AFC Energy PLC Annual Report

For the year ended 31 October 2021

Contents

A Summary of 2021 4

STRATEGIC REPORT

Chairman's report 8

Operational review 11

Strategy and business model 16

What does AFC Energy offer its customers 19

Target markets 20

Strategic Partners and Customers 24

Product development roadmap 26

Role of the Board and its sub-committees 28

Section 172 statement 31

Risk Management 32

GOVERNANCE REPORT

Audit and Risk Committee report 35

Nomination Committee report 38

Remuneration Committee report 40

ESG Committee report 47

Statement of directors' responsibilities 58

Independent Auditors Report to the Members of AFC Energy plc 60

FINANCIAL STATEMENTS

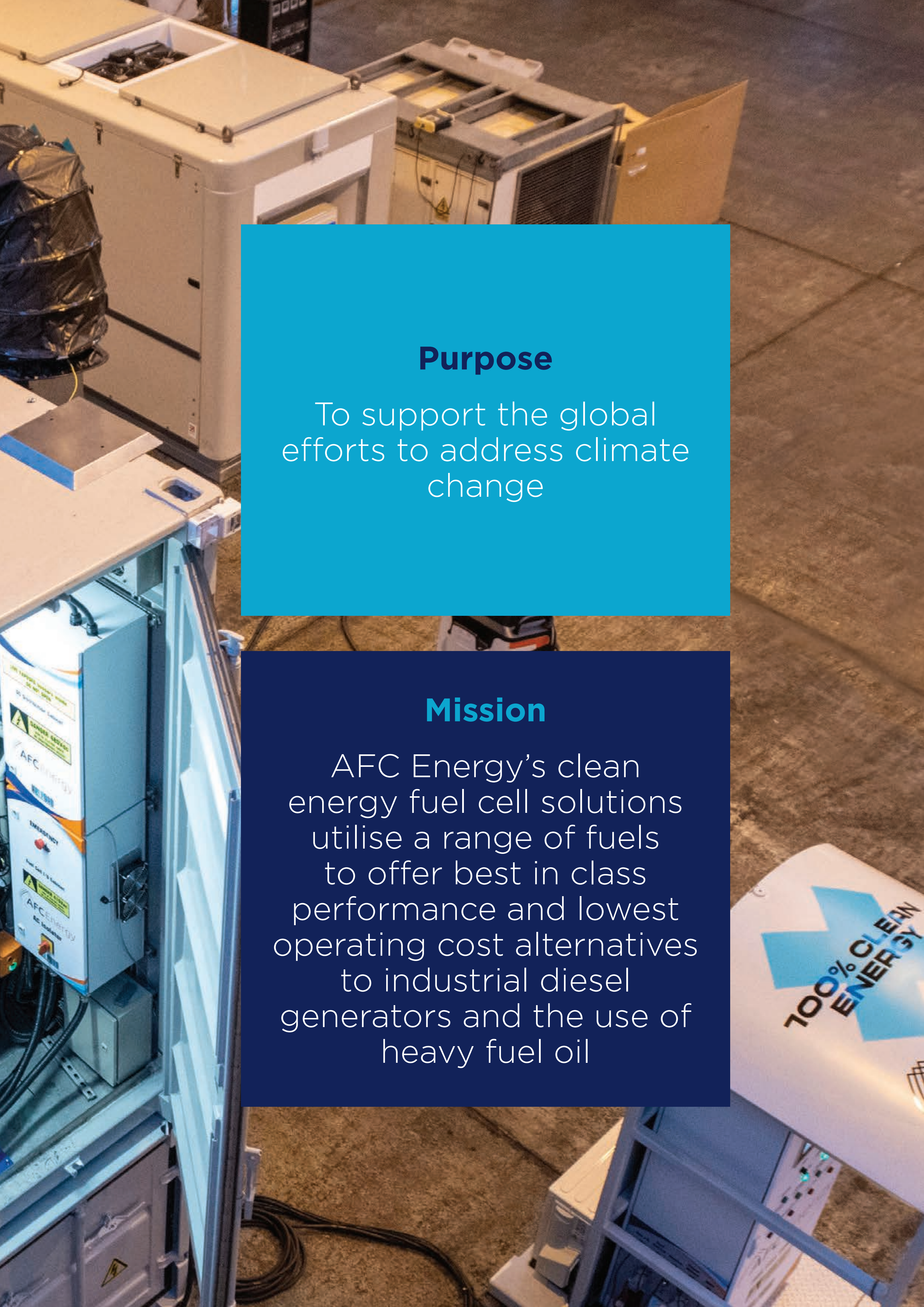
Statement of Comprehensive Income 68

Statement of Financial Position 69

Statement of Changes in Equity 70

Cash Flow Statement 71

Notes Forming Part of the Financial Statements 72



Purpose

To support the global efforts to address climate change

Mission

AFC Energy's clean energy fuel cell solutions utilise a range of fuels to offer best in class performance and lowest operating cost alternatives to industrial diesel generators and the use of heavy fuel oil

A summary of 2021

Dec 2020
Announcement of ABB strategic partnership - global leader in electrification technologies, for e-Mobility and data centre applications.

Mar 2021
Announcement of strategic partnership with Mace - one of the UK's leading construction contractors providing us with real life data for on-site requirements to support ongoing product development.

Apr 2021
ABB strategic investment and data centre collaboration agreement.

Dec 2021
Selection for ZeroCoaster bulk cargo design - VARD ZeroCoaster design incorporating AEM maritime solution with ammonia storage and cracker awarded AiP from DNV unlocking potential for the design's commercialisation across maritime sector.

2021

A growing list of international partners in target markets

2022

Jan 2021
Announcement of strategic collaboration with Ricardo - global leader in the creation of innovative engineering and design solutions with strong credentials across the transportation and energy sectors.

Apr 2021
Announcement of MoU with Altaaqa Alternative Solutions - leading diesel generator hire business discussing exclusive dealership for the Saudi and MENA regions.

Sep 2021
Announcement of Urban-Airports partnership - rental of fuel cell systems in 2022 for charging ground-based infrastructure in and around eVTOL facilities in Coventry, UK.

Field demonstrated technology

2021 → 2022

Jan 2021
**Extreme E fuel cell system unveiled - ** successful on-time deployment of fuel cell technology charging all-electric eSUV globally televised race series in Saudi Arabia, Senegal, Greenland and Sardinia.

Feb 2021
Opening of AEM fuel cell test facility.

May 2021
Presentation of technology to HRH Prince William.

Aug 2021
Delivery of system to ABB - successful integration and testing of AFC Energy L Series fuel cell system with ABB energy storage and rapid electric vehicle ("EV") charging infrastructure.

Dec 2021
Hybrid Fuel Cell ("HFC") technology platform - developed and confirmed within the S Series range.

Initial procurement programme for semi-automated manufacturing equipment for mass production of S Series fuel cell system.

First prototype S Series stack build completed.

Dec 2021
Initiated and commissioned commercial scale ammonia cracker with AFC Energy's alkaline fuel cell technology platforms.

Feb 2021 **Appointment of Chief Engineer and Product Officer, Dr Mike Rendall.**

Apr 2021 **Broadened skills and experience of Board -** appointment of new Non-Executive Chairman to the Board, Mr Gary Bullard.

Appointment of Chief Technology Officer, Dr David Harvey.

May 2021 **Appointment of Chief Commercial Officer, Mark Bailey.**

Dec 2021 **Appointment of Dr Monika Biddulph as Non-Executive director (post year-end)**

2021

Growing and strengthening team

2022

2021

Strong statement of financial position with £55.4 million unrestricted cash

2022

Nov 2020 **Cancellation of convertible loan facility.**

Apr 2021 **Fundraise of £36 million.**

Sep 2021 **Appointment of Peel Hunt as broker and Nomad.**

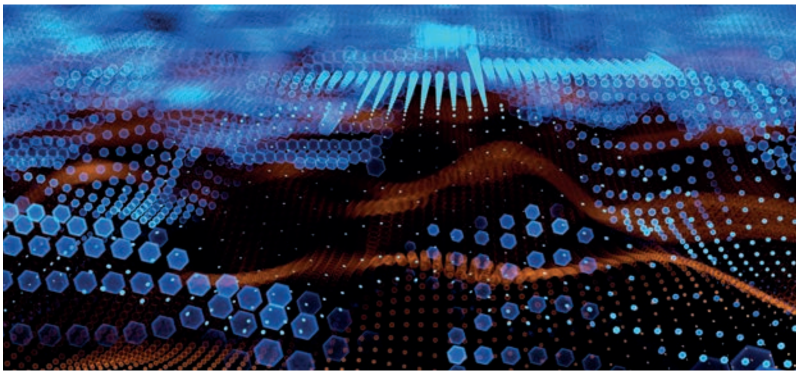
Strategic Report

Chairman's report

Gary Bullard

I am delighted to present my first report as Chairman of AFC Energy PLC. At this time of global uncertainty, the role of the Board to grow a business which contributes to the wider society has never been clearer. By growing and sustaining a financially strong and environmentally responsible business over the long term, with a clear mission and purpose, we can make not only a positive and significant contribution to our clients and people, but also to the economy and wider society.

Following the successful fundraise, we have the financial strength to take a longer-term view of our business strategy, the underlying product development plans and processes considering the feedback we have been receiving from our customers, strategic partners and operational deployments. The message has been clear, in our target diesel generator applications, our customers want both a high-power density fuel cell with flexible choice of fuel and for this reason we have refocused our time and investment to deliver our solid membrane suite of solutions.



Strategic Development

In 2021, we undertook a thorough review of both our own and our customers' strategic objectives which demonstrated the benefits of the ongoing product development strategy to improve power density and fuel flexibility. Marine applications offer the largest value creation opportunity but is an industry seeking to maximise permitted timelines. Nevertheless, power density and fuel flexibility targets are key performance requirements common to our more immediately addressable markets such as EV charging and temporary power. Through this further diversification we are reducing our dependence on specific applications which will build a more balanced portfolio of products resilient to specific market and regulatory changes.

Operational Improvement

During the year, the business has focused on its product development process to provide our customers and strategic partners with competitive technical and economic offerings and our investors with enhanced returns. The lean start-up strategy we are adopting enables us constantly to evaluate and update our assumptions on our end user needs. Combined with traditional project management disciplines we believe this offers the quickest and most cost-effective process to deliver value creating solutions.

Our Response to the Pandemic

Our primary concern has been to ensure the health and safety of our staff, customers and suppliers. This year has been no less challenging than the previous one with tight deadlines, against a backdrop of social distancing and remote working. Our employees, have risen to the challenge to support our projects, both in our offices and in remote locations around the world, despite the challenges posed by the

COVID-19 pandemic. These challenges have not gone away, as we have seen this Christmas with the Omicron variant, but on behalf of the Board, I would like to thank the staff and management team for their professionalism, dedication and understanding during this time.

The Board

In line with the recommendations in the QCA Corporate Governance code, an independent review of the effectiveness and performance of the Board has been conducted. This is the first externally facilitated review since listing on AIM in 2007. Several recommendations were made which we are in the process of implementing, including increasing the number of Independent Directors to broaden the skills and experience of the Board. Post year-end we appointed Dr Monika Biddulph who has extensive experience in product development in a technology setting. We have also consulted with external advisors on the independence of the existing Non-Executives and can confirm that they meet the requirements set out in the code. I believe that the Independent Directors' skills and experience cover research, product development, commercial and finance which reflects the skills we need at this point in time in our development.

Environment, Societal and Governance Role

The Board is committed to high standards of public reporting and has begun to put a formal ESG reporting framework in place to support investors in measuring the positive impact the company has on the wider society and in successfully future proofing itself. Post year end in December, an ESG Board sub-committee was formed by Monika Biddulph, supported by Jim Gibson from the executive team. We have begun to review our internal management information to align them with the wider responsibilities that we all have towards our society, so that we can deliver the commitments we make. In the ESG statement we set out our policy and a self-assessment of where we stand today.

Last year we began to take actions to align remuneration with our stakeholder objectives. During the year we have adopted a new remuneration policy described in more detail in the remuneration committee report. In brief, our policy is to attract and retain the best talent in the sector by offering competitive remuneration packages which reward long term shareholder value creation. This policy has been successful in attracting staff at all levels, whose knowledge and experience have enabled us to widen our focus in terms of size of addressable markets whilst also enabling us to increase our time investment in the development of our technology and allied products.

Investor Communications

The COVID-19 pandemic also directly affected how we communicated with our shareholders during the period. The Board remains committed to regular communication with the market and our investors and is keen to resume its investor day activities as pandemic restrictions are lifted.

Financial Performance

Our successful fundraise provides us with a robust platform. Careful use of this funding prior to year-end meant that we ended the year with an unrestricted cash balance of £55.4 million (2020: £31.3 million). This strong cash position supported our decision to accelerate the S Series development.

The operating loss for the year was £10.4 million (2020: £4.6 million), whilst cash absorbed by operations and investing activities was £10.7 million (2020: £4.1 million). This directly reflected our increased investment in our facilities, growing in quality and quantity our team and product roadmap.

Our commercial strategy has been successful in placing systems with customers and strategic partners. Their input and feedback have confirmed the robustness and versatility of our systems, integration with other complementary carbon reduction solutions and our ability to support our product in arduous locations and climates. Our product development roadmap is being developed by listening to our customers and strategic partners, who have confirmed the importance of power density and fuel flexibility as distinguishing features with competing systems.

Dividends

Given the need to use our existing cash headroom to increase headcount, continue product development and to fulfil key customer orders in support of our "Go to Market" strategy, the Board will, as in previous years, not pay a dividend.

Looking Ahead

The regulatory platform and political will to address climate change has never been stronger which can only help drive transition away from traditional technologies. During the coming year I expect to see us take advantage of these favourable environments, reaping the benefits of focusing our time and investment in those matters important to our end users, underwritten by the breadth of skills and experience we are bringing into the business at all levels.

Gary Bullard
8 March 2022

Operational review

Adam Bond

We are pleased that AFC Energy successfully continued during the year to make large strides into its goal of displacing pollutant diesel generators for off-grid power as part of the global transition to Net Zero.

Whilst the macro environment highlights a range of uncertainties affecting capital markets, including geopolitical challenges in Europe, post pandemic recoveries, increasing inflationary pressures on business and consumers, and uncertain supply chains, one constant that remains, is a universal policy and environmental necessity to reduce greenhouse gases and instigate policy objectives that are fully aligned with this outcome. For AFC Energy, this could not be more consistent with our business strategy and the increasing importance placed on hydrogen, and especially hydrogen carriers, as the world transitions away from diesel.

April 2022 marks the end of the United Kingdom's long held subsidy on the use of red diesel. This subsidy, currently valued at 46.81p per litre (versus white diesel), has long had a negative effect on the temporary power and construction industry's motivations to transition away from generator sets. With the playing field now beginning to level from this year, the interest in non-diesel on site power generation is growing, driven by cost factors overlaid with increasing ESG obligations of users.

https://www.gov.uk/government/news/cop-26-ends-with-global-agreement-to-speed-up-action-on-climate-change

Further, in respect to Electric Vehicles ("EV"), many of the largest car manufacturers are now working together to make all new car sales zero emission by 2040 globally and 2035 in leading markets. This initiative is supported by countries and cities who are setting similarly ambitious petrol and diesel car phase out dates. However, from 30 May, new legislation in the UK means that home-based EV charging will be prevented during peak hours to avoid overloading the national electricity grid and placing it under undue stress during peak demand. This opens further the opportunity to support grid constrained environments through adoption of AFC Energy fuel cell technology as the country, and indeed, global EV deployment begins to outpace grid upgrades.

These and other policy commitments, continue to provide the regulatory platform that will underpin the growth of our business and accelerate the speed at which our future customers will transition away from traditional fossil fuel solutions in off-grid power generation.

Flex Fuelling Strategy

A challenge now all too familiar across the Hydrogen industry is the gas's low energy density by volume (versus incumbent fuels) and therefore, its associated cost of transportation and storage in off-grid locations.

AFC Energy has long held the view that for hydrogen fuel cells to be effective in decarbonising the off-grid power market, adoption of hydrogen carrier fuels must take a clear and transparent role in lowering the total cost of ownership (TCO) and therefore, cost of power.

Ammonia, or more accurately, green ammonia, was one such hydrogen carrier fuel which delivered on this challenge with the propensity to work seamlessly in an alkaline fuel cell environment relative to incumbent PEM based technologies.

To this end, we have continued to move ahead in the receipt of commercial scale ammonia crackers during the year, able to liberate hydrogen from base ammonia feedstock, but we are also now reviewing opportunities to drive further leading-edge innovation in the development of novel and scalable ammonia cracker technology with broader use cases alongside integration with our fuel cell technology. These scalable crackers will have potential for adoption in large-scale, heavy-duty applications such as maritime environments, whilst also supporting traditional stationary genset displacement for zero emission off-grid power.

In engaging with the market however, it became increasingly apparent that ammonia, whilst being the world's most energy dense chemical without a carbon molecule, may not always be the preferred choice in all applications with some end users preferring green methanol as its primary feedstock of choice. For this reason, to maximise and leverage our new power dense S series fuel cell technology, AFC Energy took the view during the year that it will develop, within the S Series, a variant fuel cell technology known as the "Hybrid Fuel Cell", or "HFC". The HFC adopts most of the same architecture as the alkaline S Series system but can utilise both methanol and hydrogen as its primary feedstock.

Through this innovation, AFC Energy is furthering its "fuel flex" strategy with a unique capability to provide customers with off-grid power solutions fuelled by green hydrogen, green ammonia or green methanol, in a fully integrated and modular format.

This strategy not only makes us one of the most flexible fuel cell offerings in the market today, but by leveraging both low cost and readily available hydrogen carrier fuels such as ammonia and methanol, gives us an advantage on a pure cost basis relative to other fuel cell technologies that require traditional high cost 99.999% grade hydrogen.

The fuel flex strategy increasingly embraced by AFC Energy and its partners is a unique selling point which has driven strong growth in commercial interest in our product range over the past twelve months.

Strategic Partners

This year has been marked by the contribution made by our strategic partners. Valuable operational feedback has been received from both the real-life challenges experienced with Extreme E and through the extensive ABB validation processes conducted during the 2021 year.

The commercial relationship with ABB has continued to grow in 2021, with not only their first investment into AFC Energy made during the year, but also through the work conducted in the development of the fully integrated fuel cell high power EV charging system designed for ABB's global customer base. The strength of collaboration between ABB and AFC Energy saw the partnership further expand in 2021 to incorporate ABB's data centre offering where many of their hyperscale data centre customers are now looking to displace diesel backup generators from all sites. It was AFC Energy's fuel flex approach which was the key driver in ABB's decision to partner with AFC Energy in this market. A large amount of work also went into ABB's first £4 million commercial order of an S Series fuel cell system which, whilst announced after year end, was the result of many months of dialogue which highlighted where ABB sees AFC Energy's technology platforms best deployed across its customer base.

ABB's first 200kW system order is sized to meet not only the demands of their e-Mobility customers, producing up to 4.8MW of clean electricity per day, but also to meet the requirements of ABB's data centre and potentially marine customers, thereby maximising the value of the system order across the ABB verticals.

Key amongst our partners announced in the temporary power and construction industry are Altaaqa Alternative Solutions ("Altaaqa"), one of the world's largest distributors of diesel generators based out of Saudi Arabia, and MACE, one of the UK's leading construction contractors.

We are progressing well on discussions with Altaaqa for a dealership agreement across the Saudi and MENA regions based on their strong focus on transitioning away from fossil fuels in remote power. Altaaqa's current market leading multi gigawatt fossil-based power generator business across Saudi Arabia and surrounding regions fits very well with our aspirations for targeting the Gulf region for fuel cell deployment.

Work has also been continuing constructively with MACE with the two companies undertaking several work programmes since March, including engagement with regulatory bodies, multiple site measurement and assessments of power needs (considering variable power loads from cranes) in advance of system deployment during 2022.

Whilst these discussions take time, they are a valuable input into our product development plans as they give us first-hand insight as to the operating and regulatory needs and concerns of end users which we in turn can build into our designs.

An example of this has been ACCIONA and Jülich who have been engaging with AFC Energy on our new product portfolio expected for release in 2022. Due to previously communicated delays on each site, an opportunity has arisen to review product deployment for each site with a particular interest in the new S Series systems which are expected for early deployment in 2022. These changes in delivery demonstrate the importance of power density and flexible fuelling to end users who have been willing to delay their timelines to leapfrog to a solution better suited to their needs.

Customer Led Product Development

As highlighted above, customers and partners are becoming increasingly aware of the challenges hydrogen presents as a viable gaseous fuel in remote off-grid environments, highlighting the importance of hydrogen carrier fuels such as ammonia and methanol, and AFC Energy's ability to leverage its technology to capitalise on such fuels.

This, coupled with AFC Energy's unique approach to system integration of both upstream fuelling technology (such as ammonia crackers) and fuel cell power generators, continues to highlight and raise awareness of the role we expect to play in disrupting the US$20 billion a year diesel generator market.

With news of AFC Energy's recent success in being integrated into the >1MW maritime market, we are now confident of our abilities to capitalise not only on the sizeable stationary power market, but increasingly on, arguably, the largest market for our fuel cell platforms, international shipping.

Technology and Product Range

AFC Energy's technology and product roadmap was for many years dominated by the L Series, liquid electrolyte technology which continues to be in full operation as part of the Extreme E racing series. The L Series platform has highlighted the possibilities of alkaline fuel cells and their fuel flexing capability across both hydrogen and ammonia.

With the incorporation of anion exchange membrane technology and its potential through the S Series fuel cell to drive down costs, increase energy density and reduce overall system footprint relative to the L Series, customers now have a choice on technology platforms.

The S Series platform is being accelerated through the ABB sale agreement, across each of the

"air cooled" and "liquid cooled" platforms with early delivery of a 100kW liquid cooled system, and a 200kW liquid cooled system deployment, integrated with an ammonia cracker. It is this product platform which will form the basis of all larger scale, high power dense systems expected to be delivered across the S Series where ammonia or methanol are considered the low-cost hydrogen carriers of choice, including both data centres and maritime.

The product range was augmented during 2021 with work undertaken on a heavy-duty maritime product configuration, with a revised product roadmap developed highlighting the renewed customer interest in the S Series fuel cell system. This roadmap builds on several new products designed in 2021 which we expect to see released during 2022.

Investment into Staffing and Scaled Up Manufacturing

With the proceeds from our capital raises in 2020 and 2021, AFC Energy has maintained an influx of high-quality engineering, commercial, research and manufacturing teams required to deliver the business plan over the coming years.

The engineering team moved into new offices as part of the upgrade to local aircraft hangar facilities at the head office in Surrey over the summer, with the remainder of the hangar installation now being developed for manufacturing scale up.

A mapping of the semi-automated scale up infrastructure required for stack deployment has been made and the first pieces of machinery have arrived on site for acceptance and commissioning. These semi-automated assembly lines will facilitate the build and delivery of the next few years' worth of fuel cell stacks for customer deployment.

Strengthened Contracted Revenue and Pipeline

Commercial agreements currently worth £5.0 million (at the time of this statement, including post year end contracts) reflect an increase from last year. Throughout the course of 2022, we expect this to further increase as commercial interest in our technology continues to rise in off-grid power systems.

Commercial agreements for 2022 are expected to take several forms, including outright fuel cell system sales or leases, funded customer product development programmes and engineering fees.

Through our strategic partnership with ABB, we are engaging with several e-Mobility and data centre customers across the US and Europe and see the first £4 million order placed by ABB in December 2021 as a true sign of the market demand for zero emission off-grid power solutions fuelled by hydrogen and hydrogen carrier fuels. ABB took the early decision that its product demand was to be focussed on the S Series AEM fuel cell system and that across its portfolio of use cases, it was the highest energy density system that would provide the greatest go to market opportunity. The £4 million order received from ABB last month therefore highlights not only an early product sale of the S Series platform, but also fast-tracked development that will provide ABB with the operating data upon which to package fuel cell systems for client deployment.

The size of the off-grid power market, both in stationary and mobile applications, should not be under-valued and, when considered in the light of the maritime market alone, which is measured in thousands of megawatts, we continue to believe the strength in AFC Energy's addressable markets is weighted heavily towards its technology's ability to accept low grade / low cost hydrogen with a focus on that derived from hydrogen carrier fuels such as ammonia and going forwards, methanol, discussed in more detail below.

Outlook

The alignment of policy and regulatory drivers, coupled with increased product performance and early scale up of manufacturing, positions AFC Energy well for another strong year in 2022.

Our relationship with ABB is now seeing regular customer engagement on AFC Energy's product offerings across multiple verticals and with new product releases made in the maritime and temporary power markets during 2021, we are seeing strong growth in interest across these hard to abate markets.

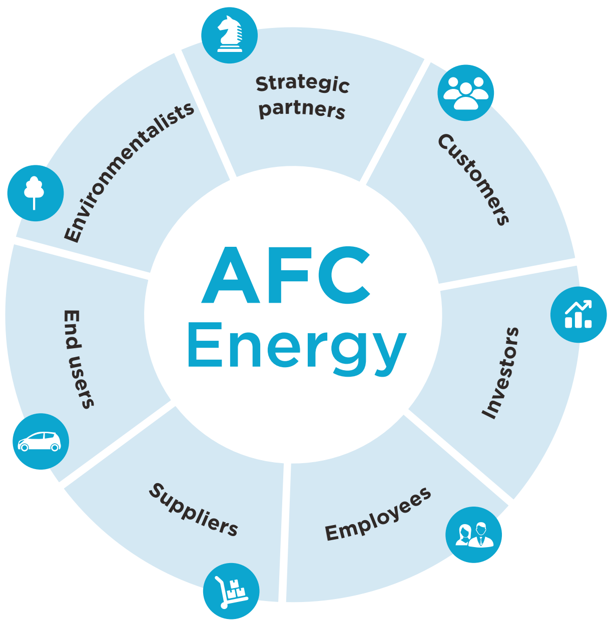
The fuel flex strategy AFC Energy remains our key market differentiator and one we are leveraging to good effect with our pipeline of projects and customers.

With the introduction of the AEM and HFC S Series systems, AFC Energy is now confident that it affords maximum optionality to its customers in fuelling in a unique way for fuel cell technology. We expect to leverage this "fuel flex" approach to all our commercial partners and customers and believe with this market offering, and the power density we expect to achieve from our S Series platforms, that 2022 will see many new opportunities emerge for the Company to capitalise on its leading position to displace diesel generators within the next decade.

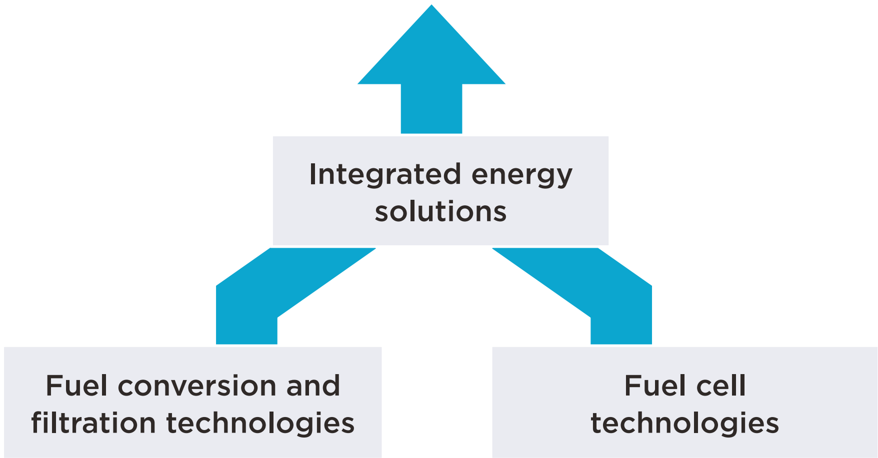
Adam Bond
8 March 2022

Strategy and business model

We collaborate with all stakeholders to ensure that our technology and product roadmaps meet their short and long-term needs in setting our strategy and when making operational decisions especially product roadmaps.



We have developed a three-pillar strategy applying the feedback received from our strategic partners designed to deliver an integrated technology solution offering high power density and flexible fuelling solutions.



Key to delivering shareholder value are our partnerships with leading global OEMs and distribution partners who are best placed to know and understand their customer needs. AFC Energy's strategy is to manufacture its fuel cells with key assembly, commissioning and logistics hubs remaining internal whilst outsourcing component manufacture. Significant investment has been made to our Dunsfold site by upgrading the facilities to provide sufficient capacity to assemble systems and provide testing, factory acceptance and commissioning facilities.

With our strategic partners we will focus on joint product development projects that generate an early source of revenues and validate our understanding of our customers, their requirements and how our systems perform in real life applications.

We benefit from

- Being able to test product assumptions with minimal resources
- Receive end user input to the design process
- Minimises over-engineered solutions
- Raise customer and market awareness
- De-risks investment in manufacturing equipment and facilities.

Our partners benefit from

- Training and familiarisation of staff
- Proactive contribution to the design process
- Real life performance evaluation
- De risks early adoption and accelerates substitution of obsolete technology.

Progress is measured by regular review at Board and project team levels by setting targets for key performance indicators, covering at the corporate level.

Customer and staff well-being
health and safety performance

Scale up
managing headcount growth to increase team skills and experience

Financial continuity
control cash burn

Operational delivery
project and product performance targets, manufacturing and technology readiness levels

	Year ended 31 October 2021 £	Year ended 31 October 2020 £
Health and safety		
Onsite hours	78,508	33,327
Near miss	2	1
Injuries	1	1
Scale up (average headcount)		
Support, operations and technical staff	36	24
Administration staff	6	6
Financial		
Operating loss	£10,408,566	£4,606,212
Liquidity (Unrestricted cash and cash equivalents)	£55,375,366	£31,301,467
Cash absorbed by operating and investing activities	£10,685,232	£4,057,404

The financial performance metrics have been chosen to measure our ability to continue to develop our portfolio of products, scale up production and convert opportunities into revenue whilst ensuring we have sufficient funding to grow the business.

Metrics and targets for on time and in budget delivery are set for each specific project.

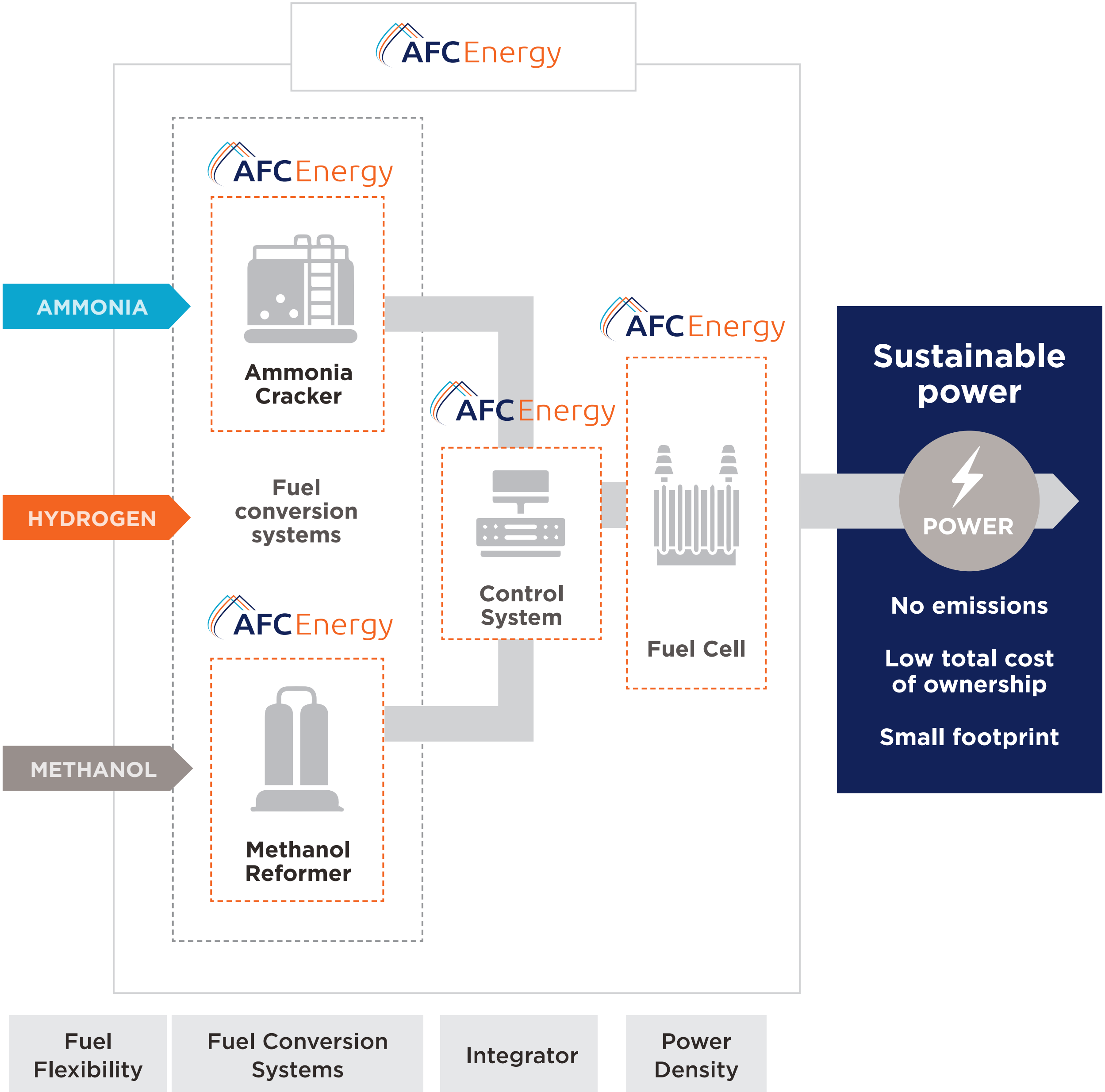
The Board take into consideration KPIs when assessing senior executive variable remuneration and have determined that the performance overall this year has been on target.

Management Information Systems have been upgraded to an Enterprise Resource Planning system which integrates financial and cost accounting, customer relationship management, project management and manufacturing control. A continuous improvement exercise is underway to align reporting with operational, financial and ESG objectives whilst streamlining underlying workflows.

What does AFC Energy offer its customers?

The unique selling point of our fuel cell platforms has been the ability to accept low-grade hydrogen from green ammonia and green methanol which other fuel cells are unable to achieve without high-cost gas clean up technology. This has the direct benefit of lowering the total cost of ownership of AFC Energy's systems. The acceleration of the S Series fuel cell development programme has been made to meet the requirements of our customers identified in our field testing to provide the same level of power from a smaller system footprint in addition to a lower cost of ownership. We are also different because we offer a fully integrated solution covering fuel cells, fuel conversion systems and control systems which allows our customers to choose the fuel that best meets their needs in whatever application wherever in the world.

A completely integrated Fuel Cell solution that reduces costs, increases efficiency, and contributes to a greener future.



Target markets

Maritime

Opportunity

- IMO's GHG Strategy (2018) commits the industry to a 50% reduction in GHG emissions by 2050.
- World Bank (2021) confirm dominant role of ammonia and H2 in meeting GHG reduction targets.
- DNV GL (2019) confirm that green ammonia is likely to represent 25% of maritime fuel by 2050.
- Given ship operational longevity, decarbonisation targets in 2050 need to be capable of being met today.
- Brokers forecast market size of $13.2 billion per annum for new engines and $287 billion retrofit market.

Why is ammonia important

- Significantly more energy dense than hydrogen.
- No CO_2 footprint.
- Low-cost alternative that can utilise existing port infrastructure.
- Market sentiment already strongly in favour with large ship operators supporting ammonia.
- Early partner collaborations resulted from inability to find alternative supplier of fuel cells that could meet their specification for ammonia for long haul cargo ships.

Why AFC Energy

- New S Series fuel cell forecast to provide highest energy density of all ammonia accepting fuel cells.
- No need for high-cost gas clean up unlike PEM fuel cells.
- Fuel cells are capable of being retrofitted or installed in new build marine applications.
- AFC Energy cracker technology key to unlocking global ammonia maritime market.
- By integrating our ammonia cracking technology with our fuel cell we aim to position ourselves as the preferred supplier in this market for larger ships

https://www.imo.org/en/MediaCentre/HotTopics/Pages/Reducing-greenhouse-gas-emissions-from-ships.aspx.

Data centres

Opportunity

- Data Centres and networks currently consume up to 2% of world's overall power.
- The scale is huge.
  - Data Centre annual power demand: 450Twh.
  - UK annual power generation: 325 Twh.
- 5G, Internet of Things, Autonomous Vehicles will all contribute to increased data centre demand.
  - 2019 investment: $244 billion
  - 2025 projected investment: $432 billion
- 20GW of diesel gensets currently back up world's data centres with replacement value of £32 billion.
- Market size does not consider new Data Centres.

Why fuel cells?

- Hyperscale data centre owners have pledged to reach net-zero.
- Generally, this pledge is set to 2030 – meaning 20GW of possible diesel transition over this time.
- Backup power from diesel generators will no longer be tolerated or accepted.
- Fuel cells offer a high efficiency alternative for prime and backup power.

Why AFC Energy

- No need to store high cost, high purity hydrogen fuel on-site as for PEM fuel cells.
- Fuel cells deliver zero GHG emissions, consistent with corporate pledges.
- Partnership with world leader ABB to provide energy solutions to hyperscale data centre owners.

EV charging

Opportunity

- The IEA's recently published Global EV Outlook shows that whilst only 10 million vehicles were on the road at the end of 2020, this could rise to anywhere between 145 million and 230 million by 2030.
- This exponential increase will put the existing network under huge strain, whilst also risking 'grid challenged' areas being left behind.
- We believe off-grid solutions will be required to support the inevitable grid reinforcement to meet charging demand.
- In the UK alone, EV grid reinforcement estimated to be worth between £50 billion and £100 billion (Scottish Power).

Why fuel cells?

- 'Grid-constrained' areas heavily reliant on diesel generators for their power output.
- Demand for faster charging solutions puts further strain on grid and opportunities for premium pricing.
- Fuel cells deliver zero GHG emissions, consistent with corporate pledges.

Why AFC Energy

- AFC Energy has first mover advantage via partnership with ABB.
- ABB validated our market demand assumption through their partnership with us.
- Partnership provides access to a global distribution network across 80 countries.
- Powering our systems via hydrogen from cracked ammonia provides a clear cost advantage versus other fuel cell types.

Temporary power

Opportunity

- Construction industry currently accounts for an estimated 38% of global energy related emissions.
- Major construction / temporary power businesses increasingly setting zero emission targets within decade.
- Regulators banning and removing subsidies from diesel.
- Several major companies now have carbon targets and actions plans in place, including Mace.
- Global new genset market circa $20 billion.

Why fuel cells?

- Potential to provide zero emission solution without intermittency.
- Less reliant on batteries.
- Offer modular, containerised solutions with a small footprint.

Why AFC Energy

- Fuel cost is key driver.
- Ability for us to integrate methanol or ammonia as feedstock.
- Potential for lower total cost of ownership versus PEM.
- Partnerships in place with companies with established global footprints, including Altaaqa, ACCIONA and Mace.

Strategic Partners and Customers

Our commercial and distribution strategy is built upon long-term relationships with customers and strategic partners to understand their financial, energy and environmental needs. Our strategic partners give us vital and unique insight into their markets and customers through their role as either

Integrator **or** **Distributor**

This provides access to some of the world's largest markets with local know how, on the ground maintenance, local consenting, local logistics and customer relationships. These commercial relationships are supported by a small dedicated commercial team, which we are reinforcing, who manage the day-to-day relationship with the strategic partners and also focus on developing key accounts.

ABB

- Development and launch of high-power EV charging product
- Existing 80 country network
- Good progress being made in developing integrated product
- Sale of first 200 kW S Series system to ABB
- Expanding applications to include data centres

Altaaqa

- Owns and operates 2GW of temporary power solutions
- Investigating zero emission solutions
- Discussing to be distribution partner for MENA region

Jülich

- Prestigious European research centre to be supplied to principal campus in Germany
- Forms part of the Government's €9 billion commitment to Hydrogen economy
- Fuel cell system under review to consider new product roadmap
- System to be delivered once infrastructure and civil works complete

ACCIONA

- Supporting the decarbonisation of construction sites
- Achieving net zero is a corporate target for ACCIONA
- Fuel cell system to be deployed in second quarter 2022 at ACCIONA's request
- First hybrid fuel cell to be deployed

Mace

- Mace aiming to remove diesel generators from all of its sites by 2026
- Multiple flagship sites under Mace's control to be identified
- Systems to be leased for trials

Extreme E

- World's first FIA accredited, all electric off-road SUV rally championship
- Race locations include the Artic (Greenland) and Desert (Saudi) to raise awareness of climate change
- Raised awareness of climate change to a global audience in 2021
- Official EV Charging Partner to provide a zero-emission charging system to charge all race vehicles in 2021 and 2022
- System currently rented to Extreme E on commercial terms
- System completed and distributed to Extreme E

Product development roadmap

Our Edge

Full Design & Engineering

Turn-Key, End-to-End Solutions

Integration IP & Know How

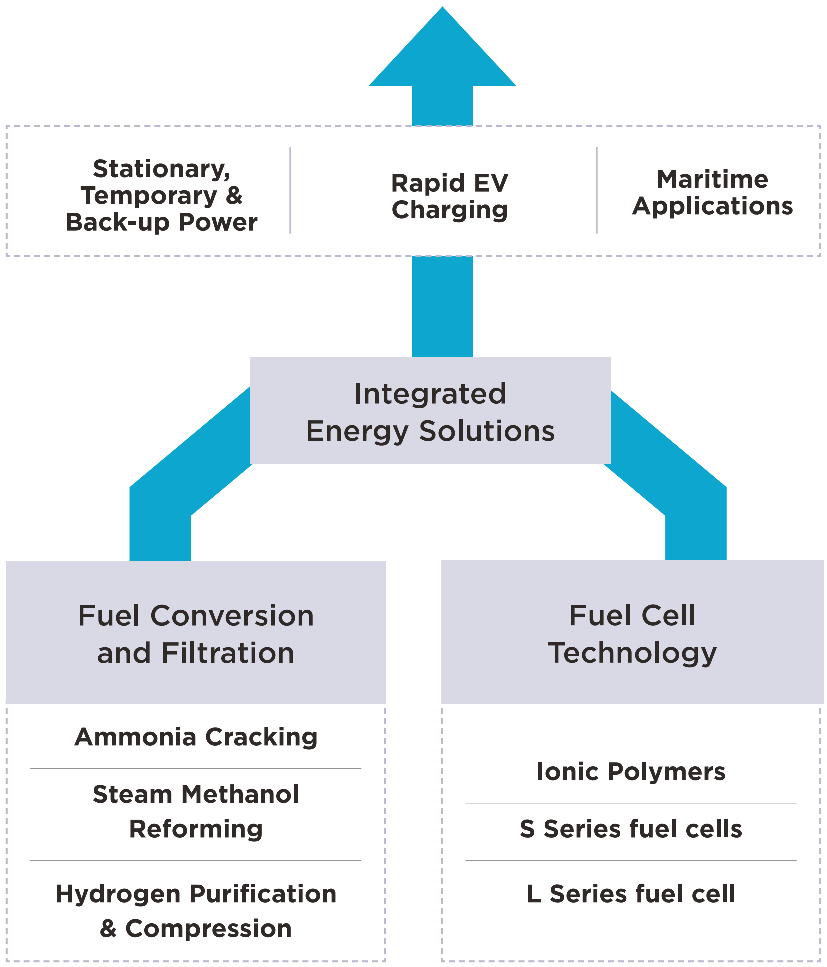
For many years we have been aware of multiple opportunities which exist in the broader decarbonisation value chain. However, due to limited resources our product offering was dominated by the L Series, with liquid electrolyte technology which has been field tested during the Extreme E racing series. The L Series platform has highlighted the possibilities of alkaline fuel cells and their fuel flexing capability across both hydrogen and ammonia. With the incorporation of Anion Exchange Membrane technology and its potential through the S Series fuel cell to drive down costs, increase energy density and reduce overall system footprint relative to the L Series, customers now have a choice on technology platforms.

The AEM S Series technology platform is being accelerated with the support of ABB across each of the "air cooled" and "liquid cooled" platforms. These product platforms will form the basis for all large scale, high power density systems where ammonia is considered the low-cost hydrogen carrier of choice, including data centres and maritime.

Feedback from end users highlights that cost effective hydrogen carriers such as ammonia should be expanded to include methanol. The AEM S Series fuel cell platform provides customers with the ability to choose either hydrogen, ammonia or methanol. For this reason we have decided to create a separate team focused on fuel technologies, building upon the experience gained with ammonia and with a wider remit to look at all cost-effective hydrogen carrier technologies, to provide our customers with fuel flexible solutions.

Our product development is built around three pillars utilising the skills and experience.

Our core technology focus is:



Fuel conversion and filtration – this will build a portfolio of products which will enable our future customers the opportunity to choose their preferred fuel source.

Integrated energy solutions – this will deliver a power dense flexible fuelled power generation solution.

Fuel cell technology – this uses our polymer membrane technologies to deliver power dense fuel cells (with possible electrolysis applications).

Role of the Board and its 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 has adopted the QCA Corporate Governance 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 Committee, the Remuneration Committee and the Nominations Committee. To raise the profile of Environmental, Societal and Governance after the year-end an ESG Committee was formed. The Board has delegated the day-to-day management to the Chief Executive Officer.

Stakeholder input to our decision making during the period has included

- Market sounding has identified that end users are prepared to pay a reasonable but not excessive premium to reduce emissions.
- Consultation with major shareholders over the skill set and experience of the Board and the remuneration policy for Board and senior managers which have been aligned better with shareholder interests.
- Feedback from strategic partners that they prefer to work with a one-stop shop technology provider which has underpinned our three-pillar technology approach.
- Response from end users that power and fuel density is a key technology selection criterion which has motivated accelerating the development of the S Series suite of solutions.
- Comment from candidates and recruitment consultants that a mixed fixed and variable remuneration package aligned with both short- and long-term shareholder interests is the most effective means of recruiting, retaining and motivating staff at all levels.

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 nor Company 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 table below shows the number of Board and Committee meetings of the Company held during the financial year, and the attendance of the individual Directors.

	Board meeting	Audit Committee	Remuneration Committee
Chairman	John Rennocks/ Gary Bullard	Joe Mangion	Gerry Agnew
Gary Bullard (Appointed 15 April 2021)	7/7		
John Rennocks (Resigned 14 April 2021)	2/3		
Joe Mangion	9/10	2/2	6/6
Gerry Agnew	9/10	2/2	6/6
Adam Bond	9/10		
Jim Gibson	8/10		
Graeme Lewis (Appointed 27 February 2020)	10/10		

The organisational structure is clearly documented and communicated, identifying levels of responsibility, delegated authority and reporting procedures. The professionalism and competence of employees is maintained through recruitment, performance appraisal, written job descriptions, personal training and development plans. The Board supports the highest levels of commitment and integrity from employees. Expected standards of behaviour are set out in the Staff Handbook, a copy of which is given to all employees. The Company is an equal opportunities employer, and it is our policy 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. In common with many organisations, we operate a performance appraisal system, the aim of which is to support employees to contribute fully to the organisation and to assist them to fulfil their potential.

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 control to provide them with a reasonable assurance that the assets of the Company are safeguarded, and that shareholders' investments are protected. The system includes internal controls appropriate for a company of the size of AFC Energy, and covers financial, operational, compliance (including health and safety) controls and risk management.

Such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives; any system can provide only reasonable, and not absolute, assurance against material misstatement or loss. The process in place for reviewing AFC Energy's system of internal control 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 Code, and undertakes assessments of the major areas of the business and methods used to monitor and control them. In addition to financial risk, the review covers operational, commercial, regulatory and health and safety risks. The risk review is an ongoing process with reviews being undertaken on a regular basis.

Companies Act 2006, Section 172(1) Directors Statement – Promoting the Success of the Company

A director of a company must act in the way he 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 through the annual strategic review and risk appraisal processes which are reviewed and approved by the Board. A summary of the strategy and business model together with the findings of the annual risk review are set out in the Strategic report.
- The interests of the company's employees through monitoring staff welfare and safety, annual appraisal and setting clear remuneration policy. These are described in more detail in the ESG and Remuneration Committee reports.
- 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. A summary of our partners is laid out in the Strategic report.
- The impact of the company's operations on the community and the environment by setting up an Environment, Social and Governance Committee to agree on activities, set goals, monitor KPIs and review and update policies and procedures. An initial valuation 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 Code of Ethics, the anti-slavery policy and the whistleblowing policies.
- The need to act fairly between members of the company by having a balanced Board membership covering different professional backgrounds with a mix of independent and executive directors. Further description of the actions taken are set out in the Nomination report.

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 Company 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 shareholders, market professionals and professional advisors 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.
- Consultation with shareholders, professional advisors and candidates for senior roles identified a need to realign the remuneration policy with market expectations and shareholder short- and long-term objectives in order to be able to attract, retain and motivate the best team. The Remuneration Committee report describes the remuneration policy adopted and the transitional arrangements put in place to remedy existing long term incentive plans.
- Market sounding and site validation projects confirms that end users are prepared to pay a reasonable but not excessive premium to reduce emissions. Furthermore, end users and strategic partners have provided feedback identifying that they prefer to work with a one stop shop technology provider and that power density and fuel flexibility are key distinguishing features they consider when selecting new power technology. This insight has underpinned our business strategy specifically the three-pillar technology approach and the acceleration of the development of the S Series suite of solutions described in the Strategic report.
- After the reporting date an Environmental, Societal and Governance Sub-Committee has been formed consisting of Executive and Non-Executive directors and in the ESG Committee report there is 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 this period are set out in the Nomination Committee, Remuneration Committee and Strategic (Strategy and business model) 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 principal risks and uncertainties are

RISK	MITIGATING PROCEDURES
Core technology	
• Loss in product reputation arising from technical failure at customer trials could affect customer sentiment in some applications. • Product cannot be manufactured at competitive price. • Fuel costs do not fall. • Fuel not freely available.	• Implementing Three pillar technology strategy diversifies risk. • Fuelling strategy covers hydrogen, ammonia and methanol, diversifies risk and reduces delivered cost of fuel. • Regular independent reviews of technologies and processes used by Technical Advisory Board. • Leveraging established competitive supply chain. • Demonstration units delivered and validated by independent third parties.
Intellectual property and technology	
• Working with an increasing range of partners and customers, together with additional staff, means that there is greater risk of inappropriate information sharing, risking the protection of leak trade secrets and proprietary technology. • Loss of competitive advantage from successful challenges to patents, unauthorised parties using proprietary technology in their own products, or others infringing existing intellectual property rights (IPRs).	• Internal procedures and controls in place to capture, patent and exploit all intellectual property (IP) as well as to protect, limit and control disclosure to third parties and partners. • Use of specialist IP legal advisors. • Continuous education of workforce to the importance of know-how and trade secrets. • Contractual provisions with partners include non-disclosure and other provisions to protect know how and intellectual property. • Avoid markets and customers where reverse engineering may happen.
Product commercialisation	
• Product does not meet customer's operational needs. • Product does not meet customer's price expectation.	• Close collaboration with partners with recognised market expertise helps define the product USP and reduces commercial risks. • Implementing lean product development philosophy with shortened development cycles. • Increasing our pipeline of customers and expanded market applications, mitigating the impact of individual customers or markets choosing not to move forward. • Reinforcing commercial and product development experience and resources.
Supply chain	
• Major failure/disaster at key suppliers jeopardising supply and causing loss of revenue or brand damage. • Loss or failure of key contractors or service providers. • Supply chain partners may be unable or unwilling to co-develop or supply key components.	• Focused procurement procedures distinguishing between operational, strategic, and technical. • For operational supplies procedures focus on ensuring value for money. • For strategic and technical suppliers financial and technical due diligence is undertaken on new suppliers and ongoing developments, and product quality and lead order times are monitored constantly. • Meet regularly with major strategic suppliers to discuss and agree development plans.
Manufacturing scale up	
• Product cannot be manufactured at scale. • Rightsizing manufacturing facilities with customer demand.	• Rollout of CRM to measure customer demand and requirements. • Commercial appraisal of size of addressable market considering planned product roadmap rollout. • Access to established supply chain and outsource partners minimises scale of internal manufacturing.

RISK	MITIGATING PROCEDURES
Talent attraction and retention	
• Labour cost inflation accelerates cash burn. • Inability to recruit, incentivise and retain commercial, product development and research staff.	• Updated remuneration policy applies a mix of salary, bonus and share options to attract, retain and motivate staff. • Recent and ongoing reinforcement of staff.
Cybersecurity	
• Failure or incident leading to data loss, disruption of development, loss of intellectual property or reputational damage.	• Security programme established across all IT processes. • Staff training and updates on cybersecurity. • Annual external IT audit process.
Funding and cash burn	
• The business continues to be in a cash consumption phase, as it seeks to accelerate and build capacity ahead of anticipated demand.	• Identification of funding needs and access to funds underpinned by continuous business planning and cash forecasting. • Strengthening of operational/project management controls thereby reducing the risk of failing to deliver on commitments.
Reliance on strategic partners	
• Partner roll-out plan does not align with our timescales. • Lack of adoption of our technology.	• Financial, commercial and technical due diligence of OEM and distribution partners to ensure alignment of objectives and business continuity. • Strategic partners continue to meet expectations with their go-to-market ambitions. • Increasing end user input to product development • Increasing our pipeline of partners and expanded market applications, mitigating the impact of an individual partner choosing not to move forward.
Competing technologies	
• Alternative technologies are adopted reducing the size of the addressable market or market shares. • Open-source competitor enters market	• Alkaline Fuel cells offer a lower operating cost than comparable technologies. • Continual evaluation of the competitive landscape and targeted technology improvements seeks to retain that competitive advantage. • Second generation solid membrane fuel cell development advancing. • Diversification with Alkamem membrane opening up alternative markets such as electrolysis.
Political and regulatory	
• Fiscal compliance in multiple jurisdictions • Legal compliance in multiple jurisdictions • Influence of emissions regulations in target markets and territories.	• OEM and distribution partners will shield from local political and regulatory risks. • Global commercial strategy minimises impact of specific political and regulatory risks from individual territories. • Appointment of health and safety officer in addition to current resources to ensure best practice and compliance for H and S related aspects and to protect the workforce.
COVID 19	
• Disruption to supply chain. • Production delayed due to staff sick leave. • Customers delay purchasing decisions.	• Reorganised office layout to maximise social separation. • Regular town hall meetings communicating internal policy. • Constant review of order lead times. • Customer purchasing decisions driven by their net zero emissions targets. Evidence to date is that this timeline has been brought forward by the pandemic through Government stimulus plans.

The Strategic Report on page 8 to 33 has been approved by the Directors and signed on their behalf by

Adam Bond
8 March 2022

Governance Report

Audit and Risk Committee report

The Audit and Risk Committee ("The audit 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 oversight of the financial stewardship of the Company. The Audit Committee considers certain key areas of risk management and supports the Board's role in overseeing an enterprise-wide approach to risk identification, management, and mitigation. The Audit Committee has met twice during the period.

The Audit Committee is composed entirely of Non-Executive Directors and is chaired by Joe Mangion supported by Gerry Agnew, both of whom have been members for the whole period. The Committee is considered to have sufficient, recent and relevant financial experience and competence to discharge its responsibilities. Joe Mangion, who has served as Non-Executive Director and Chair of the Committee since 2017, has significant senior financial experience, which is further detailed in his biography.

The Board is responsible for the systems of risk management and internal control and for reviewing their effectiveness. The internal controls are designed to manage, rather than eliminate, risk and provide reasonable but not absolute assurance against material misstatement or loss. Through the activities of the Audit Committee, the effectiveness of these internal controls is reviewed annually. The results of the annual review of risks and uncertainties is published in the annual report.

The Company employs Directors and senior personnel with the appropriate knowledge and experience for a business engaged in activities in its field of operations and undertakes regular risk assessments and reviews of its activities.

The Audit Committee's role is to assist the Board in its oversight of the financial stewardship and is responsible for ensuring the effective financial integrity of the Company 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 Technical Advisory Board, comprising Gerry Agnew and supported by external technical advisors from academia and industry, works alongside the Audit Committee to ensure that the Company has appropriate risk management and internal controls, and that external audit processes are robust. At the invitation of the Committee, its meetings are attended by the external auditor, the Chief Executive Officer, the Chief Financial Officer and others (including the Company Chairman) as appropriate. The Committee meets with the external auditor on a regular basis without the Executive Directors being present.

The Audit Committee report includes the following:

- Summary of role and responsibility of the Audit Committee
- Summary of significant issues considered by the Audit Committee during the year
- Summary of work performed regarding the assessment of the external auditor, approach to appointment/re-appointment and policy on auditor rotation

ASSESSING THE RISK AND CONTROL FRAMEWORK AND PROCESSES ARE OPERATING ACCURATELY

The Company prepares detailed budget and working capital projections which are approved annually by the Board and are maintained and updated regularly throughout the year. Detailed management accounts and working capital cash flows are prepared and compared to budgets and projections to identify any significant variances.

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

The Audit Committee's main responsibilities include:

- to satisfy itself as to the integrity of the financial statements and other formal announcements relating to financial performance, ensuring compliance with applicable accounting standards, regulations and rules
- to monitor and review the effectiveness of internal financial controls and risk management policies and systems
- to monitor and review the going concern status
- to satisfy itself of the independence and effectiveness of the external auditor, and to make 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
- to consider the need for an internal audit function.

Audit and Risk Committee report

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 Company financial statements for the period ended 31 October 2021:

REVENUE RECOGNITION IN RESPECT OF EXISTING AND NEW CUSTOMER CONTRACTS

During the period, revenue was recognised of £0.6 million (2020: £nil) relating to contracts with customers in accordance with IFRS 15. Commercial contracts generally involve the provision of several performance obligations typically including engineering services and access to or sale of technology hardware. Significant judgement is required in allocating revenue between and valuing the different performance obligations provided. The Audit Committee has reviewed the judgements and estimates applied by management during the period when accounting for revenue recognition and has determined them to be appropriate. During the period, the Committee has reviewed management's judgements applied to recognising revenue for the Extreme E and Jülich contracts. Following discussions in Committee meetings, the Committee considers management's treatment to be appropriate, which is also the view of the external auditors.

INTERNALLY GENERATED ASSETS

Two demonstration units have been constructed and have been used to showcase the technology at various customer demonstrations and during the Extreme E race series.

- The costs of non-recurring engineering and prototype tooling costs have been accounted for as intangible assets in accordance with IAS 38 which defines an intangible asset as an identifiable non-monetary asset without physical substance. After considering input from management and challenges from the external auditors the committee concur with the judgements exercised.
- The fuel cell and auxiliary systems have been capitalised in accordance with IAS 16 as the units are held for use in the supply of goods (via demonstration).

The assessment process requires significant judgement to be applied by management in respect of identifying whether a particular project has passed the relevant performance milestone to begin capitalization, confirming when development activities are complete and therefore ceasing capitalization of costs, and in assessing appropriate periods of capitalisation. The Audit Committee has reviewed and agreed the Company's accounting policy with respect to the capitalisation of internally generated assets. The Committee has reviewed management reports on the treatment of capitalised costs during the period, together with reviewing reporting from the external auditors on the subject and is satisfied that the accounting treatment and disclosure of capitalised internally generated assets is appropriate.

IMPAIRMENT PROVISIONS

An annual review of impairment indicators is prepared by management in accordance with the guidelines in IAS 36. The Committee reviewed management's assessment and specific consideration was given to whether the increased focus on the S Series compared to the L Series is a change in technology. Management believes that the change in technology test should only be applied at the level of fuel cell versus competing technologies. There is no indication that fuel cell technology has been overtaken and made obsolete by alternative technologies. The nature of product development is that there will be various product releases each one an improvement upon the previous release, starting from a minimum viable product (MVP) through to minimum commercial product (MCP) to a final commercial product. The L Series assets remain relevant as they are the platform upon which we have built our fuel cell technology and demonstrate

- Alkaline technology and the ability to use low-cost ammonia as a fuel carrier,
- Increases public awareness of AFC and alkaline technology through the Extreme E events, and
- AFC ability to take science from the laboratory to operational scale.

These benefits, used hand in hand with the product development roadmap, assist in developing relationships with strategic partners, investors and commercial customers. The committee concur with the conclusion that there is no indicator of impairment and have revised useful economic lives and residual values to take into account the accelerated development roadmap for the S Series products with effect from 1 November 2021.

VALUATION AND DISCLOSURE OF SHARE-BASED PAYMENTS

The remuneration policy has been revised during the period to align with stakeholder interests. Because of this exercise the CEO existing market and performance related share options have been revised, and a revised LTIP has been introduced based on annual grants of nil cost options scaled according to salary, which then vest conditionally three years later based on achievement of certain market and performance targets set at grant.

Share based payments are accounted for in accordance with IFRS 2 and specific consideration has been given to:

- Accounting for the CEO existing share option as a modification,
- Adoption of a Monte Carlo simulation for market-based targets and a Black Scholes model for performance targets conditional grant of options, and
- Reviewing the assumptions, especially share price volatility, used in the valuation models.

Independent professional advisors have been consulted to discuss the treatment adopted and to perform valuations in addition to the review by the external auditors. After considering all matters the committee concurs with the accounting treatment adopted.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Committee has monitored the risk management processes and reviewed the effectiveness of the internal controls. The Committee makes recommendations to the Board in relation to risk management and internal control matters. During the period, the Committee has considered the Company's wider internal control environment and the need for an internal audit function and has decided to introduce such an internal audit function during 2022 and to upgrade the management information systems in line with the business needs. The Finance team has upgraded the information systems to reflect the increased size and complexity of the business. The search for an outsource partner to provide internal audit services is underway.

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. During the year, the Committee carried out an independent review of the effectiveness and performance of the Board and during the coming year will review the succession plans for the Board and senior management.

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

Gary Bullard	Non-Executive Chairman (appointed 15 April 2021)
John Rennocks	Non-Executive Chairman (resigned 14 April 2021)
Adam Bond	Chief Executive Officer
Jim Gibson	Chief Operating Officer
Graeme Lewis	Chief Financial Officer (appointed 27 February 2020)
Gerry Agnew	Non-Executive
Monika Biddulph	Non-Executive (appointed 3 December 2021)
Joe Mangion	Non-Executive

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. Adam Bond was not elected or re-elected at either of the two preceding Annual General Meetings and therefore offers himself for re-election. Gary Bullard and Monika Biddulph were appointed after the last Annual General Meeting and therefore offer themselves for re-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.

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 2016 UK Corporate Governance Code. The Committee conducted a rigorous review of Gerry Agnew, who has served on the Board since September 9, 2019, and who receives part of his remuneration in the form of warrants. The intention had been for this arrangement to be temporary, was proportionate at the time of grant and shareholder interests considered through consultation with independent advisors. In accordance with the revised remuneration policy from September 10, 2022, Gerry will cease to receive any remuneration in the form of warrants. Gerry has a deep understanding of fuel cell technologies with extensive experience in a business setting and continues to provide independent oversight and challenge in the boardroom. After considering the change in which Gerry is remunerated and how he has applied his knowledge and experience when applying judgement, the Board has concluded that Gerry fulfils the requirements of an independent director.

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. Following engagement with key stakeholders a need to diversify the skills and experience of the Board in respect to commercial and product development was identified. Following an extensive search led by Joe Mangion, the senior Non-Executive Director, a shortlist of excellent candidates for the Chairman's role was produced. An external head-hunter was appointed to support the search and interviewed several candidates in a thorough and highly competitive process. The Committee ensured that there was a diverse selection of candidates and that all candidates aligned with the culture and values set by the Company. This process led to a unanimous conclusion with the Committee recommending the appointment of Gary Bullard as Chairman, who brings extensive commercial experience in a technology setting.

After the year-end a further independent search was made to add product development skills and experience to the Board. The search was led by the Chairman, supported by an independent head-hunter, and a number of excellent and diverse candidates were presented. This process led to a unanimous conclusion with the Committee recommending the appointment of Monika Biddulph as a Non-Executive Director who brings extensive experience of product development of new technology.

The Committee believes that the changes made create a better-balanced Board whose skills, experience and independence covering research, product development, commercial and finance which are aligned to the current business and stakeholder needs.

Remuneration Committee report

The Remuneration Committee (the Committee) ensures remuneration arrangements for the Executive Directors and employees are aligned to the execution of the business strategy and effective risk management, for the medium to long term. The Committee does so within the agreed terms of reference, considering the views of shareholders. The Committee, chaired by Gerry Agnew, is currently exclusively composed of independent Non-Executive Directors. During the period the other member of the Committee was Joe Mangion and the Chairman also attended meetings. The Chief Executive Officer is invited to attend meetings where appropriate. The Committee usually meets at least twice annually, and in the past year met six times; each member was able to give 100% attendance.

The Remuneration Committee report is split into the following three sections::

- a summary of the work completed by the Committee in the period;
- the Remuneration Policy (the Policy) which sets out the Company's approach to Directors' remuneration; and
- the Annual Report on Remuneration which sets out the remuneration paid to Directors in the period.

We expand on each of these areas below.

ANNUAL STATEMENT SUMMARISING THE WORK OF THE REMUNERATION COMMITTEE

During the year the Committee's key activities included:

- Benchmarking and agreeing revised executive remuneration packages to reflect business growth.
- Reviewing and agreeing individual attainment and the achievement against performance targets for annual bonuses and Long- Term Incentive Plan (LTIP) awards.
- Considering and agreeing the annual salary increase.
- Considering and selecting key performance targets and thresholds for the forthcoming financial year.
- Agreeing the targets for LTIP awards granted during the period.
- Considering dilution effects of share option schemes short, medium and long term; and
- Reviewing terms of reference for the Committee.

REMUNERATION POLICY REPORT

The Remuneration Policy ("the Policy") outlines the principles and framework for remuneration allowing the Board of Directors and management to attract and maintain high quality employees across respective disciplines and to ensure alignment between all stakeholder objectives.

The Policy focuses on Board and Senior Executives and Management 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.
- Provide a remuneration structure which looks to attract and retain high quality candidates into senior roles within AFC Energy.
- Provide a long-term incentive structure to retain senior management.

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

The Policy adopts a framework premised on several key elements:

EXECUTIVE DIRECTORS

Executive Director remuneration packages shall comprise a combination of the following core elements in accordance with market- based packages of similar companies.

- Base Salary
- Benefits
- Pension Contributions
- Short Term Performance Incentive (Bonus)
- Long Term Performance Incentive

CHAIRMAN AND NON-EXECUTIVE DIRECTORS

In accordance with best market practice, the Chairman and Non-Executive Directors shall receive market-based fees for services provided to the Company, as reviewed annually.

SENIOR MANAGEMENT

For consistency, this policy also covers senior employees reporting directly to the CEO and those reporting to the CEO's first line and where specifically identified, other employees.

No director or senior manager is involved in any decisions about their own remuneration. The Committee is, however, responsible for making recommendations to the Directors on matters relating to the remuneration structure, including pension rights, the policy on compensation for Executive Directors and their terms of employment. To achieve the overall aim of attracting and retaining high quality people, the Committee has set guidelines for a suitable balance of short-term and long-term incentives.

Remuneration policy for Executive Directors remuneration packages is reviewed annually on the basis of market comparisons with positions of similar responsibility and scope in comparable industries. In 2021 the Committee engaged PriceWaterhouseCoopers to review the remuneration policy and packages for the senior executives in the context of recent significant continued growth and increase in market capitalisation over the last year. Based on a review of remuneration packages of the peer company, it agreed to revise overall packages for the senior executives.

The policy for Executive Directors is to continue to pay base salary and introduce an annual performance-related bonus. Performance Share Plan (PSP) shares are awarded to the Executive team and the intention is to roll this out further to other senior managers to create a Long-Term Incentive Plan (LTIP). These performance shares are linked to market targets and, in the future, will also be linked to key performance indicators and structured to align corporate and individual performance to the long-term success of the Company. Our policy aims to reward executives competitively in comparison to their peer group in benchmarked companies, subject to them achieving performance measures for annual bonus and LTIP attainment. For salary our policy is to reward at or around the median level for peer companies, thereby ensuring that talent is attracted and retained, and that Executives are appropriately incentivised to perform.

The Remuneration Policy therefore provides a summary of each element of remuneration for the Executive Directors with an explanation of its purpose, link to strategy, its operation, maximum opportunity and the performance measures.

EXECUTIVE DIRECTORS

Base salary

Base salary, payable monthly in cash, is set at an appropriate level to attract and retain management of a high calibre with the necessary experience, skills and credentials required to deliver a sustainable business model and drive shareholder returns. Where items are scaled to base salary in this document, the number used shall be the salary prior to any salary sacrifice. Generally, but subject to prevailing economic conditions, 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.

In determining base salary levels, consideration is first given to role and the corresponding salary band, within that band consideration is given to:

- the individual's experience and relevant skills
- the performance of the company and the performance of the individual
- the overall remuneration packages
- recognition of salary levels at other companies of a similar size and complexity in the UK and as far as possible consistent with internal pay scales.

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 consider circumstances such as:

- changes in an individual's role or responsibility;
- to reflect an individual's contribution to the company; and
- where a salary is significantly behind market practice.

Remuneration Committee report

When reviewing salary levels, the performance of individuals is considered in advance of any increases being awarded. Performance will be determined by formal annual performance reviews of all Board members and other Senior Executives to be carried out before the end of each financial year.

Performance-related 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 the board effectiveness review.

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 pay out is 120% for the CEO and 70% for the 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.

Pension and other benefits

All employees are eligible for a Company matching contribution towards AFC Energy's chosen pension provider of up to 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.

Executive Directors – Long-Term Performance Share Plan (PSP)

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.

For the first year's grant and until specifically changed by the Committee, performance testing will be based on Compound Annual Growth Rate (CAGR – expressed in %age 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.

At the vesting date, the CAGR (%) of TSR will be calculated for the three-year period and tested versus the threshold set for the year of award. Below this level of CAGR the award will be forfeited. At the original threshold, one quarter of the maximum award will vest, and this will increase linearly with CAGR up to full release of the award at an upper limit of CAGR equivalent to 20% in this year. CAGR levels beyond this limit will not result in the release of any more options, however the holder is rewarded through the increased value the awarded options will have at the higher share price.

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 claw back terms based on advice from external advisers regarding current industry standards.

The maximum award level will be 120% salary for the CEO with the other board level executives having maximum award of 70% salary. Non board level executives 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.

The new PSP will retain the overall limit on share capital of 10% for all option allocations. Annual awards will normally be made after the announcement of the half-year operating statement to avoid potential conflicts.

Service agreements

Service contracts for all employees including the CEO and Executives 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.

NON-EXECUTIVE DIRECTORS

Fee levels are set to reflect the time, commitment and experience of the Chairman and the Non-Executive Directors, considering fee levels at other companies of a similar size and complexity and to other UK companies.

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 following a recommendation from the Chief Executive.

Fees for the Company Chairman 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.

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. The QCA CG Code 4.4 indicates Non-Executives should not normally have a ‘significant interest in a company share option scheme’. In view of the potential impact of this on independence and the Board composition requirements identified by ISS and voting advisory bodies, NEDs shall only be granted share options or warrants where the perceived threat to the NED’s independence has been safeguarded.

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 Company reimburses reasonable business expenses incurred wholly exclusively and necessarily on behalf of the business. Any tax that arises on benefits in kind shall be paid by the employee.

Remuneration policy for senior managers and other employees of the Company

The remuneration policy for senior executives is like the policy for Executive Directors as set out in this report with a combined base and incentive related to encourage and reward superior business performance and shareholder returns and remuneration is linked to both individual and Company performance.

Basic salary is targeted at normal commercial rates for comparable roles and is benchmarked on a regular basis. Bonuses can be earned on the same basis as Executive Directors. Increases to executive managers’ base salaries are considered at the same time as all other colleagues across the company and increases are generally in line with all colleagues.

Where appropriate, colleagues may be eligible for a full year bonus, although the type, limits and performance conditions vary according to job level. Senior managers and other key management may be invited to join the Company Share Option Scheme.

Circumstances may dictate where classes of employee are more closely aligned with sales and the delivery of revenue to the Company, that a lower base and “commission” based salary may be appropriate. This will be for the Executive Directors to assess based on good industry practice and to ensure appropriate employee incentivisation.

ANNUAL REPORT ON REMUNERATION

The Company is committed to maintaining high standards of corporate governance and has taken steps to comply with the principles of best practice in so far as it can be applied practically given the size of the Company and the nature of its operations. Since it is not a requirement for companies which have securities listed on the AIM market of the London Stock Exchange to comply with the disclosure requirements of the Directors’ Remuneration Report Regulations 2013 or to comply with the UKLA Listing Rules and the disclosure provisions under schedule 8 to SI 2008/410 of the Large and Medium-sized Companies and Groups(accounts and reports) Regulations 2008, certain disclosures are not included.

Remuneration Committee report

As part of the scale up of operations the Board became aware that the remuneration policy needed to be revised to attract, retain and align new and existing staff with shareholder interests. In particular, senior members of the leadership team had not had their remuneration and long-term incentive plans reviewed for several years, and grants of options had not been made in recent years. An independent advisor was engaged to benchmark the existing remuneration packages and advise on the structure and quantum of the proposed remuneration policy in line with best practice. The Non-Executive directors also approached certain key shareholders and market professionals to understand their views on executive remuneration.

Based on these inputs a revised remuneration policy was presented to the Remuneration Committee and unanimously approved. The key Long-Term Incentive Plan under the new policy is a Performance Share Plan with yearly grants of options that vest conditionally based on performance three years after grant. This Performance Share Plan, which going forward will be the sole long-term incentive plan, is described in the remuneration policy. As part of this review, certain historical long term incentive awards were identified as not meeting the objectives described above and certain historical anomalies were considered. To address all of these matters in a way that ensures continued alignment of executives with shareholder objectives a one-off package was agreed which included modification of terms and conditions of existing share option plans, a transitional award under the proposed Performance Share Plan and in one case a cash settlement. As part of the re-alignment of Adam Bond's long-term incentive plan the Board agreed to:

- Award 2,250,000 nil cost options to Adam Bond and 984,375 nil cost options to Jim Gibson under the Transitional Performance Share Plan announced on December 2021. Below a threshold share price of 27.6p none of these options will vest. At this threshold price, 25% of the maximum award will vest and this will increase linearly so there is maximum vesting for a price of 59.7 pence per share. Providing the thresholds have been achieved, the options will vest in two equal tranches in March 2022 and March 2023 so that each executive will have LTIP incentivisation awards tested and vesting annually up until the first vesting of the new regular PSP
- Modify the terms and conditions of Adam's 2015 share option plan as announced on 16 December 2020 and described in more detail below.
- Remove the requirement for Employers' National Insurance Contribution be deducted from the proceeds of exercising the share options, and
- Make a cash payment of £200 thousand reflecting longer term performance against strategic objectives reported below as part of the annual bonus figure of £470 thousand.

The Transitional Award was deemed to represent a related party transaction in accordance with AIM Rule 13. The directors who are independent of the Transitional Award, being all the directors other than Adam Bond and Jim Gibson, consider that, having consulted the nominated adviser, that the terms of the Transitional Award are fair and reasonable in so far as shareholders as a whole are concerned.

Taken together the total outstanding unexercised executive share options represent less than 2% of issued share capital.

During the year, the three executive directors were paid a bonus of 75% of the maximum levels set out in the revised remuneration policy of 120% salary for the CEO and 80% salary for the other executive directors. This represented an 'on-target' performance vs a number of objectives including securing revenue, further extension of the strategic relationship with ABB, delivering the Extreme E hydrogen solution, expanding the team with high calibre leaders and staff while providing an excellent HS&E performance and significantly improved operating environment. The Executive directors were also awarded a 3% pay rise effective 1 April 2021 in line with a raise for the wider workforce who also received additional backdated awards. Adam's compensation this year included pay in lieu of untaken holiday recorded as 'Other compensation' along with other benefits including an accommodation allowance, health cover and a company car.

The directors' remuneration for the period was:

	Salary £	Bonus £	Share based payment £	Other compensation £	Total compensation £	Pension contributions £	**Total 2021 £**	Total 2020 £
Gary Bullard (appointed April 15, 2021)	54,615	–	–	–	54,615	–	54,615	–
John Rennocks (resigned April 14, 2021)	35,256	–	–	–	35,256	–	35,256	50,000
Adam Bond	305,250	470,000	–	88,456	863,706	12,672	876,378	488,210
Jim Gibson	229,083	135,000	–	18,913	382,996	9,163	392,159	335,107
Graeme Lewis (appointed 27 February 2020)	167,250	102,000	–	–	269,250	21,800	291,050	154,392
Joe Mangion	25,000	–	–	–	25,000	–	25,000	25,000
Gerry Agnew	15,000	–	–	–	15,000	–	15,000	15,000
	831,454	707,000	–	107,369	1,645,823	43,635	**1,689,458**	1,067,709

The share-based payment included in the table above is the gain on the share options when exercised in accordance with the requirements set out in Company Law.

On 31 October 2021 the Directors' interests over share options and warrants of the Company were:

	1 November 2020	Options/ Warrants granted in year	Options/ Warrants exercised/ lapsed in year	**31 October 2021**	Exercise price	Date from which exercisable	Expiry date	Type
Adam Bond	6,000,000	–	–	6,000,000	£0.22	17/07/2015	17/07/2025	Unapproved Option
Jim Gibson	2,500,000	–	–	2,500,000	£0.088	14/08/2019	14/08/2028	Unapproved option
Gerry Agnew	900,000	–	–	900,000	£0.049	9/09/2020	9/09/2030	Warrants
Graeme Lewis	1,510,000	–	–	1,510,000	£0.1635	31/12/2020	31/12/2027	EMI Option
Graeme Lewis	1,240,000	–	–	1,240,000	£0.1635	31/12/2020	31/12/2027	Unapproved option

Remuneration Committee report

Adam Bond's interests over share capital include 6,000,000 options granted in 2015. These options have performance conditions attached to them; 3,000,000 of these options will only vest if specific operational targets for energy output are met. The remaining options vest in equal portions if the share price achieves and sustains market quotation of £1.00, £1.50 and £2.00. The vesting conditions for the options have been reviewed and amended by the Remuneration committee.

- The target prices were adjusted to 42.5p, 64p and 85p (respectively) to consider the change in the share capital since July 2015.
- A retention clause was added to these options such that a specified number of shares should not be sold between the date of exercise and the first anniversary of these revisions.
- The operational performance conditions for all but one of the original targets have either been achieved, or a comparable measure achieved. The exercise price of these options has been adjusted from 51p to 22p, in line with changes in the share capital since July 2015.
- There were no transactions with any related parties during the year ended 31 October 2021 (2020: £nil).

The directors are employed under contracts whose main conditions are

- Gary Bullard's services as Chairman and Non-Executive Director are provided under a service agreement dated 5 March 2021 for an indefinite term, subject to a minimum of one months' notice. Under this agreement, Gary is entitled to a director's fee.
- John Rennocks' services as Chairman and Non-Executive Director were provided under a service agreement dated 7 June 2018 for an indefinite term, subject to a minimum of three months' notice. Under this agreement, John was entitled to a director's fee.
- Adam Bond's services as Chief Executive Officer and Director are provided under a service agreement dated 1 January 2016. The agreement is for calendar years and is renewable by mutual consent. The agreement may be cancelled by either party providing a minimum of three months' notice. Under this agreement, Adam is entitled to a salary plus payment or receipt of other benefits including a housing allowance, private medical insurance, pension and a company car.
- Jim Gibson's services as Chief Operating Officer and Director are under an employment contract for an indefinite term, subject to a minimum notice period of three months and is entitled to a salary plus accommodation allowance and reimbursement of commuting costs.
- Graeme Lewis' services as Chief Financial Officer and Director are provided under an employment contract dated 31 December 2020 for an indefinite term, subject to a minimum of six months' notice. Graeme is entitled to a salary plus participation in the defined contribution pension scheme.
- Gerry Agnew's services as a Non-Executive Director are provided under a service agreement dated 9 September 2020 for an indefinite term, subject to a minimum of three months' notice. Gerry is entitled to a director's fee and was granted warrants in lieu of sacrificed director's fee at the time of joining. From October 2022 Gerry will be entitled to a director's fee only.
- Joe Mangion's services as a Non-Executive Director are provided under a service agreement dated 5 December 2017 for an indefinite term, subject to a minimum of three months' notice. Joe is entitled to a director's fee.
- Monika Biddulph's services as a Non-Executive Director are provided under a service agreement dated 23 November 2021 for an indefinite term, subject to a minimum of three months' notice. Monika is entitled to a director's fee.

ESG Committee report

The ESG Committee was created in December 2021, post year end, and has been empowered to ensure that our programs and operational day to day activity reflect the commitment to build a sustainable business and have a positive impact on the world around us.

Our purpose is to provide clean energy fuel cell solutions to support the decarbonisation of industry as part of global efforts to address the issue of climate change.

This initial report will focus on existing programs and operational activity which already align with our high-level commitments, but also consider how some of our already planned activities will consolidate our commitment. During the coming year we will be reviewing our internal programs and procedures to identify where we can improve our impact on society and the environment and put in place reporting mechanisms and KPIs to ensure that these objectives are delivered.

Sustainability principles are already at the heart of our day-to-day decision making, taking into consideration our Environmental, Social and Governance (ESG) goals. We define 'Sustainability' as:

"Meeting the needs of the present without compromising the ability of future generations to meet their needs."

This means taking decisions that help to preserve or improve the environment in which we work and live, in addition to quantifying and maximising our social impact and ensuring that our Board of Directors and staff work to the highest ethical standards as a leading listed clean energy business. Why does this matter?

- **It ties to our long-term purpose**. As a clean energy business that is at the centre of the energy transition, we must ensure that our operations and decisions do not undermine or run contrary to this goal.
- **It links to the demands of our customers and partners**. Our partners have also set clear sustainability goals, for example Mace banning the use of diesel generators from its sites from 2026 as part of its Corporate Strategy. This policy ties with these wider commitments.
- **Companies that focus on sustainability are inherently lower risk.** Companies that weave sustainability standards and credentials into their corporate fabric - planning for long term growth, positive values reflected in employee behaviour and consumer interest – usually outperform those companies that don't.
- **We think it's the right thing to do.** At all levels of the company there is a strong commitment to the environment and sustainability.

ESG Committee report

OUR CURRENT CONTRIBUTION TO THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

As a leading clean energy business, our work already contributes to the delivery of nine of the UN's seventeen Sustainable Development Goals (SDGs). These goals form a central part of the 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015 that provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. They are quantified as follows.

GOAL	CONTRIBUTION
3 GOOD HEALTH AND WELL-BEING	Our systems provide a clean energy alternative to the diesel generator. The move away from diesel is essential to good health; in London for example, 14.5% of the most harmful emissions such as PM2.5 are sourced from stationary diesel generators on construction sites.
6 CLEAN WATER AND SANITATION	Our systems create water, and nitrogen as by-products, ready for use in other applications.
7 AFFORDABLE AND CLEAN ENERGY	All of our systems are off-grid and zero-emission at the point of use, directly supporting the decarbonisation of a number of global industries.
8 DECENT WORK AND ECONOMIC GROWTH	We already employ over 40 highly skilled staff at our Dunsfold base in developing and assembling our systems, with plans to grow this to over a hundred in response to demand. Through our supply contracts, we also support high-value employment across the world.
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Our systems are supporting the decarbonisation of five key sectors across the globe: Mobility, Construction, Maritime, Rail and Data Centres.
11 SUSTAINABLE CITIES AND COMMUNITIES	Our work in powering Extreme E's inaugural championship has shown that our systems are capable of being deployed in remote, inhospitable environments to provide reliable off-grid power, reducing the current reliance on the diesel generator.
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	The use of hydrogen as a fuel is recognised as a central part of international decarbonisation efforts, with the Oxford Institute for Energy Studies reporting that 'it can replace hydrocarbons in (for instance) aviation, shipping, rail and heavy road transport'. Our systems are part of this energy transition in the move to net-zero.
13 CLIMATE ACTION	The deployment of both the L Series and S Series power systems across a large number of industries will support a reduction in per capita CO2 emissions, contributing global efforts to get to net-zero 2050.
17 PARTNERSHIPS FOR THE GOALS	We have forged a number of international partnerships to accelerate the deployment of our zero-emission systems, as well as instituting a number of supply chain agreements to effectively deliver them.

We intend to maintain and build on our contribution via the Sustainable Development Goal commitments made in this policy.

OUR PEOPLE

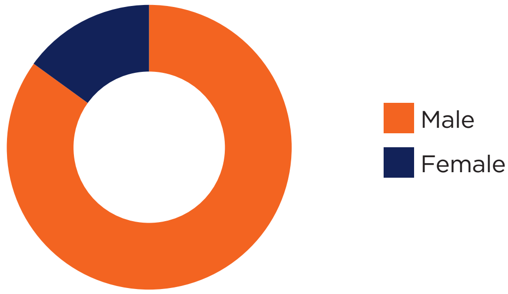
We are privileged to be an employer that is supporting the UK to 'build back better' – providing high-value work with a clear social purpose. We are therefore committed to being a responsible and supportive employer, whilst also holding our Partners and supply chain to our high standards.

- We set clear direction and purpose for each and every employee through job description, objective setting and regular internal communication of corporate strategy and operational targets. The remuneration and annual evaluation process support this strategy by rewarding performance and developing career plans to enable all staff to continually grow professionally.
- We provide an engaging, supportive environment for our staff to work in. This includes providing an effective induction for all new employees and full support for all learning and development requirements of all our employees. We hold regular 'town hall" and team meetings to update on company progress and of course celebrate our successes!
- We will continue to encourage diversity and equal opportunity for all people in relation to recruitment and their career development within the business.
- We ensure that employees or those working on behalf of AFC Energy act ethically in discharging their responsibilities. Buyers and key decision makers shall not accept gifts, hospitality or any other inducements above limits specified within our internal policies.
- Our Modern Slavery statement confirms that we have a zero-tolerance approach to slavery.
- We recognise and accept our responsibility to provide and maintain a safe and healthy work environment for our employees, subcontractors and other persons who may be affected by 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. We also have an established a Health & Safety Management System (in accordance with ISO 45001: 2018) that is proportionate to the scale and nature of our operational risks.
- We continue our long-established tradition of working with key further and higher education establishments in the UK and across Europe to promote clean energy as a key career option to inspire the next generation of scientists and engineers to commit their futures to the sector.

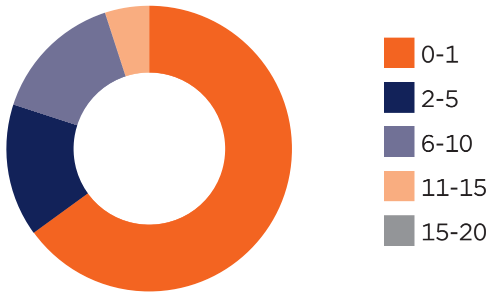
During the coming year we plan to implement an Employee Survey in line with industry best practice, covering ethics, safety, quality, leadership, communication, collaboration, performance management, innovation and compensation.

We believe in attracting the best talent in our field irrespective of race, creed and religion. We have a spread of ages and diverse workforce with a wide range of technical and professional disciplines, and from numerous different nationalities.

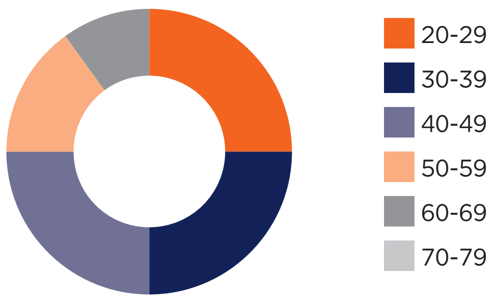
WORKFORCE BY GENDER



YEARS OF SERVICE



WORKFORCE BY AGE



ESG Committee report

HEALTH AND SAFETY DURING PANDEMIC

During the pandemic our commitment to operate in a manner that protects the health and safety and well-being of our staff and partners has been tested to the limit. We are committed to continuously improving our Health and Safety performance through constant monitoring. We track both leading and lagging indicators with annual targets set. The aim is to have zero lost time accidents.

	2021	2020
Onsite hours	78,508	33,327
Near miss	2	1
Injuries	1	1

All incidents and near misses were investigated and operational procedures amended appropriately.

COVID 19 has had a specific impact on our business and we have focused on three key objectives of safety, maintain headcount and work flexibility.

Our business is only as strong as the skills and experience of the people we employ. We committed early in the pandemic to reassure our team that we would do everything in our power to keep the business operating and avoid any temporary or permanent reduction in headcount. To the contrary we have increased headcount.

During the pandemic we were able to manage our facilities and operations with a skeleton staff with the rest of the employees working from home to maintain progress. Our experience is that remote working can have both positive and negative impacts depending upon the relative importance of teamwork and physical inputs, but also impacts our carbon footprint through commuting. We are in the process of developing a work from home policy which is equitable between different employee groups, considering how the role interacts with colleagues and external stakeholders and the facilities needed to perform the role, plus considering the carbon footprint commuting to our premises.

In health and safety, we have

- Increased our office space to maximise social distance between employees.
- Provided partitioning between workstations in open plan offices.
- Actively encouraged the use of electronic communication tools to limit the number of meetings with external stakeholders.
- Supported remote working where practical.
- Provided external and personal testing kits to all staff.

These actions have enabled us to continue working throughout the lockdown without furloughing staff and with minimal days lost through COVID infection.

ENVIRONMENTAL

As a leading clean energy business, we are committed to delivering power systems that help to reduce the world's emissions whilst undertaking our day-to-day activities in ways that minimise our effect on the environment. We will focus on

- Continuing to use electricity only from renewable sources.
- Improving our understanding of the environmental impacts of our products, suppliers and operations.
- Reduce our corporate and product carbon footprints, and
- Reduce our waste generation and energy consumption.

Electricity is supplied from renewable sources by the landlord.

Waste materials are generated through our development and testing activities and principally are chemical waste, pallets and cardboard which are disposed by separating from general waste for collection and disposal by licenced contractors.

We are committed to managing our carbon footprint and projects including the use of zero emission vehicles among staff by the installation of electric charge points for employee and visitor use.

GOVERNANCE

As a publicly listed business, we are committed to achieving high standards of Governance and follow the Quoted Companies Alliance Corporate Governance Code (the "QCA Code") and its ten key principles in ensuring the business acts fairly, professionally and with integrity in all its work:

- We will continue to deliver our strategy and business model, promoting long-term value creation for all our shareholders.
- We will continue to seek to understand and meet shareholders needs and expectations, delivering our requirements under Section 172 of the Companies Act.
- We will consider wider stakeholder and social responsibilities and their implications for long-term success, reflected by the adoption of this ESG & Sustainability Policy.
- Risk management will continue to be effectively embedded throughout the business, overseen by the Company's Audit Committee.
- The Board will be maintained as a well-functioning, balanced team that actively drives and supports the continued success of the business.
- Through the work of the Chairman and the Company Secretary, we will ensure that Directors have the necessary and up-to-date experience, skills and capabilities required to effectively discharge their functions.
- Board performance will be subject to external annual review to drive continuous improvement in its operation.
- We will continue to promote a zero-tolerance approach to bribery and corruption.
- We will also maintain governance structures and processes that are fit for purpose and support good decision-making throughout the Company.
- Finally, we are committed to regular and timely communication with 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.

Details of how the QCA Code is applied can be found at www.afcenergy.com/corporate-governance/.

ESG Committee report

OUR COMMITMENTS TO ESG AND SUSTAINABILITY

We are fully committed to undertaking all our work in a safe, responsible and sustainable manner. With this in mind, we have set individual Environmental, Social and Governance commitments that the business will actively work towards.

We have undertaken a light touch materiality assessment with several key stakeholders including employees, key commercial/distribution partners and institutional investors, whilst also accounting for feedback from the **Sustainability Accounting Standards Board** (**SASB**) **Index** for fuel cell businesses.

This provided the following areas of focus in order to set our commitments to ESG and sustainability:

ENVIRONMENTAL	SOCIAL	GOVERNANCE
• Development of zero-emission systems at point of use • Ability of systems to use multiple sources of fuel, including ammonia, to accelerate deployment to support decarbonisation • Product design & lifecycle management • Energy management of operations • Supporting the decarbonisation of several key industries internationally • Materials sourcing & efficiency, linked to effective supply chain and procurement management	• Embedding effective health & safety practices in system build and use • Embedding effective health & safety practices for employees • Clear Diversity & Inclusion practices • Employee health and well-being initiatives • Commitment to help the communities we live in	• Strong Board oversight • Supply chain and procurement management • Effective decision-making is embedded throughout the business • Driving change through effective KPIs

We plan to implement an annual corporate policy review with all employees and board of directors including reviewing, updating and publishing key global initiatives

- Code of ethics
- Anti-corruption
- Diversity and inclusion
- Environment
- Health and safety, and
- Quality

Board of directors

GARY BULLARD

Non-Executive Chairman
Year appointed 2021.

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.

Previous appointments

Senior management positions in IBM, BT and Logica.

Non-executive director of Chloride plc and Rotork plc.

Other current appointments

Chairman: Gooch & Housego plc and Recycling Technologies plc.

Non-Executive Director: Spirent Communications plc.

ADAM BOND

Chief Executive Officer
Year appointed – 2014.

Relevant skills and experience

Over 20 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).

Previous appointments

Director of JS Yerostigaz (Uzbekistan).

Previously Non-Executive Director of AFC Energy plc from 2012.

JIM GIBSON

Chief Operating Officer
Year appointed – 2017.

Relevant skills and experience

Thirty years' experience in operations management and business development roles within the engineering contracting sector.

Previous appointments

Twenty-three years at Foster Wheeler working in operational, business and commercial roles

Two years at ThyssenKrupp working in process technology/ business development.

GRAEME LEWIS

Chief Financial Officer
Year appointed – 2020.

Relevant skills and experience

A Chartered Accountant with over 20 years of operational experience in distribution of construction and power equipment.

Previous appointments

Divisional CFO Barloworld global Caterpillar operations.

CFO of Finanzauto, S.A. – Listed Caterpillar distributor for Spain and Portugal.

Board of directors

GERRY AGNEW

Non-Executive Director
Year appointed – 2019.

Relevant skills and experience

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.

Previous appointments

Dr Agnew spent seven years as Chief Technology Officer and Chief Technology Advisor 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.

Other current appointments

Director of Scotland's Hydrogen Accelerator and Senior Research Fellow at the University of St Andrews.

MONIKA BIDDULPH

Non-Executive Director
Year appointed 2021.

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.

Previous appointments

Member of Senior Leadership Team IP Products at Arm Holdings plc. Non-executive director Linaro Limited.

Other current appointments

Non-executive director of Ilika plc and D4t4 Solutions plc.

JOE MANGION

Non-Executive Director
Year appointed 2017.

Relevant skills and experience

A Chartered Accountant with over 20 years of operational experience within the environmental services and alternative energy sectors.

Previous appointments

CEO of Swiss listed Leclanché, S.A. – a developer and producer of large format lithium-ion energy storage and energy management systems.

Chairman of Solel Solar Systems Ltd., a private equity backed solar company.

A board member of Airtricity Plc., a private equity backed wind developer.

Directors' report

The Directors present their report together with the audited financial statements for the year ended 31 October 2021. The comparative period was from 1 November 2019 to 31 October 2020.

PRINCIPAL ACTIVITY AND REVIEW OF BUSINESS DEVELOPMENTS

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

Reviews of operations, future business developments and current projects are included in the Chairman's Statement and Operational Review on pages 8 to 15.

RESULTS AND DIVIDEND

The operating loss before tax for the year was £10.4 million (2020: £4.8 million).

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 on page 38 in the Nomination Report

On 31 October 2021 the beneficial interests of Directors and their families in the equity share capital of the Company were:

	Number of Ordinary shares of 0.1p 2021	Number of Ordinary shares of 0.1p 2020
Gary Bullard	270,000	–
Joe Mangion	25,093	–
Adam Bond	3,000,000	3,000,000
Jim Gibson	90,000	90,000

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

FINANCIAL INSTRUMENTS

Financial instruments are disclosed in the notes to the financial statements.

OTHER INFORMATION

The Directors consider that despite being a small company, certain information required for medium and large companies should be provided as best practice.

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 to 31 October 2021, relevant qualifying expenditure was £3.1 million (2020: £1.6 million).

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 23 to the financial statements.

Directors' report

GOING CONCERN

The Company had unrestricted cash of £55.4 million on 31 October 2021 (2020: £31.3 million).

The Company currently consumes cash resources and will continue to do so until sales revenues are sufficiently high to generate net cash inflows. The period covered by the going concern assessment is until 31 October 2023, the period over which the detailed cash flow forecasts are available. On 31 October 2021 unrestricted cash resources were £55.4 million. The Directors have a reasonable expectation that sufficient funds exist to meet payment obligations as and when they fall due, as the majority of the spend during the going concern assessment period are discretional in nature. The directors', having taken into account current cash resources, identified risks including the impact of COVID 19 and financial forecasts, believe the Company has adequate resources to continue in operational existence for the period covered under the going concern assessment (however the minimum period required per standard is twelve months from the date of this report). Thus, the Directors believe that it is reasonable to continue to adopt the going concern basis in preparing the annual report and financial statements.

EVENTS AFTER THE REPORTING PERIOD

After the reporting date on 15 November 2021 a sale and development agreement were entered into with an industrial partner whereby a 200KW fuel cell would be delivered for integration with their systems. In consideration, the industrial partner will pay stage payments totalling £4 million related to certain performance criteria and will have the right to subscribe in the 24 months following each progress payment a total of £4 million worth of shares at an exercise price of 58.8p.

On 19 November 2021 awards were made to the Executive directors under the Performance Share Plan as follows

		Benchmark share price (£)	Nil cost options
Adam Bond	Transitional award	0.16	2,250,000
	Initial award	0.597	620,970
Jim Gibson	Transitional award	0.16	984,375
	Initial award	0.597	271,968
Graeme Lewis	Initial award	0.597	206,320

The Scheme is based on annual grants of nil cost options which then vest conditionally three years later based on achievement of performance targets set at grant. For the first year's grant, performance testing will be based on Compound Annual Growth Rate (CAGR) of Total Shareholder Return (TSR), which at this stage will be entirely share price based but accommodating future dividends when these become possible. At the vesting date, the CAGR of TSR will be calculated for the three-year period and tested versus a lower threshold set for this year's award at 5%. Below this level of CAGR the award will be forfeited. At the threshold, 25% of the maximum award will vest and this will increase linearly with CAGR up to full release of the award at an upper limit of 20% CAGR. CAGR levels beyond this limit will not result in the release of any more options, however the holder is rewarded through the increased value the awarded options will have at the higher share price. In addition, the Remuneration Committee has approved a transitional award (the "Transitional Award") to Adam Bond and Jim Gibson in recognition, inter alia, that no new option awards have been made to them in recent years. The Transitional Award is being made on the bases that would have prevailed had the award been made in March 2020. Pursuant to the Transitional Award, Adam Bond and Jim Gibson are receiving 2,250,000 and 984,375 nil cost options respectively. These options have a benchmark price of 16 pence. Below a threshold price of 27.6p no options will vest. At this threshold price, 25% of the maximum award will vest and this will increase linearly up to a fully vesting price of 59.7 pence per share. Providing the thresholds have been achieved, the options will vest in two equal tranches in March 2022 and March 2023 so that each executive will now have LTIP incentivisation awards tested and vesting annually over the next three years. In accordance with IAS 10 Events after the Reporting Period and IFRS 2 Share Based Payments the fair value of the Performance Shares Plan award was not recorded in the period as the vesting period had not begun. A Monte Carlo simulation was used to fair value the Performance Shares Plan awards as they have market-based conditions and the expense to be recorded in future periods is £1,411 thousand and £495 thousand for the transitional award and initial award respectively.

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.

This report was approved by the Board on 8 March 2022 and signed on its behalf by

Graeme Lewis
Chief Financial Officer and Company Secretary

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 period. Under that law the Directors have to prepare the financial statements in accordance with International Accounting Standards ("IASs") in conformity with Companies Act 2006 and those parts of the Companies Act 2006 that applies to companies reporting under IAS in conformity with the Companies Act 2006. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors confirm that they have complied with the above in preparing the financial statements.

The Directors are responsible for keeping adequate accounting records which 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.

The Directors are responsible for the maintenance and integrity of the Company's website (www.afcenergy.com) and legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF DISCLOSURE TO AUDITOR

So far as the Directors are aware, there is no relevant audit information (as defined by section 418 of the Companies Act 2006) of which the Company's Auditor is unaware, and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information. The directors are responsible for preparing the annual report in accordance with applicable law and regulations. Having taken advice from the Audit Committee, the directors consider the annual report and the financial statements, taken as a whole, provides the information necessary to assess the company's performance, business model and strategy and is fair, balanced and understandable.

Independent Auditors Report to the Members of AFC Energy plc

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 2021, 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 international accounting standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 October 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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 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.

Conclusions relating to going concern

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 to continue as a going concern.

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

- an assessment of management's cash flow forecasts, including the potential impact of Covid-19 on trading results.
- sensitivity analysis of management's cash flow forecasts, including the robustness of the scenarios modelled.
- assessments of management's forecasting accuracy; and
- discussions with those outside the finance team to gain a more robust understanding of the future expectations and developments of the Company.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the Company's business model including effects arising from macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

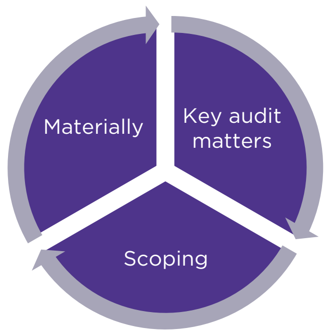
Independent Auditors Report to the Members of AFC Energy plc

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

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

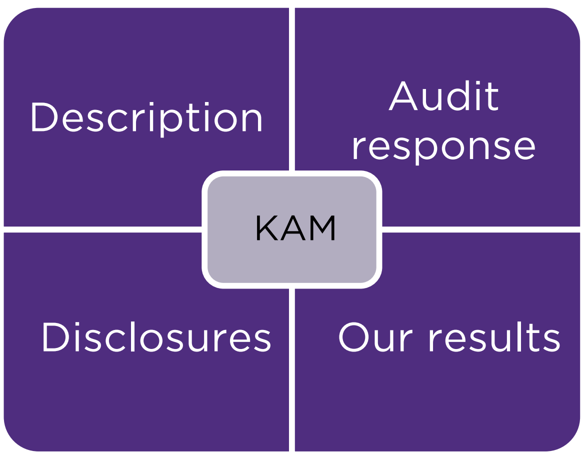
The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

Our approach to the audit

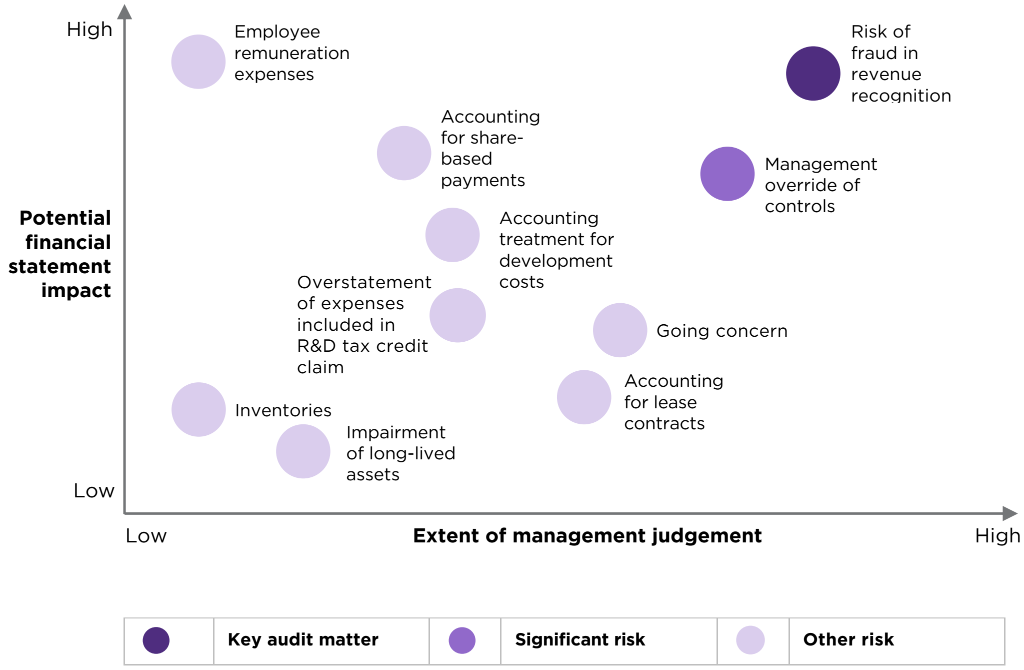
	Overview of our audit approach
Grant Thornton	Overall materiality: £375,000, which represents approximately 4.5% of the Company's loss before tax at the planning stage of the audit.
	Key audit matter was identified as: • risk of fraud in revenue recognition (new in year). Our auditor's report for the year ended 31 October 2020 included one key audit matter that has not been reported as a key audit matter in our current year's audit report. This relates to 'Accounting for contracts entered into with customers. This was not identified as a key audit matter in the current year because as the Company is now recognising revenue from contracts, the risk has transferred to the risk of fraud in revenue recognition.
	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 completion of an in-person stock count.

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.



Key Audit Matter	How our scope addressed the matter
Risk of fraud in revenue recognition We identified the risk of fraud in revenue recognition as one of the most significant assessed risks of material misstatement due to fraud. During the year, the Company started to recognise revenue from contracts with customers in accordance with International Financial Reporting Standard (IFRS) 15 ‘Revenue from Contracts with Customers’. 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. During order fulfilment, contractual obligations need to be assessed. Total estimated project costs may exceed total contract revenues and therefore require write-offs of contract assets, receivables and the immediate recognition of the expected loss as a provision, all of which require management judgement. These judgements increase the associated risk of fraud in relation to revenue recognition.	In responding to the key audit matter, we performed the following audit procedures: • obtaining an understanding of the revenue recognition processes and relevant controls relating to accounting for contracts entered into with customers, in accordance with IFRS 15. • assessing whether the revenue recognition policy is in accordance with the requirements of IFRS 15 and has been applied appropriately for the contracts entered with customers. • challenging management regarding the judgements made in relation to the timing of satisfaction of performance obligations and the amounts allocated to performance obligations. • inspecting all contracts entered into with customers to determine appropriate accounting treatment through key terms outlined within the contracts. • testing revenue recognised to signed contract and inspecting supporting documentation to test cash receipts in order to validate the contract asset or liability included in the statement of financial position.

Key Audit Matter	How our scope addressed the matter
	• challenging the validity and completeness of calculations of estimated project costs, testing the mathematical accuracy of calculations, testing a sample of incurred expenses to supporting documentation and underlying calculations for accuracy; and • assessing the adequacy of related disclosures within the financial statements.

Relevant disclosures in the Annual Report 2021	Our results
• Financial statements: Note 5 • Audit Committee report: Revenue Recognition in respect of existing and new customer contracts	Our audit work did not identify any material misstatements in relation to the recognition of revenue.

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.

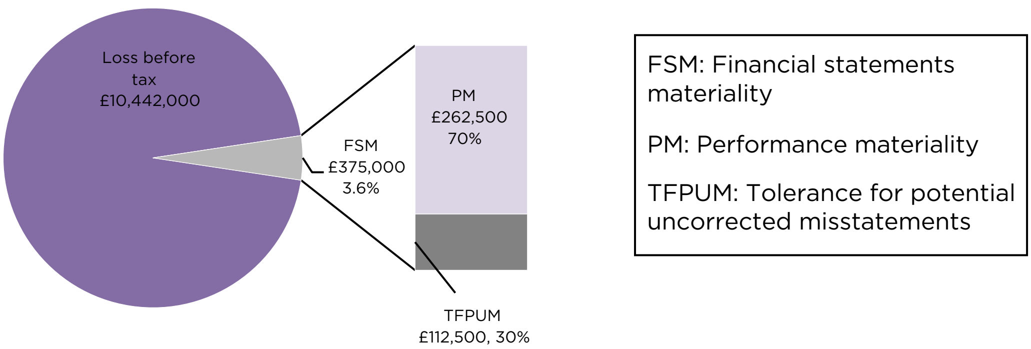
Materiality was determined as follows:

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	£375,000, which is approximately 4.5% of the Company's loss before tax at the planning stage of the audit. We chose not to revise our materiality once the final loss before tax was known.
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. The majority of costs are expensed, with only a portion capitalised and we consider users of the financial statements to be most interested in how the Company expended its funding. • The engagement team selected a percentage of approximately 4.5% during the planning of the audit. This was applied 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 2020 to reflect the increase in the Company's loss before tax for the current year.
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.

Materiality measure	Company
Performance materiality threshold	£262,500, which is 70% of financial statement materiality.
Significant judgements made by auditor in determining performance materiality	In determining performance materiality, we made the following significant judgement: • Our experience with auditing the financial statements of the Company in previous years – based on the strength of the control environment and the number and quantum of identified misstatements in the prior year audit.
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 the following areas: • 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	£18,800 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



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, its environment, including controls

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

Work to be performed on financial information of (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 the risk of fraud in revenue recognition, which was identified as a key audit matter.

Performance of our audit

• A full-scope audit was performed by the engagement team, including an evaluation of the internal control environment, including its IT systems; and

• We completed a site visit of the Company's premises at the planning and fieldwork stages of the audit, as well as completing an in-person 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:

• An examination of an IT system upgrade which occurred during the financial year was completed; and

• We performed full-scope audit procedures targeting the risk of fraud in revenue recognition, given this is the first year for which revenue has been recognised by the Company.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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.

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

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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 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 for the financial statements

As explained more fully in the statement of directors' responsibilities, 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 Company 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.

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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with ISAs (UK).

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, international accounting standards in conformity with the requirements of the Companies Act 2006, the AIM Rules for Companies, tax legislation and the QCA Corporate Governance Code;
- 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;

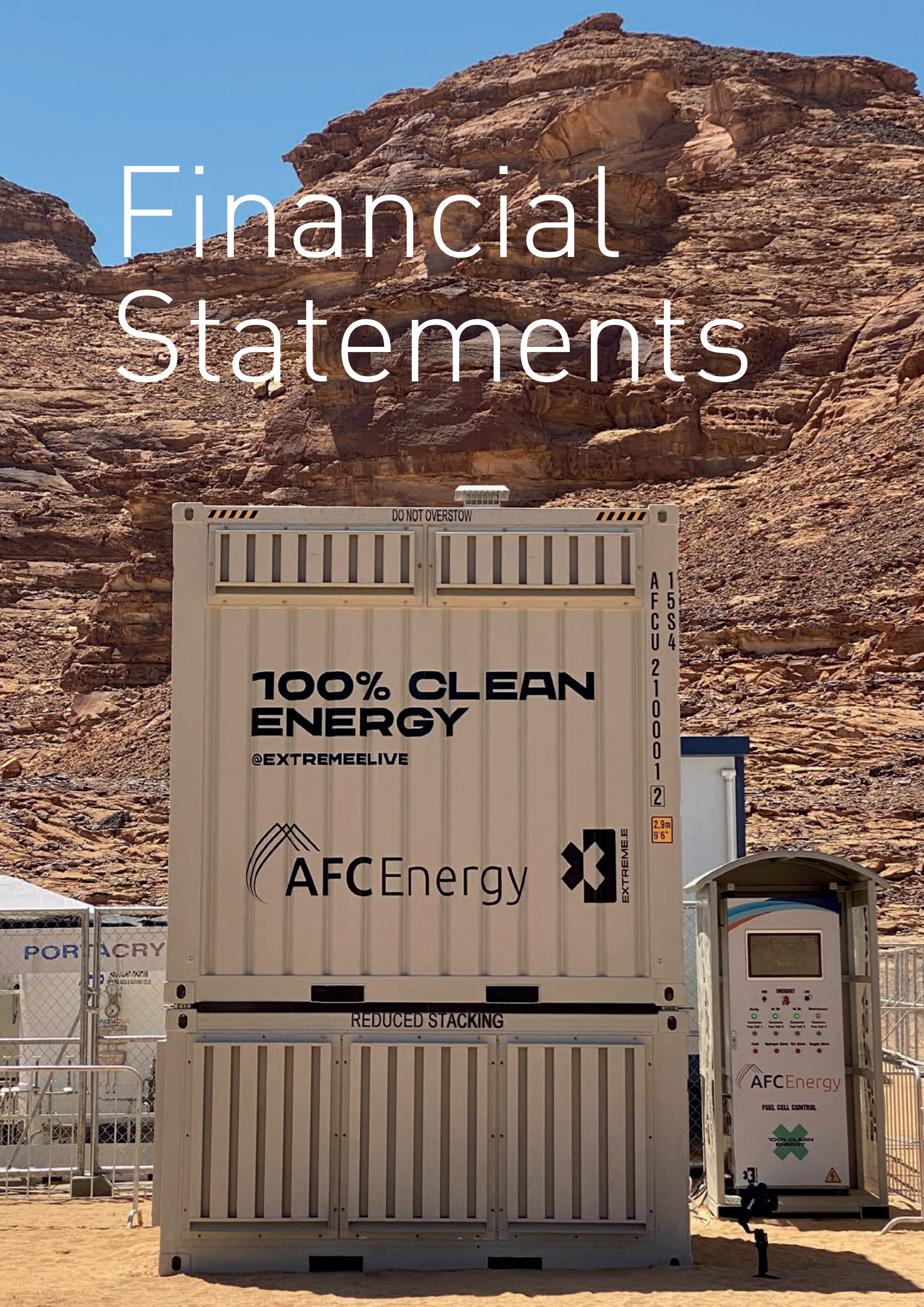
- We assessed the susceptibility of the financial statements to material misstatement, including how fraud might occur by evaluating management's incentives and opportunities for manipulation of the financial statements. Audit procedures performed included:
  - identifying and assessing the design and 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 judgments made by management in its significant accounting estimates; and
  - identifying and testing journal entries posted in the year 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.
- 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. We also note our key audit matter in relation to the risk of fraud in revenue recognition at year-end relates to irregularities, including fraud. Refer to key audit matters for work completed and our results from the procedures performed.

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
8 March 2022

Financial Statements



Statement of Comprehensive Income

FOR THE YEAR ENDED 31 OCTOBER 2021

	Note	**Year ended 31 October 2021 £**	Year ended 31 October 2020 £
Revenue from customer contracts	5	592,800	–
Cost of sales		(576,831)	–
Gross income		**15,969**	–
Other income		25,470	32,892
Operating costs		(10,450,005)	(4,639,104)
Operating loss	6	**(10,408,566)**	(4,606,212)
Finance cost	9	(51,694)	(184,575)
Bank interest receivable	9	18,690	6,168
Loss before tax		**(10,441,570)**	(4,784,619)
Taxation	10	1,063,317	559,627
Loss for the financial year and total comprehensive loss attributable to owners of the Company		**(9,378,253)**	(4,224,992)
Basic loss per share	11	(1.33)p	(0.80)p
Diluted loss per share	11	(1.33)p	(0.80)p

All amounts relate to continuing operations. There was no other comprehensive income in the period (2020: £nil).

The notes on pages 72 to 97 form part of these financial statements.

Statement of Financial Position

AS AT 31 OCTOBER 2021

	Note	31 October 2021 £	31 October 2020 Restated £	31 October 2019 Restated £
Assets				
Non-current assets				
Intangible assets	12	745,649	769,269	606,041
Right of use assets	13	884,181	247,505	361,738
Tangible fixed assets	14	2,268,569	940,218	396,935
		3,898,399	1,956,992	1,364,714
Current assets				
Inventory	15	660,678	249,370	95,423
Receivables	16	1,014,391	525,781	549,003
Income tax receivable	16	1,581,416	518,099	602,995
Cash and cash equivalents	17	55,375,366	31,301,467	1,327,935
Restricted cash	17	612,000	270,027	259,072
		59,243,851	32,864,744	2,834,428
Total assets		**63,142,250**	34,821,736	4,199,142
Capital and reserves attributable to owners of the Company				
Share capital	18	734,484	676,006	447,988
Share premium	18	116,448,125	81,417,845	47,389,424
Other reserve		2,456,045	1,512,974	2,204,774
Retained deficit		(59,752,193)	(50,582,856)	(47,185,257)
Total equity attributable to Shareholders		**59,886,461**	33,023,969	2,856,929
Current liabilities				
Payables	20	1,695,758	1,236,796	667,811
Lease liabilities	21	322,179	113,431	113,431
		2,017,937	1,350,227	781,242
Non-current liabilities				
Lease liabilities	21	583,952	146,368	259,799
Provisions	22	653,900	301,172	301,172
		1,237,852	447,540	560,971
Total liabilities		**3,255,789**	1,797,767	1,342,213
Total equity and liabilities		**63,142,250**	34,821,736	4,199,142

The notes on pages 72 to 97 form part of these financial statements.

These financial statements were approved and authorised for issue by the Board on on 8 March 2022.

ADAM BOND
Chief Executive Officer

GRAEME LEWIS
Chief Financial Officer

AFC Energy plc
Registered number: 05668788

Statement of Changes in Equity

FOR THE YEAR ENDED 31 OCTOBER 2021

	Share Capital £	Share Premium £	Other (SBP) Reserve £	Retained Loss £	Total £
Balance at 31 October 2019	447,988	47,389,424	2,204,774	(47,185,257)	2,856,929
Loss after tax for the year	–	–	–	(4,224,992)	(4,224,992)
Comprehensive income for the year	–	–	–	(4,224,992)	(4,224,992)
Issue of equity shares	226,873	33,798,289	–	–	34,025,162
Exercise of share options	1,145	230,132	–	–	231,277
Equity settled share-based payments	–	–			
- Lapsed or exercised in the period	–	–	(827,393)	827,393	–
- Charged in the period	–	–	135,593	–	135,593
Transactions with owners	228,018	34,028,421	(691,800)	827,393	34,392,032
Balance at 31 October 2020	676,006	81,417,845	1,512,974	(50,582,856)	33,023,969
Loss after tax for the year	–	–	–	(9,378,253)	(9,378,253)
Comprehensive income for the year	–	–	–	(9,378,253)	(9,378,253)
Issue of equity shares	58,478	35,030,280	–	–	35,088,758
Equity settled share-based payments					
- Lapsed or exercised in the period	–	–	(208,916)	208,916	–
- Charged in the period	–	–	1,151,987	–	1,151,987
Transactions with owners	58,478	35,030,280	943,071	208,916	36,240,745
Balance at 31 October 2021	**734,484**	**116,448,125**	**2,456,045**	**(59,752,193)**	**59,886,461**

Share capital is the amount subscribed for shares at 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.

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

The notes on pages 72 to 97 form part of these financial statements.

Cash Flow Statement

FOR THE YEAR ENDED 31 OCTOBER 2021

	Note	31 October 2021 £	31 October 2020 £
Cash flows from operating activities			
Loss before tax for the year		(10,441,570)	(4,784,619)
Adjustments for:			
Amortisation of intangible assets	12	110,413	108,014
Depreciation of right of use asset	13	301,961	114,233
Depreciation of property and equipment	14	448,275	143,758
Loss on disposal of property and equipment		3,692	–
Depreciation of decommissioning asset	14	31,365	31,365
Equity-settled share-based payment expenses	19	1,151,987	135,593
Interest received	9	(18,690)	(6,168)
Lease finance charge		37,322	12,072
Gain on disposal of investment and allied agreements		–	(80,000)
Cash flows from operating activities before changes in working capital and provisions		**(8,375,245)**	(4,325,752)
R&D tax credits received		–	644,523
Increase in restricted cash		(341,973)	(10,955)
Increase in inventory		(411,308)	(153,947)
(Increase)/decrease in receivables		(488,610)	23,222
Increase in payables		458,962	568,985
Increase in provision		352,728	–
Cash absorbed by operating activities		**(8,805,446)**	(3,253,924)
Cash flows from investing activities			
Purchase of plant and equipment	14	(1,811,683)	(718,406)
Additions to intangible assets	12	(86,793)	(171,242)
Interest received	9	18,690	6,168
Proceeds from disposal of investment and allied agreements		-	80,000
Net cash absorbed by investing activities		**(1,879,786)**	(803,480)
Cash flows from financing activities			
Proceeds from the issue of share capital	18	36,000,000	35,558,667
Costs of issue of share capital	18	(1,347,839)	(1,633,505)
Proceeds from the exercise of options and warrants	18	436,597	231,277
Lease payments	21	(292,305)	(113,431)
Lease interest paid	21	(37,322)	(12,072)
Net cash from financing activities		**34,759,131**	34,030,936
Net increase in cash and cash equivalents		24,073,899	29,973,532
Cash and cash equivalents at start of year		31,301,467	1,327,935
Cash and cash equivalents at end of year	17	**55,375,366**	31,301,467

The notes on pages 72 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 and quoted on the Alternative Investment Market of the London Stock Exchange. The principal activity of the Company is the development of alkaline fuel cell technology and allied equipment.

The address of its registered office is Unit 71.4 Dunsfold Park, Stovolds Hill, Cranleigh, Surrey GU6 8TB.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Going concern

The financial statements of AFC Energy plc have been prepared in accordance with International Accounting Standards ("IASs") in conformity with Companies Act 2006 and those parts of the Companies Act 2006 that applies to companies reporting under IAS in conformity with the Companies Act 2006.

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 future as the Company transitions from research and development to commercial operations.

The Company currently consumes cash resources and will continue to do so until sales revenues are sufficiently high to generate net cash inflows. The period covered by the going concern assessment is until 31 October 2023, the period over which the detailed cash flow forecasts are available. On 31 October 2021 unrestricted cash resources were £55.4 million. The Directors have a reasonable expectation that sufficient funds exist to meet payment obligations as and when they fall due, as the majority of the spend during the going concern assessment period are discretional in nature. The directors', having taken into account current cash resources, identified risks including the impact of COVID 19 and financial forecasts, believe the Company has adequate resources to continue in operational existence for the period covered under the going concern assessment (however the minimum period required per standard is twelve months from the date of this report). Thus, the Directors believe that it is reasonable to continue to adopt the going concern basis in preparing the annual report and financial statements.

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

Judgements 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.

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Company. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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.

Revenue recognition

To determine whether to recognise revenue, a 5-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
- Recognising revenue as the performance obligations are satisfied.

Revenue is generated from complex contracts covering the

- Sale of goods and parts,
- Sale of services and maintenance, and
- short-term rental contracts.

and may be either a 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 taking into account 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. Contract liabilities are recognised for consideration received in respect of unsatisfied performance obligation and the Company reports these amounts as other Contract and other liabilities in the statement of financial position.

Similarly, if a performance obligation is satisfied in advance of any consideration, a contract asset or 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 fuel).

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 at site or factory acceptance, which is the official handover of control of the goods to the customer. Revenue will be recognised at a point in time for standard products as it would not meet any of the criteria within the standard to recognise over time. The customer would not simultaneously receive and consume the benefit, nor would it control the asset as it was being produced. 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 income.
- 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 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 by the Company of waste materials.

Development Costs

Identifiable non-recurring engineering and design costs and other prototype costs incurred to develop a technically and commercially feasible product are capitalised. In accordance with IAS 38 development costs are capitalised if they meet all the criteria required for capitalisation.

Notes Forming Part of the Financial Statements

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 Statement of Financial Position date.

Inventory

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

Work in progress comprises direct labour and direct materials. 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 SFP and valued at fair value.

Restricted cash are 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 administrative expenses on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

- Decommissioning asset — life of the lease
- Fixtures, fittings 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 property, plant and equipment and the carrying value of tangible fixed assets are assessed annually and any impairment is charged to the statement of comprehensive income.

Right of Use Assets

At inception each contract is assessed whether it conveys the right to control the use of an identified asset -and obtain substantially all the economic benefits from use of the asset- for a period of time in exchange for consideration. In this instance the contract should be accounted as a lease. The Company recognises a right-of-use asset and a lease liability at the lease commencement date.

The right of use assets 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 or best estimate of the same. 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.

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

Expenditure in establishing a patent is capitalised and written off over its useful life.

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 administrative expenses over the following period:

- Development costs 5 years
- Patents 20 years
- Commercial rights 5 years

Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness and any impairment is charged to the statement of comprehensive income.

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).

Lease liabilities

Measurement and recognition of leases as lessee

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 in 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 have been 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.

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 ("FVPL"), directly attributable transaction costs. Financial instruments are recognized when the Company becomes a party to the contracts that give rise to them and are classified as amortized 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 FVPL or FVOCI.

Financial assets at amortized cost

A financial asset is measured at amortized 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 FVPL. Financial assets classified as amortized cost are measured subsequent to initial recognition at amortized cost using the effective interest method. Cash, restricted cash, trade receivables and certain other assets are classified as and measured at amortized cost.

Financial liabilities

Financial liabilities are classified as measured at amortized 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 recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in net earnings when the liabilities are derecognized as well as through the amortization 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 finance leases are classified as and measured at amortized cost.

Impairment of financial assets

A loss allowance for expected credit losses is recognized in the Statement of Comprehensive Income for financial assets measured at amortized cost. At each balance sheet date, on a forward-looking basis, the Company assesses the expected credit losses associated with its financial assets carried at amortized cost. 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 derecognized 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 derecognized 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 recognized in net earnings.

Share-Based Payment Transactions

The fair value of options granted under the Employee Option Plan is 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 entity'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 of the entity over a specified time period), and
- including the impact of any non-vesting conditions (e.g., the requirement for employees to save or hold shares for a specific period of time).

The total expense is recognised over the vesting period, which is the period over which all of 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.

Where there are unapproved share option plans, a provision for the employers share of National Insurance Contributions is estimated based on the intrinsic value of the exercisable options at the reporting period date. A charge is recorded in the Statement of Comprehensive Income and the liability is included within provisions.

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.

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.

Current tax is the expected tax payable or recoverable on the taxable income for the year, using tax rates enacted or substantively enacted at the Statement of Financial Position date together with any adjustment to tax payable in respect of previous years.

Deferred tax assets are not recognised due to the uncertainty of their recovery.

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 depending on the nature of the credit.

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 were capped at 4% of the employee's salary and are reflected in the statement of comprehensive income in the period for which they are made.

Notes Forming Part of the Financial Statements

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY

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

Significant management judgements:

The following are the judgements 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

- engineering, manufacturing, installation, commissioning, and maintenance of standard and customised alkaline fuel cell systems and integrated auxiliary equipment, and
- access to or sale of technology.

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 use judgement to identify the specific performance obligations and allocate the total expected revenue to the identified performance obligations. These judgements 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. It is management's position that there is unlikely to be a material change in future years in relation to positions taken in this year's financial statements.

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 believe that the Development Expenditure will continue to support marketing and customer trials for the foreseeable future. This assessment relies upon judgements 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. To the extent that customer demand or competing products enter the market the economic useful life and residual value of the Development Expenditure may change which will impact depreciation and amortisation expenses for the period in which such determination is made.

Share-Based Payments

Certain employees (including Directors and senior Executives) of the Company receive remuneration in the form of share-based payment transactions, 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 Log-normal Monte Carlo stochastic model for market conditions. Both are appropriate 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 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 and service conditions will be met.

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 2021, the Company operated mainly in the United Kingdom. All non-current assets are in the United Kingdom.

All revenue in the period was generated from one contract.

5. REVENUE

	Year ended 31 October 2021 £	Year ended 31 October 2020 £
Revenue recognised in terms of IFRS 15: Revenue from contracts with customers		
Standard products	–	–
Rendering of services (earned over time)		
Customised product	–	–
Rental	592,800	–
Revenue	**592,800**	–
Being		
Cash consideration	315,300	–
Consideration in kind	277,500	–
Revenue	**592,800**	–

Unsatisfied performance obligations were:

	Total	Within one year	Within 2 to 5 years
31 October 2020	–	–	–
31 October 2021	**148,201**	**148,201**	**–**

During the year, revenue was only recognised in relation to rental as a service. The company had also entered into a contract to deliver products. At the balance sheet date, the contract had not commenced, and no revenue has been recognised.

The aggregate amount of the transaction price allocated to contracts that are fully unsatisfied as of 31 October 2021 was £354,000 (2020: £354,000). The Company expects to recognise these revenues within the next twelve months.

The consideration in kind relates to marketing services received from the customer and fair valued in accordance with the contract. The fair value was expressly quantified in the contract and agreed by both parties.

Notes Forming Part of the Financial Statements

6. OPERATING COSTS

The operating costs consist of:

	Note	**Year ended 31 October 2021 £**	Year ended 31 October 2020 £
Aggregate payroll costs (less equity settled share based payment expense)	7	3,886,595	2,166,756
Less indirect labour	8	1,689,458	1,067,709
Direct labour		2,197,137	1,099,047
Materials		1,037,379	572,235
Project spend		**3,234,516**	1,671,282
Indirect labour		1,689,459	1,262,319
Other employment costs		1,212,226	437,396
Occupancy costs, repair and maintenance, utilities and sundry rent		967,014	394,492
Other administrative expenses		1,123,369	535,262
Cash expenses		**8,226,584**	4,106,141
Amortisation of intangible assets	12	110,413	108,014
Depreciation of right to use assets	13	301,961	114,233
Depreciation of tangible fixed assets	14	479,640	175,123
Less depreciation of rental asset charged to cost of sales	14	(98,080)	–
Consideration in kind	5	277,500	–
Share based payment	7	1,151,987	135,593
Administrative expenses		**10,450,005**	4,639,104

Operating costs are managed in two pools, Project costs being the discretional spend by product development teams which includes direct labour and materials incurred and the fixed overheads which includes indirect labour, occupancy costs and other general overheads.

Other administrative expenses are made up of general costs such as training, recruitment, travel and miscellaneous expenses, none of which are individually material.

Fees paid to the auditors including in the operating costs were:

	Year ended 31 October 2021 £	Year ended 31 October 2020 £
Audit	135,500	45,272
Corporation tax services	–	7,450
R & D tax credit services	–	25,000
Other assurance services	11,723	3,900

7. STAFF NUMBERS AND COSTS, INCLUDING DIRECTORS

The average numbers of employees in the year were:

	Year ended 31 October 2021 Number	Year ended 31 October 2020 Number
Support, operations and technical	36	24
Administration	6	6
	42	30
The aggregate payroll costs for these persons were:		
	£	£
Wages and salaries (including Directors' emoluments)	3,107,894	1,901,966
Social security	684,099	192,706
Employer's pension contributions	94,602	72,084
	3,886,595	2,166,756
Equity-settled share-based payment expense	1,151,987	135,593
	5,038,582	2,302,349

8. DIRECTORS' REMUNERATION

	Year ended 31 October 2021 £	Year ended 31 October 2020 £
Wages and salaries	1,538,454	963,559
Other compensation	107,369	67,717
Company pension contributions	43,635	36,433
	1,689,458	1,067,709

The highest paid director received remuneration of £863,705 (2020: £476,210). Pension amounts were accrued in the year in respect of 3 (2020: 3) directors.

Notes Forming Part of the Financial Statements

9. NET FINANCE COST

	Year ended 31 October 2021 £	Year ended 31 October 2020 £
Lease Interest	37,322	12,072
Exchange rate differences	1,684	-
Bank charges	12,688	172,503
Total finance cost	51,694	184,575
Bank interest receivable	(18,690)	(6,168)
Net finance cost	**33,004**	178,407

10. TAXATION

	Year ended 31 October 2021 £	Year ended 31 October 2020 £
Recognised in the statement of comprehensive income		
R&D tax credit – current year	(1,033,588)	(518,099)
R&D tax credit – prior year	(29,729)	(41,528)
Total tax credit	**(1,063,317)**	(559,627)
Reconciliation of effective tax rates		
Loss before tax	(10,441,570)	(4,784,619)
Tax using the domestic rate of corporation tax of 19% (2020: 19%)	**(1,983,898)**	(907,349)
Effect of:		
R&D tax credit – prior year	(29,729)	(41,528)
Timing differences not deductible for tax purposes	(165,181)	29,792
Enhanced deduction on qualifying R&D expenditure	(765,506)	(383,719)
Tax difference on surrendered losses	320,769	160,789
Depreciation in excess of capital allowances	146,697	27,314
Unutilised losses carried forward	1,413,531	555,074
Total tax credit	**(1,063,317)**	(559,627)

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

	Year ended 31 October 2021 £000s	Year ended 31 October 2020 £000s
Property, plant and equipment, and intangible assets	(95)	178
Share based payments	39	30
Losses carried forward	9,595	5,879
Unrecognised net deferred tax assets	(9,539)	(6,087)

The cumulative tax losses in the amount of £37,846,551 (2020: £30,940,518) 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.

In the Spring 2021 Budget, The UK Government announced that from 1April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19% as previously enacted). This new law was substantively enacted on 24 May 2021. Deferred taxes at the reporting date have been measured using these enacted rates and reflected in these financial statements.

11. LOSS PER SHARE

The calculation of the basic loss per share is based upon the net loss after tax attributable to ordinary Shareholders of £9,378,253 (2020: loss of £4,224,992) and a weighted average number of shares in issue for the year.

	Year ended 31 October 2021	Year ended 31 October 2020
Basic loss per share (pence)	(1.33)p	(0.80)p
Diluted loss per share (pence)	(1.33)p	(0.80)p
Loss attributable to equity Shareholders	£9,378,253	£4,224,992
Weighted average number of shares in issue	**706,413,693**	528,865,765

Diluted earnings per share

As set out in note 19, there are share options and warrants outstanding as at 31 October 2021 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 2021 nor the previous year.

Notes Forming Part of the Financial Statements

12. INTANGIBLE ASSETS

	Development costs £	Patents £	Commercial rights £	**Intangible assets £**
Cost				
1 November 2019	149,460	729,396	–	878,856
Additions	79,583	70,309	121,350	271,242
31 October 2020	229,043	799,705	121,350	1,150,098
Additions	–	86,793	–	**86,793**
31 October 2021	**229,043**	**886,498**	**121,350**	**1,236,891**
Amortisation				
1 November 2019	–	272,815	–	272,815
Retirements	–	–	–	
Charge for the year	28,138	70,775	9,101	108,014
31 October 2020	28,138	343,590	9,101	380,829
Retirements	–	–	–	–
Charge for the year	45,809	40,334	24,270	**110,413**
31 October 2021	**73,947**	**383,924**	**33,371**	**491,242**
Net book value 31 October 2019	149,460	456,581	–	606,041
Net book value 31 October 2020	200,905	456,115	112,249	769,269
Net book value 31 October 2021	**155,096**	**502,574**	**87,979**	**745,649**

The commercial rights include the global preferential rights to integrate the HiiRoc plasma-based technology which were acquired by an initial payment in shares of £100,000 and future payments in kind through the provision of technical support.

13. RIGHT OF USE ASSETS

	Buildings £
Cost	
31 October 2019	475,971
31 October 2020	475,971
Additions	938,637
31 October 2021	**1,414,608**
Depreciation	
31 October 2019	114,233
Charge for the year	114,233
31 October 2020	228,466
Charge for the year	301,961
31 October 2021	**530,427**
Net Book Value	
31 October 2019	361,738
31 October 2020	247,505
31 October 2021	**884,181**

Notes Forming Part of the Financial Statements

14. TANGIBLE FIXED ASSETS

	Leasehold improvements £	Decommissioning Asset £	Fixtures, fittings and equipment £	Motor vehicles £	Demonstration equipment £	Rental asset £	Computer equipment £	Manufacturing and test stands £	Total £
Cost									
1 November 2019	221,512	301,172	1,324,791	17,994	193,404	–	–	–	2,058,873
Additions	–	–	161,697	–	133,571	423,138	–	–	718,406
Disposals	–	–	–	–		–	–	–	–
1 November 2020	221,512	301,172	1,486,488	17,994	326,975	423,138	–	–	2,777,279
Additions	735,100	–	80,626	–	294,824	280,291	69,665	351,177	1,811,683
Disposals	–	–	(13,202)	–	–	–	–	–	(13,202)
Transfers	–	–	(213,687)	–	–	–	128,687	85,000	–
31 October 2021	**956,612**	**301,172**	**1,340,225**	**17,994**	**621,799**	**703,429**	**198,352**	**436,177**	**4,575,760**
Depreciation									
1 November 2019	221,512	201,850	1,220,582	17,994	–	–	–	–	1,661,938
Charge for the year	–	31,365	89,801	–	53,957	–	–	–	175,123
Disposals	–	–	–	–	–	–	–	–	–
1 November 2020	221,512	233,215	1,310,383	17,994	53,957	–	–	–	1,837,061
Charge for the year	80,220	31,365	42,033	–	144,203	98,080	39,058	44,681	479,640
Disposals	–	–	(9,510)	–	–	–	–	–	(9,510)
Transfers	–	–	(97,618)	–	–	–	46,688	50,930	–
31 October 2021	**301,732**	**264,580**	**1,245,288**	**17,994**	**198,160**	**98,080**	**85,746**	**95,611**	**2,307,191**
Net Book Value									
31 October 2019	–	99,322	104,209	–	193,404	–	–	–	396,935
1 November 2020	–	67,957	176,105	–	273,018	423,138	–	–	940,218
31 October 2021	**654,880**	**36,592**	**94,937**	**–**	**423,639**	**605,349**	**112,606**	**340,566**	**2,268,569**

The Company has set-up a decommissioning asset for the removal of the plant and equipment installed at the Stade site in Germany and for dilapidations associated with the leasehold premises at Dunsfold in the UK, the cost of which is based on estimates. No decision has been taken about the date when the plant will be decommissioned.

15. INVENTORY

	Year ended 31 October 2021 £	Year ended 31 October 2020 £
Raw materials	452,885	249,370
Work in progress	207,793	–
Inventory	**660,678**	249,370

Inventory expensed as cost of sales during the year was £nil (2020 £nil).

16. RECEIVABLES

	Year ended 31 October 2021 £	Year ended 31 October 2020 £
Current:		
Accounts receivable	299,062	60,000
EU grants receivable	–	106,642
Other receivables	382,810	204,367
Prepayments	332,519	154,772
Receivables	**1,014,391**	525,781
Income tax receivable	**1,581,416**	518,099

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

Amounts receivable relating to the income tax receivable have been disclosed separately in Statement of Financial Position and therefore, the comparative figures have been restated.

17. CASH AND CASH EQUIVALENTS

	Year ended 31 October 2021 £	Year ended 31 October 2020 £
Cash at bank	119,339	286,578
Bank deposits	55,256,027	31,014,889
	55,375,366	31,301,467

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, not included in cash and cash equivalents, is £612,000 held in escrow to support bank guarantees provided under contractual obligations to suppliers and customers.

Notes Forming Part of the Financial Statements

18. ISSUED SHARE CAPITAL

	Number	Ordinary shares £	Share premium £	Total £
Exercise of options 25 November 2020	55,000	55	4,785	4,840
Exercise of options 1 December 2020	90,000	90	13,770	13,860
Exercise of options 15 January 2021	114,500	115	17,519	17,634
Exercise of options 15 January 2021	25,000	25	2,175	2,200
Exercise of options 15 January 2021	35,000	35	12,478	12,513
Exercise of options 15 January 2021	15,000	15	5,085	5,100
Exercise of options 6 April 2021	150,000	150	61,350	61,500
Fund raise - subscription share issue	7,364,340	7,364	4,742,635	4,749,999
Fund raise – placing share issue	48,404,614	48,405	29,537,231	29,585,636
Fund raise – director subscription	45,000	45	28,980	29,025
New shares issue in payment of advisor fees	445,736	446	287,054	287,500
Exercise of options 26 April 2021	32,500	33	4,973	5,005
Exercise of options 26 April 2021	40,000	40	14,260	14,300
Exercise of options 1 May 2021	55,000	55	8,415	8,470
Exercise of warrants 28 June 2021	1,500,000	1,500	276,000	277,500
Exercise of options 15 July 2021	10,000	10	1,530	1,540
Exercise of options 29 July 2021	30,000	30	4,590	4,620
Exercise of options 15 August 2021	15,000	15	2,295	2,310
Exercise of options 20 September 2021	16,668	17	1,450	1,467
Exercise of options 20 September 2021	10,000	10	1,530	1,540
Exercise of options 20 September 2021	25,000	25	2,175	2,200
Movement for the year	58,478,358	58,478	35,030,280	35,088,758
Issued share capital				
31 October 2020	676,006,310	676,006	81,417,845	82,093,851
31 October 2021	**734,484,668**	**734,484**	**116,448,125**	**117,182,610**

All issued shares are fully paid. 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's commercial activities are at an early stage and management considers that no useful target debt to equity gearing ratio can be identified at this time.

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.

19. SHARE BASED PAYMENTS

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 conditioned 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.

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

	Average exercise price per share option (£) 2021	**Number of options 2021**	Average exercise price per share option (£) 2020	Number of options 2020
1 November 2020	0.30	14,420,835	0.33	11,745,000
Granted during the year	0.62	1,600,000	0.16	4,885,000
Exercised during the year	0.22	(718,668)	0.17	(1,627,498)
Lapsed during the year	0.33	(350,000)	0.30	(581,667)
31 October 2021	**0.35**	**14,952,167**	0.30	14,420,835
Vested and exercisable at 31 October 2021		9,630,501		

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 2021**	Share options 2020
7 November 2012	7 November 2022	0.3575	95,000	170,000
2 December 2013	1 December 2023	0.34	120,000	135,000
14 April 2015	13 April 2025	0.41	–	150,000
17 July 2015	17 July 2025	0.22	6,000,000	6,000,000
10 September 2018	1 August 2024	0.088	266,667	658,335
15 October 2018	15 October 2024	0.16	2,500,000	2,500,000
31 December 2019	20 April 2030	0.1635	2,750,000	2,750,000
20 April 2020	20 April 2030	0.154	1,720,500	2,057,500
24 June 2021	28 June 2031	0.617	1,500,000	–
			14,952,167	14,420,835

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.

Exercise price (pence)	Grant date	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 (years)	Average fair value per option (pence)	**Amount expensed in 2021 (£)**
15.4	20 April 2020	14.9	99.6%	0.11%	0%	1.5	6.9	46,803
16.35	31 December 2019	16.35	95.5%	0.54%	0%	2.0	8.1	74,443
61.7	24 June 2021	63.5	106.8%	0.18%	0%	3.0	41.8	194,354
22	17 July 2015	58	74.9%	2.08%	0%	2.0	26.0	774,287
Total charge for the year (2020: £(135,593))								**1,089,887**

Warrants

The Board has the discretion to award warrants from time to time to 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 (£) 2021	**Number of warrants 2021**	Average exercise price per warrant (£) 2020	Number of warrants 2020
1 November 2020	0.20	4,500,000	0.14	5,793,800
Restatement	0.05	900,000		
Granted during the year	0.77	5,000,000	0.20	4,500,000
Exercised during the year	0.19	(1,500,000)		
Lapsed during the year	–	–	0.14	(5,793,800)
31 October 2021	**0.51**	**8,900,000**	0.20	4,500,000
Vested and exercisable at 31 October 2021		(600,000)		

The assessed fair value at grant date of warrants expensed during the year ended 31 October 2021 was:

Warrant price (pence)	Grant date	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 (years)	Average fair value per option (pence)	**Amount expensed in 2021 (£)**
18.5	19 October 2020	18.56	102.76%	-0.01%	0%	1	4.14	62,100
77.0	13 January 2021	78	104.69%	-0.09%	0%	2	42.37	–
Total charge for the year (2020: £(nil))								**62,100**

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

Grant date	Expiry date	Exercise price (£)	**Warrants 2021**	Warrants 2020
9 September 2019	9 September 2029	0.05	900,000	900,000
19 October 2020	31 January 2021	0.185	–	1,500,000
19 October 2020	13 October 2021	0.195	1,000,000	1,000,000
19 October 2020	13 April 2022	0.21	1,000,000	1,000,000
19 October 2020	13 October 2022	0.23	1,000,000	1,000,000
13 January 2021	13 March 2025	0.77	5,000,000	–
			8,900,000	5,400,000

SAYE

No SAYE were granted, and the scheme ended during the period. The movements were:

	Average exercise price per SAYE (£) 2021	**Number of SAYE 2021**	Average exercise price per SAYE (£) 2020	Number of SAYE 2020
1 November 2020	–	–	0.12	207,736
Granted during the year	–	–	–	–
Exercised during the year	–	–	–	–
Lapsed during the year	–	–	0.12	(207,735)
31 October 2021	**–**	**–**	–	–
Vested and exercisable at 31 October 2021		–	–	

Notes Forming Part of the Financial Statements

Share based payment charge:

	2021 **£**	2020 £
Employee Share Option Plan	1,089,887	135,593
Warrants	62,100	–
SAYE	–	–
	1,151,987	135,593

20. PAYABLES

	Year ended 31 October 2021 **£**	Year ended 31 October 2020 £
Current liabilities:		
Trade payables	353,404	347,167
Advance payments	213,903	150,000
Other payables	143,709	199,261
Accruals	984,742	540,368
	1,695,758	1,236,796

Included in Accruals as of 31 October 2021 is an amount of £507 thousand in relation to Executive director bonuses (2020: £240 thousand).

21. LEASE LIABILITIES

	Year ended 31 October 2021 £
1 November 2019	373,230
Cashflows:	
- Repayment	(125,503)
- Proceeds	–
Non-cash:	
- Additions	–
- Interest expense	12,072
31 October 2020	**259,799**
Cashflows:	
- Repayment	**(329,627)**
- Proceeds	**–**
Non-cash:	
- Additions	**938,637**
- Interest expense	**37,322**
31 October 2021	**906,131**

	Year ended 31 October 2021 £	Year ended 31 October 2020 £
Lease liabilities less than 12 months	322,179	113,431
Lease liabilities more than 12 months	583,952	146,368
	906,131	259,799

Immaterial leases had an expense of £12,659 (2020: £4,220) during the year.

Notes Forming Part of the Financial Statements

22. PROVISIONS

	National Insurance on unapproved share options £	Decommissioning provision £	Total £
Balance at 31 October 2019	–	301,172	301,172
Balance at 31 October 2020	–	301,172	301,172
Addition	352,728	–	**352,728**
Balance at 31 October 2021	**352,728**	**301,172**	**653,900**

Employer National Insurance Contributions are payable on certain unapproved share option awards on the capital gain when exercised. The provision is estimated using the closing market price less the exercise price applied to the number of share options granted.

The Company has set-up a decommissioning provision for the removal of the plant and equipment installed at the Stade site in Germany, the cost of which is based on estimates. Various scenarios have been considered which estimate the range of costs to be from £35,000 to £420,000 dependent upon agreements reached with lessor.

23. FINANCIAL INSTRUMENTS

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.

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 2021 £**	Year ended 31 October 2020 £
Financial instruments held at amortised cost:			
Cash and cash equivalents	17	55,375,366	31,301,467
Receivables	16	681,872	264,367
Total financial assets held at amortised cost		**56,057,238**	31,565,834
Trade and payables	20	865,155	846,796
Total financial liabilities held at amortised cost		**865,155**	846,796

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.

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.

Notes Forming Part of the Financial Statements

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 2021 £	Year ended 31 October 2020 £
Receivables	681,872	264,367
Cash and cash equivalents	55,375,366	31,301,467

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 2021 and 2020 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.

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.

Fair Value of Financial Instruments

	Year ended 31 October 2021 £	Year ended 31 October 2020 £
Trade and other payables	(865,155)	(846,796)
Receivables	681,872	264,367
Cash and cash equivalents	55,375,366	31,301,467
	55,192,083	30,719,038

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.

24. RELATED PARTY TRANSACTIONS

There were no transactions with any related parties during the year ended 31 October 2021 (2020: £nil) other than key management compensation. Key management personnel remuneration includes short term employee benefits (including social security costs) of £1,645,823 (2020 £1,031,276), £43,635 (2020 £36,433) for post-employment benefits and £848,730 (2020 £89,943) for share-based payment expense.

25. EVENTS AFTER THE REPORTING PERIOD

After the reporting date on 15 November 2021 a sale and development agreement were entered into with an industrial partner whereby a 200KW fuel cell would be delivered for integration with their systems. In consideration, the industrial partner will pay stage payments totalling £4 million related to certain performance criteria and will have the right to subscribe in the 24 months following each progress payment a total of £4 million worth of shares at an exercise price of 58.8p.

On 19 November 2021 awards were made to the Executive directors under the Performance Share Plan as follows

		Benchmark share price (£)	Nil cost options
Adam Bond	Transitional award	0.16	2,250,000
	Initial award	0.597	620,970
Jim Gibson	Transitional award	0.16	984,375
	Initial award	0.597	271,968
Graeme Lewis	Initial award	0.597	206,320

The Scheme is based on annual grants of nil cost options which then vest conditionally three years later based on achievement of performance targets set at grant. For the first year's grant, performance testing will be based on Compound Annual Growth Rate (CAGR) of Total Shareholder Return (TSR), which at this stage will be entirely share price based but accommodating future dividends when these become possible. At the vesting date, the CAGR of TSR will be calculated for the three-year period and tested versus a lower threshold set for this year's award at 5%. Below this level of CAGR the award will be forfeited. At the threshold, 25% of the maximum award will vest and this will increase linearly with CAGR up to full release of the award at an upper limit of 20% CAGR. CAGR levels beyond this limit will not result in the release of any more options, however the holder is rewarded through the increased value the awarded options will have at the higher share price. In addition, the Remuneration Committee has approved a transitional award (the "Transitional Award") to Adam Bond and Jim Gibson in recognition, inter alia, that no new option awards have been made to them in recent years. The Transitional Award is being made on the bases that would have prevailed had the award been made in March 2020. Pursuant to the Transitional Award, Adam Bond and Jim Gibson are receiving 2,250,000 and 984,375 nil cost options respectively. These options have a benchmark price of 16 pence. Below a threshold price of 27.6p no options will vest. At this threshold price, 25% of the maximum award will vest and this will increase linearly up to a fully vesting price of 59.7 pence per share. Providing the thresholds have been achieved, the options will vest in two equal tranches in March 2022 and March 2023 so that each executive will now have LTIP incentivisation awards tested and vesting annually over the next three years. In accordance with IAS 10 Events after the Reporting Period and IFRS 2 Share Based Payments the fair value of the Performance Shares Plan award was not recorded in the period as the vesting period had not begun. A Monte Carlo simulation was used to fair value the Performance Shares Plan awards as they have market-based conditions and the expense to be recorded in future periods is £1,411 thousand and £495 thousand for the transitional award and initial award respectively.

26. ULTIMATE CONTROLLING PARTY

There is no ultimate controlling party.

Company Information

Directors

Gary Bullard (appointed 15 April 2021)
Adam Bond
Jim Gibson
Graeme Lewis
Gerry Agnew
Monika Biddulph (appointed 3 December 2021)
Joe Mangion

Company Secretary

Graeme Lewis

Registered Office

Unit 71.4 Dunsfold Park
Stovolds Hill
Cranleigh
Surrey
GU6 8TB
Registered in England: 05668788

Joint Brokers

Peat & Co
118 Piccadilly
London
W1J 7NW

Zeus Capital Limited
82 King Street
Manchester
M2 4WQ

AIM Nominated Adviser and Joint Broker

Peel Hunt LLP
100 Liverpool Street
London EC2M 2AT

Bankers

Barclays Bank PLC
40/41 High Street
Chelmsford
Essex
CM1 1BE

This page has been left intentionally blank

This page has been left intentionally blank

CERTIFIED CARBON NEUTRAL® company
CarbonNeutral.com

FSC® www.fsc.org MIX Paper from responsible sources FSC® C022913

This report was printed by Pureprint Group, an ISO 14001 registered, FSC® certified and Carbon Neutral® company.

This document was printed utilising pureprint® environmental printing technology and 100% vegetable-based inks.

99% of the dry waste and 95% of cleaning solvents associated with the production were recycled.

AFC Energy
Unit 71.4 Dunsfold Park,
Stovolds Hill,
Cranleigh
GU6 8TB
www.afcenergy.com

AFC Energy Annual Report 2021