings. The use of median performance as the lower measure ensures a continued push for stretch and avoids the risk of rewarding mediocre performance.

For the absolute TSR, it was felt appropriate to return to pure CAGR based growth metrics. Further details of these rewards are provided immediately below.

Executive Director	Nil cost options granted during FY2023
Adam Bond	2,142,415
Peter Dixon-Clarke	978,042

Performance targets apply to the awards over a three-year period commencing on 01 June 2023 as follows:

Performance measure	Weighting	Threshold performance (25% vesting)	Maximum) performance (100% vesting
Relative TSR vs FTSE AIM 100	50%	Median	Upper quartile
Absolute TSR	50%	15% p.a.	30% p.a.

Vesting is on a pro-rata basis for performance between the threshold and maximum levels.

Directors leaving during the year

Jim Gibson resigned as a director on 9 June with completion of his employment as Chief Operating Officer at the end of his contractual notice period. No payments beyond normal salary and benefits have been made to Jim while he has worked this period. No bonus was payable for 2023 and all outstanding LTIP awards lapsed on cessation. The board agreed that Jim would be granted a 6 month extension of the window in which to exercise his options.

Payments to past Directors

During the year previous director Graeme Lewis was compensated in line with his continued employment during handover to the new CFO. No payments were made beyond normal contractual arrangements as reported in the single figure table.

Directors' interests in shares and options

On 31 October 2023 the Executive Directors' interests over share options and warrants of the Company were:

		Number of shares under option					
	Date of grant	At 1 November 2022	Awarded in year	Exercised in year	Lapsed	**At 31 October 2023**	Expiry Date
Adam Bond	15 July 2015	5,000,000	—	—	—	**5,000,000**	17 May 2025
Adam Bond	15 July 2015	1,000,000	—	—	—	**1,000,000**	17 May 2025
Adam Bond	7 September 2021	1,125,000	—	—	(1,125,000)	**—**	6 September 2031
Adam Bond	7 September 2021	620,970	—	—	—	**620,970**	6 September 2031
Adam Bond	12 July 2022	1,697,802	—	—	—	**1,697,802**	11 July 2032
Adam Bond	1 June 2023	—	2,142,415	—	—	**2,142,415**	31 May 2033
		9,443,772	2,142,415	—	(1,125,000)	**10,461,187**	
Peter Dixon-Clarke	28 April 2023	—	500,000	—	—	**500,000**	27 April 2033
Peter Dixon-Clarke	1 June 2023	—	978,042	—	—	**978,042**	31 May 2033
		—	1,478,042	—	—	**1,478,042**	
Jim Gibson	15 August 2018	2,500,000	—	—	—	**2,500,000**	8 September 2024
Jim Gibson	7 September 2021	255,136	—	(255,136)	—	**—**	—
Jim Gibson	7 September 2021	492,188	—	—	(492,188)	**—**	—
Jim Gibson	7 September 2021	271,968	—	—	(271,698)	**—**	—
Jim Gibson	12 July 2022	743,590	—	—	(743,590)	**—**	—
		4,262,882	—	(255,136)	(1,507,746)	**2,500,000**	
Graeme Lewis	31 December 2019	2,750,000	—	—	(2,750,000)	**—**	—
Graeme Lewis	7 September 2021	206,320	—	—	(206,320)	**—**	—
		2,956,320	—	—	(2,956,320)	**—**	
Gerry Agnew	9 September 2019	900,000	—	(900,000)	—	**—**	—
		900,000	—	(900,000)	—	**—**	
		17,562,974	3,620,457	(1,155,136)	(5,589,066)	**14,439,229**	

And for shares:

	Number of shares at 31 October 2023	% of salary at 31 October 2023
Executive Directors		
Adam Bond	**3,583,169**	146
Peter Dixon-Clarke	**—**	
Non-executive Directors		
Gary Bullard	**500,000**	N/A
Gerry Agnew	**621,684**	N/A
Monika Biddulph	**—**	—
Duncan Neale	**—**	—

Implementation of policy for the 2024 financial year

In light of continued changes in economic circumstances, an inflationary rise of 4.03%, effective from 1 November 2023, was applied to all applicable staff and directors. In line with the continued emphasis on applying consistent standards throughout the organisation, this change was applied from the beginning of the financial year for the entire organisation.

For the 2024 financial year, the annual bonus will continue to use a blend of 40% financial, 50% operational and 10% ESG objectives, recognising the critical importance of operational delivery in building long-term value while at the same time driving an increasingly active emphasis on ESG improvements.

LTIP awards are anticipated to be granted during the year with both relative TSR and absolute TSR conditions, consistent with the awards granted in 2023. However, we are currently reviewing remuneration arrangements for the senior team and will disclose any changes in next year's Remuneration Report.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Accordingly, the directors have prepared the financial statements in accordance with UK-adopted international accounting standards. 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 and profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK-adopted international 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 and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure to auditor

The Directors confirm that:

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

To the best of our knowledge:

- The financial statements, prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The Strategic report and Directors' report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

INDEPENDENT AUDITORS' REPORT

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of AFC Energy Plc (the 'Company') for the year ended 31 October 2023, which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity, the Cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 October 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to the going concern note within note 2 to the financial statements, which indicates that additional funding would be required to deliver their plans after considering the forecast for 2025 financial year, the downside scenarios, to establish the resilience of the company's cash reserves, the need to scale up its manufacturing output and continue to invest in research and development. Note 2 also mentions that the additional funding required has not been sought and secured. As stated in note 2, these events or conditions, along with the other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- challenging management on their determination of their going concern period;
- assessments of management's forecasting accuracy by comparing the accuracy of actual financial performance to previous forecast information;
- an assessment of management's cash flow forecasts to reflect the potential impact of macroeconomic challenges on trading results, and cashflow forecasts throughout the forecast period;
- sensitivity analysis of management's cash flows forecasts including the robustness of the scenarios modelled ;
- discussion with those outside of the finance team to gain a more robust understanding of future expectations and developments of the Company;
- challenging management on the costs expected to ramp up operations and timeline for that to occur, including outlays and expected inflows of revenues; and
- challenging management on the sufficiency and appropriateness of the disclosures within the notes to the financial statements.

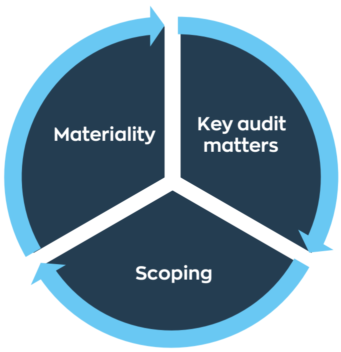
Our responsibilities

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

Our approach to the audit

Grant Thornton



Overview of our audit approach

Overall materiality: £742,000, which represents 4.5% of the Company's average loss before tax from the previous three years.Key audit matters were identified as:

Key audit matters were identified as

- going concern (new in current year);
- risk of incorrect accounting of the open contracts with customers and incomplete recognition of the loss provision in relation to contract accounting (same as previous year).

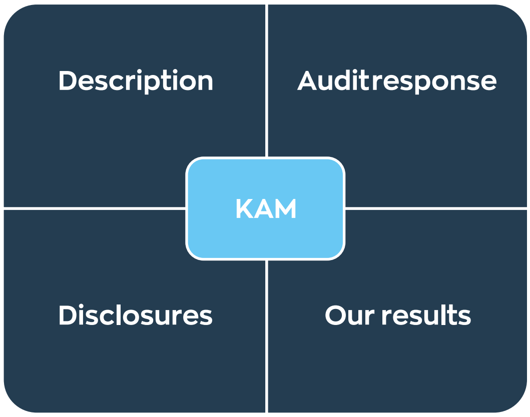
Our auditor's report for the year ended 31 October 2022 included one key audit matter related to the revenue recognition, and in the current year, we pinpointed the significant risk to the accounting for open contracts with customers.

We performed a full-scope audit of the financial statements of the Company. A site visit was completed as part of our audit procedures, as well as attendance at the year-end stock count.

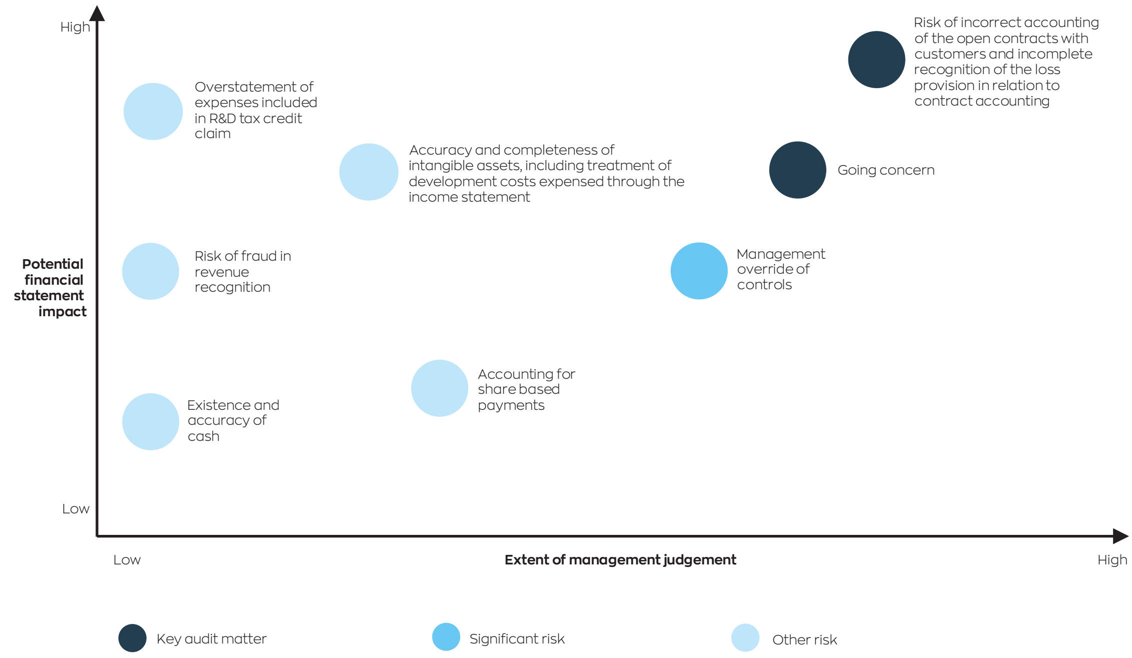
INDEPENDENT AUDITORS' REPORT

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



In the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.



In addition to the matter described in the 'Material uncertainty related to going concern' section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Key Audit Matter	How our scope addressed the matter
Risk of incorrect accounting of the open contracts with customers and incomplete recognition of the loss provision in relation to contract accounting We identified incorrect accounting of the open contracts with customers and incomplete recognition of the loss provision in relation to contract accounting as one of the most significant assessed risks of material misstatement due to error.As the Company continues to commercialise its products, the more important revenue growth is to stakeholders. Further, the recognition of revenue requires management to make judgements relating to the nature and terms of the contract, such as the identification of performance obligations, allocation of price to those obligations and timing of revenue recognition. Revenue is recognised in accordance with International Financial Reporting Standard (IFRS) 15 'Revenue from Contracts with Customers' and recognition of revenue requires management to make significant judgements. As a result of the company beginning commercialisation of products whilst not having a history of product delivery and establishing consistent costs of delivery on new products, there is a heightened risk of onerous contracts and inappropriate recognition of commercial contracts with customers. There is a significant level of judgment in assessing performance obligations and allocating contract transaction prices in order to then assess the onerous nature of a contract. If expected costs outweigh the selling price, a provision must be recorded immediately. The level of judgement involved in determining the estimated costs results in this being a significant risk. From our assessment of contracts, we identified that there was a modification of a key long term contract that resulted in significant judgement around the recognition of the performance obligations, calculation and allocation of the transaction price, as well as challenge on recognising the revenue over time. The accounting treatment under IFRS 15 requires the company to consider whether the modification results in an onerous contract.	In responding to the key audit matter, we performed the following audit procedures: ~ Assessed management's accounting for revenue from contracts with customers in line with IFRS15, particularly in relation to the modification in the year, to check if the contract had been correctly recognised as per the standard; ~ Assessed and challenged management's identification of performance obligations arising from the contract modifications in the period, and how this affected the delivery of goods to customers; ~ Assessed the transaction price of the contract in the context of other consideration paid by the customer against what they received, to determine if the allocation of the price to performance obligations was reasonable based on the terms; ~ Challenged management's assessment of accounting for the contract performance obligations at a point in time, rather than over time, and when to recognise the revenue and costs from fulfilling these obligation; ~ Assessed whether the loss provision policy is in accordance with the requirements of Internatioanal Accounting Standard (IAS) 37 'Provisions, Contingent Liabilities and Contingent Assets' and IFRS 15 and whether they were applied appropriately for the contracts; and ~ Assessed and challenged the appropriateness and completeness of the financial statement disclosures.

INDEPENDENT AUDITORS' REPORT

Key Audit Matter	How our scope addressed the matter
Relevant disclosures in the Annual Report ~ Financial statements: Note 5, Revenue.	**Our results** Based on our audit work addressing the risk of incorrect accounting of the open contracts with customers and incomplete recognition of the loss provision in relation to contract accounting, we are satisfied that assumptions made by management are appropriate and in accordance with the financial reporting framework, including IAS 37 and IFRS 15.

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

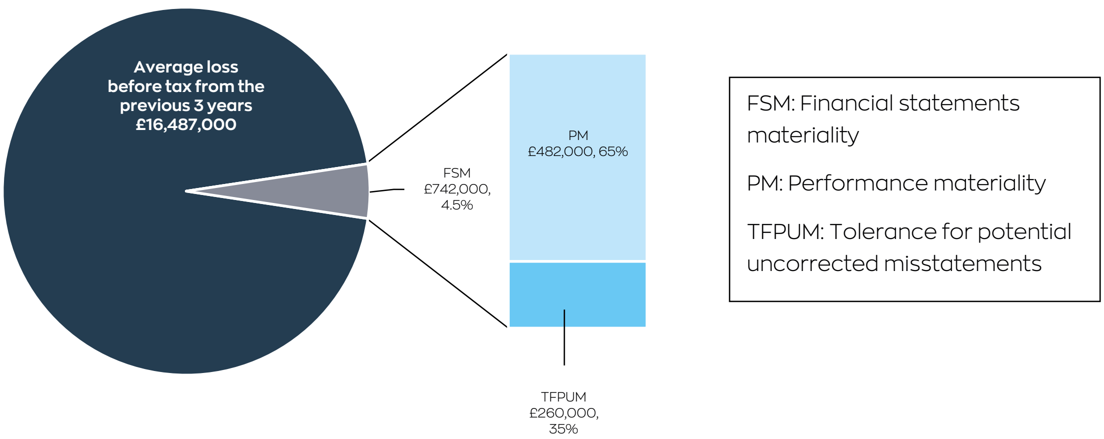
Materiality was determined as follows:

Materiality measure	Company
Materiality for financial statements as a whole	~ We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.
Materiality threshold	£742,000, which represents 4.5% of the Company's average loss before tax from the previous three years.
Significant judgements made by auditor in determining materiality	In determining materiality, we made the following significant judgements: ~ Loss before tax is considered the most appropriate benchmark due to the Company being within the development phase of its lifecycle. We chose to use a three year average given the continued loss position and the potential volatility in earnings due to being a development stage entity. It is also a key performance measure for the Company and therefore of interest to stakeholders. ~ The engagement team selected a measurement percentage of 4.5% of the Company's loss before tax. This was based on the complexity and the size of the Company and the continuing uncertainties in the macro-economic environment. Materiality for the current year is higher than the level that we determined for the year ended 31 October 2022 to reflect the increase in the Company's three year average loss before tax for the current year.

Materiality measure	Company
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
Performance materiality threshold	£482,000, which is 65% of financial statement materiality.
Significant judgements made by auditor in determining performance materiality	In determining performance materiality, we considered all pertinent facts from prior period audits, including the level of unadjusted misstatements and the Company's control environment.
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
Specific materiality	We determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the audit committee.
Threshold for communication	£37,100 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality



INDEPENDENT AUDITORS' REPORT

An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the Company's business and in particular matters related to:

Understanding the Company and its environment, including controls

- the engagement team obtained an understanding of the Company and its environment, including the controls, and assessed the risks of material misstatement.

Work to be performed on financial information of the Company (including how it addressed the key audit matters)

- an audit of the financial information of the Company has been completed to financial statement materiality (full-scope audit), with specific focus on going concern and the risk of incorrect accounting of the open contracts with customers and incomplete recognition of loss provisions in relation to contract accounting, which were identified as key audit matters.

Performance of our audit

- a full-scope audit was performed by the engagement team, including an evaluation of the internal control environment and related management controls over the financial processes linked to the significant risks;
- the engagement team evaluated the general IT controls, the accounts production process and controls over critical accounting matters;
- the engagement team undertook substantive testing on significant transactions, balances and disclosures, the extend of which was dependant on various factors including our overall assessment of the control environment and the management of specific risks; and
- the engagement team completed a site visit of the Company's premises at the planning and fieldwork stages of the audit, as well as observing the client's stock count.

Changes in approach from previous period

- the scope of the audit for the current year in broadly consistent with the scope applied in the previous year's audit. The following scope changes have been made to reflect changes within the Company:
  - Reducing the identified prior year significant risk of fraud in revenue recognition as a result of immaterial nature of revenue amount, our enquiries with management and obtaining an understanding of the revenue relating to significant contracts entered into by the Company.

Other information

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

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

We have nothing to report in this regard.

Our opinions on other matters prescribed by the Companies Act 2006 are unmodified

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

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

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

Matters on which we are required to report by exception

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement on page 59, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

- We obtained an understanding of the legal and regulatory frameworks applicable to the Company and the industry in which it operates. We determined that the following laws and regulations were the most significant: the Companies Act 2006, UK-adopted international accounting standards, the AIM Rules for Companies, tax legislation and the QCA Corporate Governance Code;

INDEPENDENT AUDITORS' REPORT

- In addition, we concluded that there are certain specific laws and regulations that may have an effect on the determination of amounts and disclosures in the financial statements and we identified those laws and regulations as those relating to health and safety, employee matters, environmental matters and bribery and corruption matters;
- We enquired of management and those charged with governance concerning the Company's policies and procedures relating to the identification, evaluation and compliance with laws and regulations and the detection and response to the risks of fraud. We also enquired of management and those charged with governance as to whether they were aware of any instances of non-compliance with laws and regulations and whether they had any knowledge of actual, suspected or alleged fraud. We corroborated the results of our enquiries to relevant supporting documentation;
- We assessed the susceptibility of the financial statements to material misstatement, including how fraud might occur by evaluating management's incentives and opportunities for manipulation of the financial statements. Audit procedures performed included:
  - identifying and assessing the design and implementation of controls management has in place to prevent and detect fraud;
  - obtaining an understanding how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
  - challenging assumptions and judgements made by management in its significant accounting estimates; and
  - identifying and testing journal entries posted in the year and post year-end which were deemed to be unusual
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;
- The engagement partner's assessment of the appropriateness of the collective competence and capabilities of the engagement team including consideration of the engagement team's:
  - understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation;
  - knowledge of the industry in which the Company operates; and
  - understanding of the legal and regulatory requirements specific to the Company.
- We communicated relevant laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

Use of our report

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

Christopher Raab, ACA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants

London
25 March 2024

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 October 2023

	Note	Year ended 31 October 2023 £000	Year ended 31 October 2022 £000
Revenue from customer contracts	5	227	582
Cost of sales		(294)	(467)
Gross (loss)/profit		**(67)**	**115**
Other income		41	22
Operating costs	6	(19,994)	(19,749)
Operating loss		**(20,020)**	**(19,612)**
Finance income	11	512	143
Finance costs	11	(53)	(19)
Loss before tax		**(19,561)**	**(19,488)**
Taxation	12	2,086	3,042
Loss for the financial year and total comprehensive loss attributable to the owners of the Company		**(17,475)**	**(16,446)**
Basic loss per share (pence)	13	(2.36)	(2.24)
Diluted loss per share (pence)	13	(2.36)	(2.24)

All amounts relate to continuing operations. There was no other comprehensive income in the year (2022: £nil).

The notes on pages 73 to 97 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 October 2023

	Note	Year ended 31 October 2023 £000	Year ended 31 October 2022 £000
Assets			
Non-current assets			
Intangible assets	14	264	311
Right-of-use assets	15	1,097	976
Tangible fixed assets	16	3,756	3,282
		5,117	**4,569**
Current assets			
Inventory	17	178	43
Trade and other receivables	18	1,231	1,160
Income tax receivable	12	2,088	4,075
Cash and cash equivalents	19	27,366	40,220
Restricted cash	19	258	612
		31,121	**46,110**
Total assets		**36,238**	**50,679**
Current liabilities			
Payables	20	3,728	3,644
Lease liabilities	21	477	298
		4,205	**3,942**
Non-current liabilities			
Lease liabilities	21	647	698
Provisions	22	301	301
		948	**999**
Total liabilities		**5,153**	**4,941**
Capital and reserves attributable to the owners of the Company			
Share capital	23	746	735
Share premium	23	118,520	116,487
Other reserve		3,779	4,073
Retained loss		(91,960)	(75,557)
Total equity attributable to shareholders		**31,085**	**45,738**
Total equity and liabilities		**36,238**	**50,679**

The notes on pages 73 to 97 form part of these financial statements.

These financial statements were approved and authorised by the Board on 25 March 2024.

Adam Bond
Chief Executive Officer

Peter Dixon-Clarke
Chief Financial Officer

AFC Energy plc
Registered number: 05668788

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 October 2023

	Share Capital £000	Share Premium £000	Other Reserve £000	Retained Loss £000	Total £000
Balance at 1 November 2021	734	116,448	2,456	(59,752)	59,886
Loss after tax for the year	—	—	—	(16,446)	(16,446)
Issue of equity shares	1	39	—	—	40
Equity settled share-based payments					
- Lapsed or exercised in the year	—	—	(641)	641	—
- Charged in the year	—	—	1,682	—	1,682
Fair value of warrants accounted for as equity	—	—	576	—	576
Balance at 31 October 2022	**735**	**116,487**	**4,073**	**(75,557)**	**45,738**
Loss after tax for the year	—	—	—	(17,475)	(17,475)
Issue of equity shares	10	1,990	—	—	2,000
Equity settled share-based payments					
- Lapsed or exercised in the year	1	43	(1,072)	1,072	44
- Charged in the year	—	—	778	—	778
Fair value of warrants accounted for as equity	—	—	—	—	—
Balance at 31 October 2023	**746**	**118,520**	**3,779**	**(91,960)**	**31,085**

Share capital is the amount subscribed for shares at the nominal value.

Share premium represents the excess of the amount subscribed for share capital over the nominal value of these shares net of share issue expenses.

Other reserve represents the charge to equity in respect of unexercised equity-settled share-based payments and warrants granted.

Retained deficit represents the cumulative loss of the Company attributable to equity shareholders.

The notes on pages 73 to 97 form part of these financial statements.

CASH FLOW STATEMENT

For the year ended 31 October 2023

	Note	Year ended 31 October 2023 £000	Year ended 31 October 2022 £000
Cash flows from operating activities			
Loss before tax for the year		(19,561)	(19,488)
Adjustments for:			
Amortisation of intangible assets	14	110	473
Impairment of intangible assets	14	—	294
Loss on disposal of intangible assets	14	1	—
Depreciation of right-of-use assets	15	455	379
Depreciation of tangible fixed assets	16	1,084	974
Impairment of tangible fixed assets	16	—	255
Loss on disposal of property and equipment		34	126
Depreciation of decommissioning asset	16	15	20
Equity-settled payments	24	778	1,682
Interest receivable		(428)	(143)
Lease finance charges		69	33
Cash flows from operations		**(17,443)**	**(15,395)**
R&D tax credits received		4,073	546
Decrease in restricted cash		354	—
(Increase)/decrease in inventory		(135)	618
(Increase) in receivables		(109)	(145)
Increase in payable		121	1,948
(Decrease) in provisions		—	(353)
Cash absorbed by operating activities		**(13,139)**	**(12,781)**
Purchase of plant and equipment	16	(1,607)	(2,388)
Additions to intangible assets	14	(63)	(334)
Interest received	11	428	151
Net cash absorbed by investing activities		**(1,242)**	**(2,571)**
Proceeds from the issue of share capital		2,000	—
Proceeds from the exercise of options		45	40
Proceeds from the grant of warrants	25	—	576
Lease interest paid	21	(69)	(38)
Lease payments	21	(449)	(381)
Net cash from financing activities		**1,527**	**197**
Net increase/(decrease) in cash and cash equivalents		(12,854)	(15,155)
Cash and cash equivalents at the start of the year		40,220	55,375
Cash and cash equivalents at the end of the year	19	**27,366**	**40,220**

The notes on pages 73 to 97 form part of these financial statements.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

1. Corporate information

AFC Energy Plc (the Company) is a public limited company incorporated in England & Wales. The address of the registered office is Unit 71.4, Dunsfold Park, Cranleigh, Surrey, GU6 8TB. The Company is quoted on the AIM Market of the London Stock Exchange with the ticker symbol LSE:AFC.

The principal activity of the Company is the development of fuel cell and fuel processing technology and equipment.

2. Basis of preparation

Going concern

The financial statements of AFC Energy plc have been prepared in accordance with UK Adopted International Accounting Standards (IASs).

The financial statements have been prepared on a going concern basis notwithstanding the trading losses being carried forward and the expectation that the trading losses will continue for the near to medium future as the Company transitions from predominantly undertaking research and development to a more commercial basis.

In line with normal practice, and prior to signing this report, the Directors are required to assess whether it is appropriate to prepare the financial statements on a going concern basis. In making this assessment the Directors need to be satisfied that the Company can meet its obligations as they fall due for at least 12 months from the date of this report.

As part of this assessment, the Directors reviewed the Company's forecast cash position through to the end of the 2025 financial year. This was based on the agreed budget for the 2024 financial year and the forecast for the 2025 financial year. As the period goes beyond the 12 months required it provides additional information when making the assessment. To reach the end of 2025 with positive cash would require at least £7 million of additional funding, however this amount would not be enough for the Company to scale up at its preferred rate.

In addition, the Board reviewed possible downside scenarios to establish the resilience of the Company's cash reserves and identified the impact of continuing high levels of cost inflation, particularly on employee remuneration and supply chain, combined with delays of sales receipts as a particular risk.

Based on this assessment, and the Company's intention to capitalise on its growing market opportunities by scaling up its manufacturing output and continuing to invest in research and development, the Board has concluded that additional funding will be required to deliver on these plans.

Whilst the Company is a going concern, the fact that the additional funding required has not yet been sought and secured indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Whilst the Board recognises the challenges of fundraising in the current economic climate, it is confident that when the Company does choose to seek additional funding that it will be available. This view is based primarily on the:

- recent technical successes of both the fuel cell and fuel processing teams;
- UK Government requirements for construction tenders to include a non-diesel solution for onsite electricity generation;
- growing levels of interest expressed by the construction market in the recent joint venture with Speedy Hire plc;
- positive feedback from external advisors; and
- growing levels of institutional engagement, in both the fuel cell and fuel processing value streams, particularly following recent site visits.

Based on the above, the Directors have concluded that the Company remains a going concern and these financial statements have therefore been prepared on that basis.

The accounting policies set out below have, unless otherwise stated, been applied consistently in these financial statements.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

Judgments made by the Directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

Standards, amendments and interpretations to published standards not yet effective

The following amendments to the accounting standards, issued by the IASB and endorsed by the UK, were adopted by the Company from 1 November 2022 with no material impact on the Company's results, financial position or disclosures:

~ Amendments to IFRS 3 Updating a Reference to the Conceptual Framework.

~ Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use.

~ Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract.

~ Amendments to Annual improvements 2018-2020 – IFRS 9 – Fees in the '10 per cent' Test and IFRS 16 – Lease incentives.

~ Amendments to IAS 12 International Tax Reform – Pillar Two Model Rules.

The following standard and amendments issued by the IASB have been endorsed by the UK and have not been adopted by the Company:

~ IFRS 17 – Insurance contracts (effective from the year ending 30 June 2024) is ultimately intended to replace IFRS 4. Based on a preliminary assessment, management believes that the adoption of IFRS 17 will not have a significant impact on the Company's results or financial position.

~ Amendments to IAS 12 – Income taxes (effective from the year ending 30 June 2024) requires an entity to recognise deferred tax on initial recognition of particular transactions to the extent that the transaction gives rise to equal amounts of deferred tax assets and liabilities. The proposed amendments would apply to transactions such as leases and decommissioning obligations for which an entity recognises both an asset and a liability. Management believes that the adoption of these amendments will not have a significant impact on the Company's results and financial position.

There are a number of other amendments and clarifications to IFRSs, effective in future years, which are not expected to significantly impact the Company's results or financial position.

Capital policy

The Company manages its equity as capital. Equity comprises the items detailed within the principal accounting policy for equity and financial details can be found in the statement of financial position. The Company adheres to the capital maintenance requirements as set out in the Companies Act 2006.

Revenue recognition

To determine whether to recognise revenue, a five-step process is followed:

~ Identifying the contract with a customer;

~ Identifying the performance obligations;

~ Determining the transaction price;

~ Allocating the transaction price to the performance obligations; and

~ Recognising revenue as the performance obligations are satisfied.

Complex contracts include competing priorities such as financial targets, support capabilities, and delivery schedules. A complex contract will have multiple independent issues which must all be negotiated individually.

Revenue is generated from complex contracts covering the:

~ Sale of goods and parts,

~ Sale of services and maintenance, and

~ Short-term rental contracts which may be either single or multiple contracts. Multiple contracts are accounted for as a single contract where one or more of the following criteria are met:

    • The contracts were negotiated as a single commercial package,

    • Consideration of one contract depends upon the other contract, or

    • Some or all the goods and services comprise a single performance obligation.

The promises in each contract are analysed to determine if these represent performance obligations individually, or in combination with other promises. Performance obligations in the contracts are analysed between either distinct physical goods and services delivered or service level agreements. The transaction price of the performance obligations is based upon the contract terms considering both cash and non-cash consideration. Non-cash consideration is valued at fair value taking into consideration contract terms and known arm's length pricing where available. In the event there are multiple performance obligations in a contract, the price is allocated to the performance obligations based on the relative costs of fulfilling each obligation plus a margin.

Revenue is recognised either at a point in time or over time, as the performance obligations are satisfied by transferring the promised goods or services to its customers. Deferred revenue is recognised for consideration received in respect of unsatisfied performance obligations and the Company reports these amounts as payables in the statement of financial position.

Similarly, if a performance obligation is satisfied in advance of any consideration, a receivable is recognised in the statement of financial position.

Rental as service and long-term service contracts

Revenue is recognised over time based on outputs provided to the customer, because this is the most accurate measurement of the satisfaction of the performance obligation as it matches the consumption of the benefits obtained by the customer. The customer is simultaneously receiving and consuming the benefits as the Company performs its obligations. Revenue can comprise a fixed rental charge and a variable charge related to the usage of assets or other services including pass-through costs where pass-through refers to the variable charge, for example Hydrogen.

Sale (standard products) contracts

Revenue from standard products will be recognised at a point of time only when the performance obligation has been fulfilled and ownership of the goods has transferred, which is typically factory or site acceptance test, which is the official handover of control of the goods to the customer. As the products are not deemed to be bespoke, there are alternative uses to the Company as the products would be able to be resold to other customers.

During the product build, deposits and progress payments will be reflected in the balance sheet as deferred revenue.

Costs incurred on projects to date will not be included in the statement of comprehensive income but will be accumulated on the balance sheet as work in progress (as they are considered recoverable) and transferred to cost of sales once the revenue applicable to those costs can be recognised in the accounts. Should anticipated costs exceed anticipated revenues, a provision will be recognised and the surplus costs expensed with immediate effect.

Sale (customised products) contracts

Revenues for customised contracts will be recognised over time according to how much of the performance obligation has been satisfied. This is measured using the input method, comparing the extent of inputs towards satisfying the performance obligation with the expected total inputs required. Any changes in expectation are reflected in the total inputs figure as they become known. The progress percentage obtained is then applied to the revenue associated with that performance obligation. The revenue should be recognised over a point in time as the products under these contracts would be bespoke and therefore not have an alternative use. These contracts would have an enforceable right to payment for performance completed to date.

Other income

Other income represents sales of waste materials and government contracts, and the accounting policy follows IFRS 15 for point-in-time revenue recognition.

Development costs

Identifiable non-recurring engineering and design costs and other prototype costs incurred to develop a technically and commercially feasible product are assessed. In accordance with IAS 38 Development costs and capitalised if they meet all of the criteria required as below:

~ technical feasibility of completing the asset for use or sale;

~ intention to complete the asset for use or sale;

~ ability to use or sell the asset;

~ generation of probable future economic benefits;

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

- availability of adequate technical and financial resources; and
- ability to measure the attributable expenditure reliably.

Foreign currency

The financial statements of the Company are presented in the currency of the primary economic environment in which it operates (the functional currency) which is pounds sterling. In accordance with IAS 21, transactions entered into by the Company in a currency other than the functional currency are recorded at the rates ruling when the transactions occur.

At each Statement of Financial Position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the date of the Statement of Financial Position.

Inventory

Inventory is recorded at the lower of actual cost and net realisable value, applying the average cost methodology.

Work in progress comprises direct labour, direct materials and direct overheads. Direct Labour will be allocated on an input basis that reflects the consumption of those resources in the production process.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash balances and bank overdrafts that form an integral part of the Company's cash management process. They are recorded in the statement of financial position and valued at amortised cost.

Restricted cash represents bank deposit accounts where disbursement is dependent upon certain contractual performance conditions.

Other receivables

These assets are initially recognised at fair value and are subsequently measured at amortised cost less any provision for impairment.

Tangible fixed assets

Property and equipment are stated at cost less any subsequent accumulated depreciation and impairment losses. Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Depreciation is charged to the statement of comprehensive income within cost of sales and/or operating expenses on a straight-line basis over the estimated useful lives of each part of an item of plant, machinery and equipment. The estimated useful lives are as follows:

Decommissioning asset	Life of the lease
Plant, machinery and equipment	1 to 3 years
Computer equipment	3 years
Manufacturing and test stands	3 years
Motor vehicles	3 to 4 years
Demonstration equipment	3 to 10 years
Rental fleet	3 to 10 years

Expenses incurred in respect of the maintenance and repair of property and equipment are charged against income when incurred. Refurbishment and improvement expenditure, where the benefit is expected to be long lasting, is capitalised as part of the appropriate asset.

The useful economic lives of tangible fixed assets are reviewed annually, and any revision is accounted for as a change in accounting estimate and the net book value of the asset, at the time of the revision, is depreciated over the remaining revised economic life of the asset.

Right-of-use assets

At inception each contract is assessed as to whether it conveys the right to control the use of an identified asset and obtain substantially all the economic benefits from the use of that asset, for a period in exchange for consideration. If so, the contract should be accounted for as a lease and the Company should recognise a right-of-use asset, and related lease liability, at the lease commencement date.

The right-of-use asset comprises the corresponding lease liability, lease payments made before the commencement date, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. The lease liability is initially measured at the present value of the lease payments and discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the incremental borrowing rate is used. The lease liability continues to be measured at amortised cost using the effective interest method. It is remeasured when there is a change in the future lease payments. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

At lease commencement date, a right-of-use and lease liability are recognised on the statement of financial position. The right-of-use asset is measured at cost, which comprises the initial measurement of the lease liability, any initial direct costs incurred, an estimate of costs to dismantle and remove the asset at the end of the lease term and any lease payments made in advance of the lease commencement date.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

After initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes to in-substance payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

Short-term leases and low value assets are accounted for using the practical expedients set out in IFRS 16 and the payments are recognised as an expense in profit or loss on a straight-line basis over the lease term.

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of less than 12-months and leases of low value assets. These largely relate to short-term rentals of equipment. The lease payments associated with these leases are expensed on a straight-line basis over the lease term.

Intangible assets

The useful economic lives of intangible fixed assets are reviewed annually, and any revision is accounted for as a change in accounting estimate and the net book value of the asset, at the time of the revision, is amortised over the remaining revised economic life of the asset.

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses. Amortisation of intangible assets is charged using the straight-line method to operating expenses over the following periods:

Development costs	5 years
Patents	10 to 20 years
Commercial rights	5 years

Impairment testing of intangible assets and property, plant and equipment

At each statement of financial position date, the carrying amounts of the assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). In assessing whether an impairment is required, the carrying value of the asset is compared with its recoverable amount. The recoverable amount is the higher of the fair value less costs of disposal (FVLCD) and value in use (VIU).

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

Financial instruments

Financial instruments are measured on initial recognition at fair value, plus, in the case of financial instruments other than those classified as fair value through profit or loss (FVTPL), directly attributable transaction costs. Receivables are initially recognised at transaction price. Financial instruments are recognised when the Company becomes a party to the contracts that give rise to them and are classified as amortised cost, fair value through profit or loss or fair value through other comprehensive income, as appropriate. The Company considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if the host contract is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

In the periods presented the Company does not have any financial assets categorised as FVTPL or FVOCI.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding and is not designated as FVTPL. Financial assets classified as amortised cost are measured after initial recognition at amortised cost using the effective interest method. Cash, restricted cash, trade receivables and certain other assets are classified as, and measured at, amortised cost.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in net earnings when the liabilities are derecognised as well as through the amortisation process. Borrowing liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date. Accounts payable and accrued liabilities and lease liabilities are classified as, and measured at, amortised cost.

Impairment of financial assets

A loss allowance for expected credit losses is recognised in the Statement of Comprehensive Income for financial assets measured at amortised cost. At each balance sheet date, on a forward-looking basis, the Company assesses the expected credit losses associated with its financial assets (such as trade receivables) carried at amortised cost.

The expected loss rates are based on the historical credit losses adjusted to reflect current and forward-looking information on economic factors affecting the ability of the customers to settle the receivables.

The impairment methodology applied depends on whether there has been a significant increase in credit risk. The expected credit losses are required to be measured through a loss allowance at an amount equal to the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date), or full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument). A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition.

Derecognition of financial assets and liabilities

A financial asset is derecognised when either the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party. If neither the rights to receive cash flows from the asset have expired nor the Company has transferred its rights to receive cash flows from the asset, the Company will assess whether it has relinquished control of the asset or not. If the Company does not control the asset, then derecognition is appropriate. A financial liability is derecognised when the associated obligation is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of Comprehensive Income.

Share-based payment transactions

The fair value of options granted under the Employee Share Option Plan, the Employee Performance Share Plan and the Save-As-You-Earn scheme are recognised as an employee benefits expense, with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

~ Including any market performance conditions (e.g., the Company's share price)

~ Excluding the impact of any service and non-market performance vesting conditions (e.g., profitability, sales growth targets and remaining an employee for a specified time)

~ Including the impact of any non-vesting conditions (e.g., the requirement for employees to save or hold shares for a specific period)

The total expense is recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Modifications after the vesting date to terms and conditions of equity-based payments which increase the fair value are recognised over the remaining vesting period. If the fair value of the revised equity-based payments is less than the original valuation, then the original valuation is expensed as if the modification never occurred.

The fair value of warrants issued is also recognised as a share-based payment expense with a corresponding increase in equity.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probable that the Company will be required to settle the obligation. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the Statement of Financial Position date and are discounted to present value where the effect is material.

Provisions include onerous contracts (see later under note 3) where, if unavoidable costs of meeting a contract exceed the expected revenue, a provision is recognised immediately through profit and loss.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Tax due for the current and prior periods is recognised as a liability, to the extent that it has not yet been settled, and as an asset if the amounts already paid exceed the amount due. The benefit of a tax loss which can be carried back to recover current tax of a prior period is recognised as an asset.

Current tax assets and liabilities are measured at the amount expected to be paid to/ recovered from taxation authorities, using the rates/laws that have been enacted or substantively enacted by the balance sheet date.

A deferred tax asset is recognised for deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability other than in a business combination which, at the time of the transaction, does not affect accounting profit or taxable profit.

The carrying amount of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Any such reduction is subsequently reversed to the extent that it becomes probable that sufficient taxable profit will be available.

A deferred tax asset is recognised for an unused tax loss carry forward or unused tax credit if, and only if, it is considered probable that there will be sufficient future taxable profit against which the loss or credit carry forward can be utilised.

The Company does not currently recognise a deferred tax asset, as near-term taxable profits, against which to offset the asset, are not considered probable.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

R&D tax credits

The Company's research and development activities allow it to claim R&D tax credits from HMRC in respect of qualifying expenditure; these credits are reflected in the statement of comprehensive income in the taxation line.

Pension contributions

The Company operates a defined contribution pension scheme which is open to all employees and makes monthly employer contributions to the scheme in respect of employees who join the scheme. These employer contributions are capped at 5% of the employee's salary and are reflected in the statement of comprehensive income in the period for which they are made.

The amount recognised in the period is the contribution payable in exchange for services rendered by employees during the period.

3. Critical accounting judgments and key sources of estimation uncertainty

In the preparation of the financial statements, management makes certain judgments and estimates that impact the financial statements. While these judgments are continually reviewed, the facts and circumstances underlying these judgments may change, resulting in a change to the estimates that could impact the results of the Company. In particular:

Critical accounting judgments

The following are the judgments made by management in applying the accounting policies of the Company that have the most significant effect on the financial statements:

Customer contracts and revenue recognition

Customer contracts typically include the provision of goods or services related to the provision of off-grid power generated from the conversion by fuel cells of hydrogen to electricity.

Customer agreements can be complex, involve multiple legal documents and have a duration covering multiple accounting periods including different performance obligations and payment terms designed to manage cash flow rather than the underlying arm's length transaction price. Management uses judgment to identify the specific performance obligations and allocate the total expected revenue to the identified performance obligations. These judgments are made based on the interpretation of key clauses and conditions within each customer contract.

Project reviews covering cost forecasts and technical progress are monitored periodically to ensure that any potential losses are recognised immediately in the accounts in accordance with IAS 37.

Capitalisation of development expenditure

The Company uses the criteria of IAS 38 to determine whether development expenditure should be capitalised. Management identifies separately non-recurring engineering, design costs and prototype costs incurred to develop demonstration units used in marketing activities and customer trials. Management believes that the Development Expenditure will continue to support marketing and customer trials for the foreseeable future. This assessment relies upon judgments about future customer behaviour taking in to account the feedback received from prospective customers and future product improvements which influence the economic useful life and residual value of said assets.

For the current year, all development costs have been expensed as they do not yet meet all six of the criteria set out within the policy (see note 2) on development costs.

Following the end of the financial year, the Company's Technical Advisory Board (TAB) reviewed the 38 technical and commercial projects that had incurred expenses during the financial year. Of these, 17 were classified as research projects and therefore unable to be capitalised under IAS 38. Eight projects were commercial in nature and expenses were therefore treated as cost of sales. Two projects were discontinued and thus did not qualify for capitalisation. Four projects did not demonstrate future economic benefits. One project was not completed due to lack of budget, one project was out-of-scope for intangible assets and to be assessed under IAS 16 Tangible Assets and one project was deemed not to be below the threshold to warrant capitalisation. There was an inability to accurately measure the cost reliably for four projects.

Key source of estimation uncertainty

Share-based payments

Certain employees (including Directors and senior Executives) of the Company receive remuneration in the form of share-based payment, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The fair value is determined using either the Black-Scholes valuation model or a Monte Carlo model for market-based conditions. Both are appropriate for considering the effects of the vesting conditions, expected exercise period and the dividend policy of the Company.

The cost of equity-settled transactions is accrued, together with a corresponding increase in equity over the period the Directors expect the performance criteria will be fulfilled. For market performance criteria this estimate is made at the time of grant considering historic share price performance and volatility. For non-market-based performance criteria, an estimate is made at the time of grant and reviewed annually thereafter considering progress on the operational objectives set, plans and budgets.

The estimation uncertainty relating to share-based payments is not at risk of material change in future years other than in relation to management's estimate of the extent to which the non-market-based performance criteria will be met.

Onerous contracts

Throughout the year, the performance of each open contract is reviewed and expected cost of delivering that contract is compared to the expected revenue from doing so. Where the expected costs suggest a loss the contract is treated as an onerous contract and a provision is recognised immediately through the profit and loss. No such provisions were made.

4. Segmental analysis

Operating segments are determined by the chief operating decision maker based on information used to allocate the Company's resources. The information as presented to internal management is consistent with the Statement of Comprehensive Income. It has been determined that there is one operating segment, the development of fuel cells. In the year to 31 October 2023, the Company operated mainly in the United Kingdom. All non-current assets are in the United Kingdom. Revenue for the period was all generated from fuel cell systems.

5. Revenue

Revenue from contracts with customers	Year ended 31 October 2023 £000	Year ended 31 October 2022 £000
Rental revenue	137	225
Other revenue	90	357
	227	**582**
Being:		
Cash consideration	161	367
Consideration in kind	66	215
	227	**582**

One customer (FY22: one customer) accounted for more than 10% of revenue:

	Year ended 31 October 2023		Year ended 31 October 2022	
	£000	%	£000	%
Customer A	130	57.1	475	81.6

The majority of the other revenue relates to sales of hydrogen to the rentee of the fuel cell generators.

Unsatisfied performance obligations were:

	Total £000	Within one year £000	Within 2 to 5 years £000
31 October 2022	96	96	—
31 October 2023	**—**	**—**	**—**

The aggregate amount of the transaction price allocated to contracts that are fully unsatisfied as of 31 October 2023 was £Nil (2022: £96,000).

The consideration in kind relates to marketing services received from the customer and fair valued in accordance with the contract.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

6. Operating costs

		Year ended 31 October 2023			Year ended 31 October 2022		
	Note	Qualifying R&D spend £000	Indirect £000	Total £000	Qualifying R&D spend £000	Indirect £000	Total £000
Product development costs							
Materials		3,349	1,330	4,679	4,654	451	5,105
		3,349	**1,330**	**4,679**	**4,654**	**451**	**5,105**
Payroll costs							
Payroll (excluding directors)		4,361	2,329	6,690	3,660	1,247	4,907
Directors' costs		151	1,744	1,895	—	1,642	1,642
Other employment costs		220	813	1,033	251	796	1,047
		4,732	**4,886**	**9,618**	**3,911**	**3,685**	**7,596**
Other administrative expenses							
Occupancy costs		214	670	884	—	772	772
Other administrative expenses		192	2,178	2,370	440	2,310	2,750
		406	**2,848**	**3,254**	**440**	**3,082**	**3,522**
Non-cash costs							
Amortisation of intangible assets		—	110	110	—	474	474
Depreciation of right-of-use assets		—	455	455	—	379	379
Depreciation of tangible fixed assets		—	1,099	1,099	—	994	994
Less depreciation of rental asset charged to cost of sales		—	(65)	(65)	—	(218)	(218)
Consideration in kind		—	66	66	—	215	215
Share-based payments charge		—	778	778	—	1,682	1,682
		—	**2,443**	**2,443**	**—**	**3,526**	**3,526**
		8,487	**11,507**	**19,994**	**9,005**	**10,744**	**19,749**

7. Other employment costs

	Year ended 31 October 2023 £000	Year ended 31 October 2022 £000
External consultants	521	161
Recruitment costs	375	704
Private Healthcare and Life Insurance	108	101
Other	29	81
	1,033	**1,047**

8. Other administrative expenses

	Year ended 31 October 2023 £000	Year ended 31 October 2022 £000
Professional fees	619	889
Audit and tax costs	237	312
Information technology	750	753
Travel & entertainment	177	486
Insurance	417	260
Other	170	50
	2,370	**2,750**

Fees paid to the auditors included within the operating costs were:

	Year ended 31 October 2023 £000	Year ended 31 October 2022 £000
Audit	218	244
Other assurance services	17	9

9. Employee numbers and costs, including directors

The average number of employees in the year were:

	Year ended 31 October 2023 £000	Year ended 31 October 2022 £000
Support, operations and technical	113	77
Directors	7	7
	120	**84**

The aggregate payroll costs for directors and employees were:

	Year ended 31 October 2023 £000	Year ended 31 October 2022 £000
Wages and salaries	7,290	5,961
Social security	1,000	392
Employers' pension contributions	295	196
	8,585	**6,549**
Equity-settled share-based payment expense	778	1,682
	9,363	**8,231**

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

10. Directors' costs

Directors' emoluments	Year ended 31 October 2023 £000	Year ended 31 October 2022 £000
Short-term employee benefits:		
Wages and salaries including bonuses	1,526	1,380
Accrual for untaken holiday	1	37
Other compensation	73	77
Social security	278	98
	1,878	**1,592**
Post-employment benefits:		
Defined contribution pension plans	46	50
	1,924	**1,642**
Share-based payments	**629**	**1,474**
Total remuneration	**2,553**	**3,116**

Social security and accrued holiday pay are included in the table above and reconcile to note 9.

Aggregate gains made by directors on the exercise of share options and warrants was £129,225.

Highest paid director	Year ended 31 October 2023 £000	Year ended 31 October 2022 £000
Wages and salaries	601	538
Other compensation	44	43
	645	**581**
Employers' pension contributions	16	16
	661	**597**

11. Net finance income/(cost)

	Year ended 31 October 2023 £000	Year ended 31 October 2022 £000
Lease interest	(69)	(38)
Exchange rate differences	22	21
Bank charges	(6)	(2)
Total finance cost	**(53)**	**(19)**
Bank interest receivable	512	143
Net finance income	**459**	**124**

12. Taxation

	Year ended 31 October 2023 £000	Year ended 31 October 2022 £000
Recognised in the statement of comprehensive income		
R&D tax credit – current year	2,088	3,050
R&D tax credit – prior year	(2)	(8)
Total tax credit	**2,086**	**3,042**
Reconciliation of effective tax rates		
Loss before tax	(19,561)	(19,488)
Tax using the domestic rate of corporation tax at 22.52% (2022: 19%)	**4,405**	**3,703**
Effect of:		
Change in unrecognised deferred tax resulting from tax losses	(2,443)	(1,767)
Non-deductible items	(43)	101
Depreciation in excess of capital allowances	(6)	(299)
R&D enhanced deduction on qualifying R&D expenditure	1,959	2,259
R&D rate adjustment on surrendered losses	(1,784)	(947)
R&D tax credit – prior year	(2)	(8)
Total tax credit	**2,086**	**3,042**

Potential deferred tax assets have not been recognised but are set out below:

	Year ended 31 October 2023 £000	Year ended 31 October 2022 £000
Property, plant and equipment and intangible assets	431	(187)
Share-based payments	57	477
Other differences	11	—
Losses carried forward	14,389	12,037
Unrecognised deferred tax assets	**14,888**	**12,327**

The cumulative tax losses in the amount of £57.6 million (2022: £47.6 million) that are available indefinitely for offsetting against future taxable profits have not been recognised as the Directors consider that it is unlikely that they will be realised in the foreseeable future.

The 2021 Finance Act increased the UK corporation tax rate to 25% from 1 April 2023, which will affect any future tax charges.

13. Loss per share

The calculation of the basic loss per share is based upon the net loss after tax attributable to ordinary shareholders and a weighted average number of shares in issue for the year.

	Year ended 31 October 2023	Year ended 31 October 2022
Basic loss per share (pence)	(2.36)	(2.24)
Diluted loss per share (pence)	(2.36)	(2.24)
Loss attributable to equity shareholders £000	(£17,475)	(£16,446)
Weighted average number of shares in issue	**741,451**	**734,745**

Diluted earnings per share

As set out in note 24, there are share options and warrants (accounted for under IFRS 2: Share based payments) outstanding as at 31 October 2023 which, if exercised, would increase the number of shares in issue. Given the losses for the year, there is no dilution of losses per share in the year ended 31 October 2023 nor the previous year.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

14. Intangible assets

	Development costs £000	Patents £000	Commercial rights £000	Total intangible assets £000
Cost				
At 1 November 2021	229	886	121	1,236
Additions	—	334	—	334
At 31 October 2022	229	1,220	121	1,570
Additions	—	63	—	63
Disposals	(229)	—	—	(229)
At 31 October 2023	**—**	**1,283**	**121**	**1,404**
Amortisation				
At 1 November 2021	74	384	33	491
Charge for the year	34	422	18	474
Impairment charge	121	173	—	294
At 31 October 2022	229	979	51	1,259
Charge for the year	—	70	40	110
Disposals	(229)	—	—	(229)
At 31 October 2023	**—**	**1,049**	**91**	**1,140**
Net book value				
At 31 October 2022	—	241	70	311
At 31 October 2023	**—**	**234**	**30**	**264**

15. Right-of-use assets

	Buildings £000
Cost	
At 1 November 2021	1,415
Additions	470
At 31 October 2022	1,885
Additions	576
Disposals	(476)
At 31 October 2023	**1,985**
Depreciation	
At 1 November 2021	530
Charge for the year	379
At 31 October 2022	909
Charge for the year	455
Disposals	(476)
At 31 October 2023	**888**
Net book value	
At 31 October 2022	976
At 31 October 2023	**1,097**

16. Tangible fixed assets

	Leasehold improvements £000	Decommissioning Asset £000	Plant, machinery and equipment £000	Assets under construction £000	Total tangible fixed assets £000
Cost					
At 1 November 2021	958	300	3,318	—	4,576
Additions	1,620	—	362	406	2,388
Disposals	(8)	—	(118)	—	(126)
At 31 October 2022	2,570	300	3,562	406	6,838
Additions	985	—	334	288	1,607
Disposals	(9)	—	(25)	—	(34)
At 31 October 2023	**3,546**	**300**	**3,871**	**694**	**8,411**
Depreciation					
At 1 November 2021	302	265	1,740	—	2,307
Charge for the year	444	20	530	—	994
Impairment charge	—	—	255	—	255
At 31 October 2022	746	285	2,525	—	3,556
Charge for the year	648	15	436	—	1,099
Disposals	—	—	—	—	—
At 31 October 2023	**1,394**	**300**	**2,961**	**—**	**4,655**
Net book value					
At 31 October 2022	1,824	15	1,037	406	3,282
At 31 October 2023	**2,152**	**—**	**910**	**694**	**3,756**

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

17. Inventory

	31 October 2023 £000	31 October 2022 £000
Raw materials	185	173
Work-in-progress	405	—
Provision	(412)	(130)
Inventory	**178**	**43**

Inventory expensed as cost of sales during the year was £nil (2022 £nil). During the year, £412,000 (2022: £488,000) of brought forward inventory was written off as research and development costs on projects that did not subsequently meet the anticipated level of commerciality.

18. Receivables

	31 October 2023 £000	31 October 2022 £000
Trade receivables	107	142
VAT receivables	383	401
Other receivables	217	303
Prepayments	524	314
	1,231	**1,160**

There is no significant difference between the fair value of the receivables and the values stated above.

19. Cash and cash equivalents

	31 October 2023 £000	31 October 2022 £000
Cash at bank	303	285
Bank deposits	27,063	39,935
	27,366	**40,220**

Cash at bank and bank deposits consist of cash. There is no material foreign exchange movement in respect of cash and cash equivalents.

Restricted cash of £258,000 (2022: £612,000) is not included within cash and cash equivalents and is held in escrow to support bank guarantees provided under contractual obligations to suppliers and customers.

20. Payables

	31 October 2023 £000	31 October 2022 £000
Trade payables	931	445
Deferred revenue	1,423	1,600
Other payables	416	349
Accruals	958	1,250
	3,728	**3,644**

Included in Accruals as of 31 October 2023 is an amount of £690,000 in relation to bonuses (2022: £514,000).

Deferred revenue under the ABB contract is reduced by the fair value of the warrants granted on the same day, 15 November 2021, as the two contracts are considered to be linked.

21. Lease liabilities

Changes in liabilities arising from financing activities:

	Year ended 31 October 2023 £000	Year ended 31 October 2022 £000
Opening position	996	906
Cash flows		
Repayment	(516)	(419)
Non-cash		
Additions	575	471
Interest expense	69	38
	1,124	**996**

	31 October 2023 £000	31 October 2022 £000
Lease liabilities less than 12 months	477	298
Lease liabilities more than 12 months	647	698
	1,124	**996**

All of the Company's leases are for the occupancy of the campus at Dunsfold Park and are disclosed as 'Buildings' in note 15. A number of buildings are occupied under licences and these have not been recognised as right-of-use assets. Of the leases recognised as right-of-use assets, the Company has a commitment on one lease until February 2027 with a break clause in February 2025. The Company has a commitment on one lease until November 2025 with no break clauses. Two leases were renewed in January 2023 until January 2026 with no break clauses.

Leases are renewed as opposed to being extended and are granted outside of the 1954 Act. They therefore do not have security of tenure.

22. Provisions

	National insurance on unapproved share options £000	Decommissioning provision £000	Total £000
Balance at 1 November 2021	353	301	654
Utilisation	(353)	—	(353)
Balance at 31 October 2022	**—**	**301**	**301**
Additions	—	—	—
Utilisation	—	—	—
Balance at 31 October 2023	**—**	**301**	**301**

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

23. Issued share capital

	Ordinary shares	Price £	Share capital £000	Share premium before costs of issue £000	Costs of issue £000	Share premium net of costs of issue £000
At 1 November 2021	734,484,668	—	734	119,718	(3,269)	116,448
Exercise of options 14 March 2022	60,000	9,240	—	9	—	9
Exercise of options 5 July 2022	110,000	12,320	—	12	—	12
Exercise of PSP award 21 July 2022	583,169	583	1	—	—	1
Exercise of options 26 July 2022	60,000	9,240	—	9	—	9
Exercise of options 7 September 2022	53,334	8,213	—	8	—	9
At 1 November 2022	735,351,171	—	735	119,756	(3,269)	116,487
Issue of shares 5 April 2023	10,000,000	2,000,000	10	1,990	—	1,990
Exercise of options 1 June 2023	10,000	—	—	—	—	—
Exercise of warrants 14 June 2023	900,000	44,325	1	43	—	43
Exercise of PSP award 22 September 2023	255,136	255	-	—	—	—
	746,516,307	**—**	**746**	**121,789**	**(3,269)**	**118,520**

The Company considers its capital and reserves attributable to equity shareholders to be the Company's capital. In managing its capital, the Company's primary long-term objective is to provide a return for its equity shareholders through capital growth. Going forward the Company will seek to maintain a gearing ratio that balances risks and returns at an acceptable level and to maintain a sufficient funding base to enable the Company to meet its working capital needs. The Company has no debt, other than property leases, and therefore a target debt to equity ratio is not relevant at the time.

Share premium is shown before the permitted deduction of costs of issue. After such deduction the value equals £118,520,000.

Details of the Company's capital are disclosed in the statement of changes in equity.

There have been no other significant changes to the Company's management objectives, policies and processes in the year nor has there been any change in what the Company considers to be capital.

24. Share-based payments

Share-based payment charge:

	31 October 2023 £000	31 October 2022 £000
Employee Share Option Plan	48	193
Employee Performance Share Plan	612	1,400
Warrants	—	70
SAYE	118	19
	778	**1,682**

Employee Share Option Plan

The establishment of the Employee Share Option Plan was approved by the Board on 1 August 2018 and amended on 10 October 2018. The Plan is designed to attract, retain and motivate employees. Under the Plan, participants can be granted options which vest unconditionally or conditionally upon achieving certain performance targets. Participation in the Plan is solely at the Board's discretion and no employee has a contractual right to participate in the Plan or to receive any guaranteed benefits.

Options are granted under the Plan for no consideration and carry no dividend nor voting rights.

When exercisable, each option is convertible into one ordinary share.

Further details are discussed within the Remuneration Committee Report.

Set out below are summaries of options granted under the Plan:

	Average exercise price per share option 2023 £	Number of options 2023	Average exercise price per share option 2022	Number of options 2022
At 1 November	0.35	13,717,167	0.35	14,952,167
Granted during the year	0.16	2,125,000	0.19	215,000
Exercised during the year	0.09	(10,000)	0.14	(283,334)
Lapsed during the year	0.17	(2,861,667)	0.35	(1,166,666)
Amended during the year:				
Options at original exercise price	0.62	(1,000,000)	—	—
Options at rebased exercise price	0.11	1,000,000	—	—
At 31 October	**0.32**	**12,970,500**	**0.35**	**13,717,167**
Vested and exercisable at 31 October		9,630,500		11,700,637

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

Grant date	Expiry date	Exercise price £	Share options 2023	Share options 2022
7 November 2012	07 November 2022	0.3575	—	95,000
2 December 2013	01 December 2023	0.3400	120,000	120,000
17 July 2015	17 July 2025	0.2200	6,000,000	6,000,000
10 September 2018	01 August 2024	0.0880	190,000	216,667
15 October 2018	15 October 2024	0.0880	2,500,000	2,500,000
31 December 2019	20 April 2030	0.1635	—	2,750,000
20 April 2020	20 April 2030	0.1540	820,500	820,500
24 June 2021*	28 June 2031	0.6170	—	1,000,000
9 June 2023*	28 June 2031	0.1000	500,000	—
9 June 2023*	28 June 2031	0.1250	500,000	—
9 June 2023	28 June 2031	0.1526	1,500,000	—
4 July 2022	04 July 2032	0.1900	215,000	215,000
27 April 2023	27 April 2033	0.0188	625,000	—
			12,970,500	**13,717,167**

* Award amended by Deed of Variation in 2023.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

The table below sets out the inputs used in determining the fair value of the grants of options per the previous table as well as the expense recognised in the accounts in the current year. The grants in the previous table are linked below based on the exercise price and grant date.

Grant date	Exercise price £	Average grant date share price £	Average expected volatility per annum	Average risk-free interest rate per annum	Average dividend yield per annum	Average implied option life in years	Average fair value per option £	Amount expenses in 2023 £000
31 December 2019	0.1635	0.1635	95.50%	0.54%	0.00%	2.0	0.8100	—
4 July 2022	0.1900	0.1900	95.00%	1.83%	0.00%	3.0	0.1140	8
27 April 2023	0.1880	0.1882	78.00%	3.82%	0.00%	3.0	0.0990	11
09 June 2023	0.1000	0.1682	72.00%	4.51%	0.00%	0.7	0.0791	3
09 June 2023	0.1000	0.1682	72.00%	4.51%	0.00%	0.9	0.0825	3
09 June 2023	0.1250	0.1682	72.00%	4.51%	0.00%	1.7	0.0817	9
09 June 2023	0.1250	0.1682	72.00%	4.51%	0.00%	1.9	0.0847	3
09 June 2023	0.1530	0.1682	72.00%	4.51%	0.00%	2.7	0.0856	3
09 June 2023	0.1530	0.1682	72.00%	4.51%	0.00%	2.9	0.0883	8
Total charge for the year (2022: £193,000)								**48**

Employee Performance Share Plan

The establishment of the Employee Performance Share Plan was approved by the Board on 1 September 2021. The Plan is designed to attract, retain and motivate employees. Under the Plan, participants can be granted options which vest unconditionally or conditionally upon achieving certain performance targets. Participation in the Plan is solely at the Board's discretion and no employee has a contractual right to participate in the Plan or to receive any guaranteed benefits. Award holders are not required to make payment for the grant of an award unless the board determines otherwise.

Options are granted under the Plan for no consideration and carry no dividend nor voting rights.

When exercisable, each option is convertible into one ordinary share.

Set out below are summaries of options granted under the Plan:

	Average exercise price per share option 2023 £	Number of options 2023	Average exercise price per share option 2022	Number of options 2022
At 1 November	0.001	6,131,266	—	—
Granted during the year	0.001	4,664,000	0.001	7,493,317
Exercised during the year	0.001	(255,136)	0.001	(583,169)
Lapsed during the year	0.001	(2,939,226)	0.001	(778,882)
At 31 October	**0.001**	**7,600,904**	**0.001**	**6,131,266**
Vested and exercisable at 31 October		—		—

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

Grant date	Expiry date	Exercise price £	Share options 2023	Share options 2022
19 November 2021	19 November 2031	0.001	620,970	2,971,582
12 July 2022	12 July 2032	0.001	2,315,934	3,159,684
1 June 2023	1 June 2033	0.001	4,664,000	—
			7,600,904	**6,131,266**

The table below sets out the inputs used in determining the fair value of the grants of options per the previous table as well as the expense recognised in the accounts in the current year. The grants in the previous table are linked below based on the exercise price and grant date.

Grant date	Exercise price Pence	Average grant date share price Pence	Average expected volatility per annum	Average risk-free interest rate per annum	Average dividend yield per annum	Average implied option life in years	Average fair value per option Pence	Amount expenses in 2023 £000
19 November 2021	0.001	53.80	76.00%	0.05%	0.00%	0.40	0.43	—
19 November 2021	0.001	53.80	76.00%	0.35%	0.00%	1.40	0.42	205
19 November 2021	0.001	53.80	76.00%	0.05%	0.00%	3.00	0.45	133
15 July 2022	0.001	20.70	95.00%	1.76%	0.00%	3.00	12.70	91
15 July 2022	0.001	20.70	95.00%	1.76%	0.00%	3.00	16.60	119
01 June 2023	0.001	17.91	74.00%	4.29%	0.00%	3.00	8.79	29
01 June 2023	0.001	17.91	74.00%	4.29%	0.00%	3.00	10.92	35
Total charge for the year (2022: £1,400,000)								**612**

Three grants were made on 19 November 2021. The first two, of the three disclosed above, related to the Transitional LTIP, and was made in two tranches. The first tranche had a risk free rate of 0.05% whilst the second tranche had a risk-free rate of 0.35%. The third, of the three above, related to the PSP LTIP and had a risk free rate of 0.05%.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

SAYE

Save-as-you-earn (SAYE) 'Sharesave' schemes are open to all eligible employees. The SAYE schemes allows eligible employees to commit to making a deduction from salary on a monthly basis over three years. At the end of the three-year period, employees can purchase the Company's ordinary shares of 0.1 pence each ("Ordinary Shares") using the funds saved.

The first AFC Energy SAYE scheme was launched in August 2022 at an exercise price of 20.48 pence per Ordinary Share, representing a 20% discount to the closing market price of the Ordinary Shares prior to the scheme being launched on 3 August 2022.

The second AFC Energy SAYE scheme was launched in September 2023 at an exercise price of 14.304 pence per Ordinary Share, representing a 20% discount to the closing market price of the Ordinary Shares prior to the scheme being launched on 6 September 2022.

The discounts to the closing market prices are in line with the limits of the SAYE scheme as defined by HMRC.

	Average exercise price per option 2023 Pence	Number of options 2023	Average exercise price per option 2022 £	Number of options 2022
1 November	20.48	2,007,400	—	—
Granted during the year	14.30	1,937,201	20.48	2,007,400
31 October	**17.44**	**3,944,601**	**20.48**	**2,007,400**
Vested and exercisable at 31 October	—	—	—	—

Grant date	Expiry date	Exercise price	Share options 2023	Share options 2022
3 August 2022	31 March 2026	20.480	(2,007,400)	2,007,400
19 October 2023	30 April 2027	14.304	1,937,201	—

Grant date	Exercise price Pence	Average grant date share price Pence	Average expected volatility per annum	Average risk-free interest rate per annum	Average dividend yield per annum	Average implied option life in years	Average fair value per option Pence	Amount expenses in 2023 £000
3 August 2022	20.480	25.60	95.00%	2.93%	0.00%	3.08	17.700	115
19 October 2023	14.304	13.97	73.00%	4.72%	0.00%	3.03	7.060	3
Total charge for the year (2022: £19,000)								**118**

25. Financial instruments

Warrants

While the Board issues share options to employees, the Board has the discretion to award warrants from time to time to non-employees, such as non-executive directors and third parties. Typically, warrants are granted and vest upon certain performance targets. Grant of warrants is solely at the Board's discretion.

Warrants are granted for no consideration and carry no dividend nor voting rights. When exercisable, each warrant is convertible into one ordinary share.

Set out below are summaries of warrants granted under the Plan:

	Average exercise price per warrant 2023 £	Number of warrants 2023	Average exercise price per warrant 2022 £	Number of warrants 2022
1 November	0.540	15,702,720	0.51	8,900,000
Granted during the year	—	—	0.59	6,802,720
Exercised during the year*	0.049	(900,000)	—	—
Lapsed during the year	0.210	(3,000,000)	—	—
31 October	**0.670**	**11,802,720**	**0.54**	**15,702,720**
Vested and exercisable at 31 October		3,101,300		4,001,300

The warrants exercised during the year all relate to a serving non-executive director and are discussed further within the Remuneration Committee Report.

Grant date	Warrant price Pence	Average grant date share price Pence	Average expected volatility per annum	Average risk-free interest rate per annum	Average dividend yield per annum	Average implied warrant life in years	Average fair value per warrant Pence	Amount expenses in 2023 £'000
13 October 2020	19.5	18.56	102.76%	(0.02)%	0.00%	1	7.01	—
Total charge for the year (2022: £70,000)								

Grant date	Warrant price Pence	Average grant date share price Pence	Average expected volatility per annum	Average risk-free interest rate per annum	Average dividend yield per annum	Average implied warrant life in years	Average fair value per warrant Pence	Accounted as equity in 2023 £000
15 November 2021	58.8	58.8	59.1%	0.65%	0.00%	2	6.3	—
15 November 2021	58.8	58.8	59.1%	0.65%	0.00%	2	11.3	—
15 November 2021	58.8	58.8	59.1%	0.65%	0.00%	2	9.9	—
Accounted as equity (2022: £576,000)								

In the case of the ABB warrants, the warrant life is two years from the date of vesting. The first tranche of 3.4 million warrants have fully vested and expired on 4 February 2024 without having been exercised. Under the revised agreement signed on 28 March 2023, ABB will invest the £2.0 million balance into newly issued share capital, which means that the original milestones 1 and 2 will no longer apply and so the related warrants will not vest and therefore expire in due course.

Warrants outstanding at the end of the year have the following expiry dates and exercise prices.

Grant date	Expiry date	Exercise price	Warrants 2023	Warrants 2022
9 September 2019	9 September 2029	0.050	—	900,000*
19 October 2020	13 October 2021	0.195	—	1,000,000*
19 October 2020	13 April 2021	0.210	—	1,000,000*
19 October 2020	13 October 2022	0.230	—	1,000,000*
13 January 2021	13 March 2025	0.770	5,000,000	5,000,000*
15 November 2021	4 February 2024	0.590	3,401,360	3,401,360
15 November 2021	24 months after vesting	0.590	1,700,680	1,700,680
15 November 2021	24 months after vesting	0.590	1,700,680	1,700,680
			11,802,720	**15,702,720**

In common with other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

*These warrants represent share-based payments which have been accounted for under IFRS 2 and disclosures have been made which are required for share based payments and can be found in note 24.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

Principal financial instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

	Note	Year ended 31 October 2023 £000	Year ended 31 October 2022 £000
Financial instruments held at amortised cost:			
Cash and cash equivalents	19	27,366	40,220
Receivables	18	324	445
Total financial assets held at amortised cost		**27,690**	**41,380**
Payables	20	2,304	2,044
Leases	21	1,124	996
Total financial liabilities held at amortised cost		**3,428**	**3,040**

There is no difference between the fair value and book value of financial instruments.

The Company does not enter forward exchange contracts or otherwise hedge its potential foreign exchange exposure. The Board monitors and reviews its policies in respect of currency risk on a regular basis.

VAT receivables and prepayments have been removed from financial assets and deferred revenue from financial liabilities.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into three levels based on the degree to which the fair value is observable as defined by IFRS 7:

- Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets and liabilities.
- Level 2 fair value measurements are those derived from inputs, other than quoted prices included within Level 1, that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

Other than the ABB warrants, granted on 15 November 2021, which also incorporate managements inputs to the fair valuation, all financial instruments are Level 1 and none have been transferred between Levels during the year.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Company's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated part of the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance team. The Board receives reports from the financial team through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce ongoing risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

Credit risk

Credit risk arises principally from the Company's other receivables and cash and cash equivalents. It is the risk that the counterparty fails to discharge its obligation in respect of the instrument. The maximum exposure to credit risk equals the carrying value of these items in the financial statements as shown below:

	Year ended 31 October 2023 £000	Year ended 31 October 2022 £000
Cash and cash equivalents	27,366	40,220
Receivables	324	445

The Company's principal other receivables arose from:

a) customers, and

b) trade and other receivables

Credit risk with cash and cash equivalents is reduced by placing funds with banks with acceptable credit ratings and government support where applicable and on term deposits with a range of maturity dates. At the year end, most cash were temporarily held on short-term deposit. The credit risk provision is estimated on a case by case basis taking into account public information of the counterparty and payment history and no loss is expected. No expected credit loss accrual has been made as at 31 October 2023 and 2022 as they are estimated to be de minimis.

Liquidity risk

Liquidity risk arises from the Company's management of working capital and the amount of funding required for the development programme. It is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due.

The principal liabilities of the Company are trade and other payables in respect of the ongoing product development programme. Trade payables are all payable within two months. The Board receives cash flow projections on a regular basis as well as information on cash balances.

The following table shows the Company's financial liabilities by relevant maturity grouping based on contractual maturities. The amounts included in the analysis are contractual, undiscounted cashflows.

31 October 2023	Less than one year £000	One to two years £000	Tow to five years £000	Total contracted cash flows £000	Carrying amount £000
Trade payables	2,304	—	—	2,304	2,304
Lease liabilities	518	518	151	1,187	1,124
Total financial liabilities	**2,822**	**518**	**151**	**3,491**	**3,428**

31 October 2022	Less than one year £000	One to two years £000	Tow to five years £000	Total contracted cash flows £000	Carrying amount £000
Trade payables	2,044	—	—	2,044	2,044
Lease liabilities	328	308	423	1,059	996
Total financial liabilities	**2,372**	**308**	**423**	**3,103**	**3,040**

See also note 21, which sets out the lease liabilities for less than 12 months and more than 12 months.

Interest rate risk

The Company is exposed to interest rate risk in respect of surplus funds held on deposit and, where appropriate, uses fixed interest term deposits to mitigate this risk.

26. Related party transactions

There were no transactions with any related parties during the year ended 31 October 2023 (2022: £Nil) other than key management compensation, details of which can be found in note 10.

27. Ultimate controlling party

There is no ultimate controlling party.

28. Events occurring after the end of the reporting period

See within the Directors' Report on page 41.

COMPANY INFORMATION

Executive directors	Appointed	Resigned
BOND, Adam Steven	1-Jun-12	
DIXON-CLARKE, Peter	1-Dec-22	
GIBSON, James Hay	6-Feb-17	9-Jun-23
LEWIS, Graeme	27-Feb-20	30-Nov-22

Non-executive directors	Appointed	Resigned
AGNEW, Gerald Daniel, Dr	9-Sep-19	
BIDDULPH, Monika, Dr	3-Dec-21	
BULLARD, Gary Bruce	15-Apr-21	
MANGION, Joseph Bernard	5-Dec-17	31-Jul-23
NEALE, Duncan John	1-Aug-23	

Company Secretary	Appointed	Resigned
LEWIS, Graeme Robert	2-Apr-19	1-Dec-22
DIXON-CLARKE, Peter	1-Dec-22	9-Oct-23
KEANE, Brendan James	9-Oct-23	

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Joint Broker
Zeus Capital Limited, 82 King Street, MANCHESTER, M2 4QW
RBC Capital Markets, 100 Bishopsgate, LONDON, EC2N 4AA

AIM Nominated Adviser and Joint Broker
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Solicitors to the Company
Memery Crystal LLP 165 Fleet Street London EC4A 2DY

Auditors and reporting accountants
Grant Thornton UK LLP, 30 Finsbury Square, LONDON, EC2A 1AG

Financial PR Advisers
FTI Consulting, 200 Aldersgate Street, LONDON, EC1A 4HD

Registrars
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