
# AFC Energy PLC

# Annual Report

For the year ended 31 October 2022

AFC Energy
HYDROGEN POWER FOR A BETTER WORLD

# Contents

## STRATEGIC REPORT




## ESG REPORT

## GOVERNANCE REPORT



## FINANCIAL STATEMENTS



# Highlights

## Financial

**£0.6m**
Revenue

**£1.6m**
Deferred revenue

**£40.2m**
Cash at year end

**£16.4m**
Loss for the year

**£3.0m**
R&D tax credit receivable

## Commercial - customer deployments in FY2022

## Technology being developed in FY2022

S Series fuel cell module (2.5 kW)

S Series H-Power Tower & Generator (10 kW)

S+ Series fuel cell H-Power Generator (100 kW stacks)

Fuel conversion – ammonia cracker & methanol reformer

## Environmental, Social & Governance (ESG) - progress in FY2022

| | |
|---|---|
| Lost time injuries | Zero in FY2022 |
| Materiality matrix | Completed in FY2022 |
| Carbon footprint | 2021 baseline measured |
| ESG committees | Set up and running |

# Strategic Report

# Chairman's report

**Gary Bullard**
**Chairman**

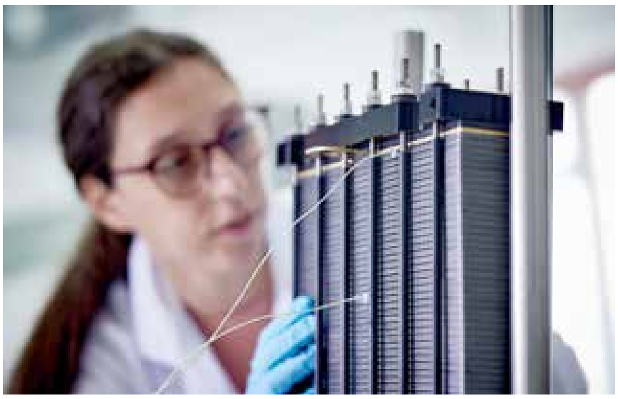
The increased focus on emissions targets and energy security, combined with the recent ban on Russian diesel, continues to drive momentum for displacing diesel with clean fuels, such as hydrogen.

This year, AFC Energy has continued to deliver on its role in the energy transition through accelerated development and validation of its products, most notably those displacing diesel generators at off-grid construction locations with follow-on applications for additional sectors.

## Strategic development

Our decision to focus on the construction sector, due to its high usage of off-grid diesel, has delighted customers and delivered first revenue from our new S Series H-Power Towers, along with a growing pipeline for 2023 and beyond.

In addition to the immediate opportunities in construction, electric vehicle charging and maritime remain attractive for medium and longer-term opportunities. The continued investment in our "flex fuel" capability, supported by the growing level of incoming enquiries, means we are well positioned to benefit as these markets develop.



## The Board

We have continued to review the effectiveness of our Board and committees and, accordingly, appointed Dr Monika Biddulph at the beginning of the year. Monika has a strong scientific background combined with a focus on Environmental, Social and Governance matters and therefore is board sponsor of the ESG Committee.

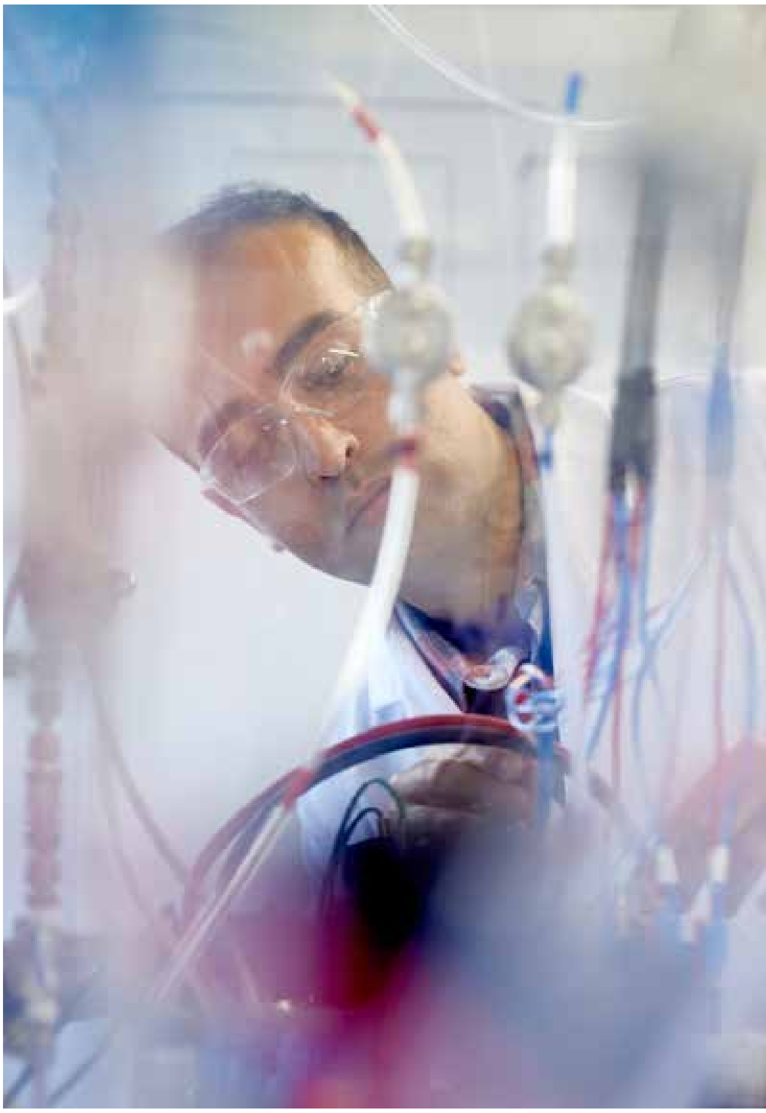
In recognition of the central role technology plays in our development, we have a Technical Advisory Board chaired by Dr Gerry Agnew, a Non-Executive Director, with access to suitable and independent advisers from within the hydrogen sector.

Gerry also chairs the Remuneration Committee and, this year, offered consultations with several institutional shareholders on the structure of the remuneration policy. Further details of these consultations are provided later, in the Remuneration Committee report.

We also saw the retirement of our Chief Financial Officer, Graeme Lewis, and his replacement by Peter Dixon-Clarke, who joined the Board on 1 December 2022. I wish to thank Graeme for his support and contribution to the Company over his time here and wish him well in his retirement.

## Environmental, Social and Governance (ESG)

The Board has increased its focus on ESG reporting and this year finalised the committee structures required to deliver on our enhanced policies and procedures. The outcomes from this work have included our first carbon footprint review as well as the establishment of three employee led committees, focusing on: Environment; Diversity & Inclusion; and Social & Employee Wellbeing. More on this is provided later in this report.



## Looking ahead

I would particularly like to thank our employees for their role in the technical and commercial successes of 2022. They, along with continued support from our partners, customers and investors have set the stage for a prosperous 2023 as we all transition towards a clean hydrogen future.

**Gary Bullard**
**Chairman**
**21 April 2023**

# Chief Executive Officer's report

**Adam Bond**
**Chief Executive**

Successful customer H-Power Tower deployments on construction sites, delivery of our first S+ Series stacks with ABB and growing H-Power Tower rental revenues laid the foundation for what was a successful 2022. The scene is now set for industry to accelerate its transition away from diesel.

2022 emphasised the importance global energy policy plays in driving not only sectoral decarbonisation, but also its criticality in impacting wider macro-economic inflation and energy independence. Within this environment of uncertainty, the role of hydrogen has continued to grow with vast commitments being made to the zero emission fuel across Europe and more recently in the United States, under the Biden Government's Inflation Reduction Act.

AFC Energy has continued to successfully deliver on its milestones for the year further supporting the transition and displacement of diesel generators from today's off-grid power market. Successful field deployments this financial year included our new S Series H-Power Tower Generator across multiple construction sites in Europe and the UK and more recently, by delivering, on time, our first S+ Series H-Power Generator stacks for validation by ABB in October. These customer deployments and validations are an important strategic milestone and drive: revenue; industry awareness; and technological validation.

Important strides were also made in delivery of our fuel processing division highlighting the work undertaken in accelerating our first ammonia cracking technology platform recently announced, alongside the field deployment of our Methanol Fuel Tower in Spain.

This is the most rapid technological progress in the Company's history and highlights the importance of having a quality team with years of experience in disciplined product development lifecycles.

## Technology acceleration

18-months ago we took six discreet "ideas" and, enabled by the proceeds of our 2020 and 2021 equity placings and contribution from ABB, accelerated a number of these programmes to deliver working systems utilising:

- S Series air cooled fuel cell stacks (2.5 kW)
- S Series modules (incorporating the above 2.5 kW stack plus balance of plant)
- S Series 10 kW H-Power Tower (incorporating four 2.5 kW modules)
- S+ Series liquid cooled fuel cell stacks (providing cumulative power of 100 kW)
- Ammonia Cracking Technology
- Methanol Fuel Tower

This is an extraordinary amount of work put in by the development and engineering teams within a single financial year and I wish to thank them all most sincerely for their efforts and focus in delivering such an ambitious target.

## The first H-Power Tower deployment: ACCIONA

The first S Series H-Power Tower deployment was in August 2022 where our partner, ACCIONA, deployed the system at its off-grid construction compound north of Cadiz in Spain. The H-Power Tower, replaced the on-site diesel generator on a multiyear road development project for the whole of its three-month trial, highlighting the role our product will play in continuing to reduce greenhouse gas emissions by displacing diesel.

Following the successful deployment, we received powerful feedback from Miguel Paris Torres, Head of ACCIONA's Construction R&D Centre, when he said in an interview:

> "I think hydrogen is the most feasible and realistic technology to satisfy in a sustainable way the power needs not only from the construction site compounds but also from the heavy construction machinery used in the construction projects. Our partnership with AFC Energy is very important for us because we are convinced that AFC Energy is a key technological partner that will help us adopt and implement the use of hydrogen gensets as an essential tool for the decarbonisation of our construction activities. What I like ... most about AFC technology [is] its modularity, easy size of scalability and compactness. And what I like more about the field trial today is that we've managed to achieve the target of not using for the entire duration of the pilot the former polluting diesel genset that was powering the site before we started the trial."


Customer feedback of this quality from an industry leader in construction takes significant resource and investment to achieve and cements the value generated in our technology platform and customer relationship throughout 2022. As a follow-on to the initial H-Power Tower deployment, ACCIONA requested that we initiate the deployment of our first methanol Fuel Tower to generate on-site hydrogen to fuel our S Series fuel cell modules and in April 2023, ACCIONA confirmed its first order of AFC Energy's next generation 50kVA hydrogen generator, incorporating a new 30kW H-Power Generator and 45kWh battery storage module. The new 50kVA power generator is a step towards displacing ACCIONA's considerable incumbent internal fleet of 30 – 80 kVA diesel generators and more generally, targets a significant proportion of the existing diesel generator market as a "sweet spot" for mass deployment.

## Subsequent H-Power Tower deployments

Following on from the success at ACCIONA, subsequent deployments took place with: Keltbray at its M621 project in Leeds; the Mace Dragados Joint Venture at its HS2 development project at Euston Station; and Kier at its bereavement centre development in Plymouth. For each of these deployments, we rented our H-Power Tower along with providing the hydrogen to site. Initial revenue from these rentals was recognised in the 2022 financial year, with the balance to be recognised in the 2023 financial year.

We have focused on construction as the ideal use case for diesel displacement and early deployments for a number of reasons, including:

- Increasing cost of diesel (particularly following the removal of the red diesel subsidy)
- Higher cost of Stage V emission compliant (a requirement to operate in low emission zones) generators
- ESG standards set by contractors, their shareholders and procurement agencies
- Higher weightings given to construction tenders to adoption of low emission technologies
- The recent ban on importing Russian diesel into Europe

We are continuing to receive interest for further deployments, from both existing and new customers and finishing the current production run of H-Power Towers during the spring of 2023 will see up to 10 of our fleet of H-Power Towers deployed in the field simultaneously this year. As this run is expected to complete soon, we've already started the next development cycle, which will benefit from the customer feedback we are receiving. Based on the feedback received, we plan to focus on two things. The first of these will be an increase in the power output by building on the existing modular platform, albeit with a change to the form factor so it looks more like a generator and less like a tower. The second will be the value engineering aimed at halving the production costs, relative to the existing H-Power Towers.

## S+ Series validated

On 15 November 2021, we signed both a Sale and Development agreement and Warrant agreement with ABB E-mobility (ABB), Europe's leading supplier of Electric Vehicle (EV) charging infrastructure. Under the agreement we agreed to develop and supply a 200 kW liquid cooled system (S+ Series) to support EV charging in grid constrained environments. Shortly after signing, ABB made a £2.0 million non-refundable payment towards initial development costs, at which point the first tranche, of 3.4 million warrants, granted under the Warrant agreement vested..

Throughout 2022, substantial effort was placed into delivering on the first milestone, being 100 kW of fuel cell stacks for third party validation by ABB. This was duly delivered on schedule in October for independent validation, with operational field-testing taking place in Germany. Witnessed by ABB, the testing exceeded target performance with over 100 kW of cumulative power delivered from the stacks throughout the validation period – a significant Company milestone. These stacks will provide the basis of scaled liquid cooled systems deployment and revenue growth.

Just as important as the validation above, was the use of cutting-edge manufacturing to provide a pathway to being one of the lowest cost offerings amongst liquid cooled stacks in the market today. We share with ABB a strong focus on reducing the Total Cost of Ownership (TCO) and both look to the US Department of Energy guidelines as one of the suitable benchmarks for low cost fuel cell technology. Regular contact with ABB ensures that development stays on course in addition to highlighting new deployment opportunities, particularly for displacing diesel backup power.

We continue to see accelerated advancements in our fuel cell technology in a large part due to support from shareholders and partners such as ABB. We wish to acknowledge their support of our wider commercial outcomes. With the 200 kW liquid cooled power generator, we expect to be able to compete favourably in the fields of electric vehicle charging, in addition to temporary power applications. Importantly, the 200 kW S+ Series will also form the basis of future data centre and maritime deployments and so opens up multiple new market opportunities due to its high power density, small footprint and forecast profile to enhanced cost reduction.

## Extreme E

Following the success of the first season in 2021, we renewed the contract to deliver sustainable off-grid power to Extreme E's offroad, all electric racing championship in 2022. Season 2 saw deployments in Saudi Arabia, Italy, Chile and Uruguay over a wide range of climatic conditions. We delivered power to charge the fleet of electric SUVs at every race, exceeding the power generated for Season 1. By the end of Season 2 our system had travelled 48,000 miles across several continents much of it exposed to the high seas on board the St. Helena, the dedicated race logistics vessel.

After two successful seasons with Extreme E, and with a growing demand in time and resources, we made the decision not to proceed with the Championship in 2023. The data we've gained over the wide range of environments and climates and prospective customers we've met whilst showcasing our zero-emission technology have been invaluable and we wish Extreme E every success for its third season and beyond.

## Fuel conversion and AlkaMem

A key area of investment during the year has been in the field of fuel conversion, a new division within AFC Energy. Although only recently launched, we have witnessed an accelerated drive to release our new ammonia cracking technology platform which seeks to unlock the challenges of ammonia as a hydrogen fuel carrier across multiple AFC Energy target markets, including maritime. The rate of progress seen in designing, prototyping and building our first scale ammonia cracker reactors is driven by customer need and supports the saleability of our fuel cell systems with upstream fuel conversion technology. We have also taken possession of new ammonia crackers to facilitate parallel commissioning and validation and we look forward to seeing them in operation later this year.

Methanol reforming development activity has also been evidenced with the first of our new methanol Fuel Towers deployed in Spain alongside ACCIONA in late 2022, equally highlighting the potential for green methanol to play its role in supporting the decarbonisation of industry.

Work on the AlkaMem membrane technology continues in conjunction with industry experts in both fuel cell and electrolyser fields. The decision was taken during the year that with the short-term demand for products in the field and the necessary focus on the S and S+ Series, that the work on the AlkaMem platform would be decelerated on commercial grounds.

## Outlook

For 2023, we expect to see growing revenue from system rentals and hydrogen sales with an already contracted pipeline of deployments and growing pipeline of prospective rentals. This rental model is consistent with the incumbent diesel generator hire market and is one with which customers are familiar. The transition to our sales revenues exceeding rental revenues is expected to be led by sales to plant hire businesses with established market positions.

We see growing appetite for our S Series Generator in the construction sector with temporary power following closely behind. In addition, and consistent with our announced focus on electric vehicle charging in grid constrained environments and our Approval in Principle level certification from DNV, global advisors to the international maritime industry, we still see growing opportunities in these markets for our S+ Series Generator and expect to see more announcements during 2023.

We enter 2023 with a sense of optimism that, with a gradual decline in geopolitical and sector-based uncertainty, together with AFC Energy's continued delivery of its technical and commercial milestones, we will evidence the accelerating transition away from diesel towards new, clean solutions.

I wish to thank all our employees, shareholders and partners for their support and efforts in 2022 and eagerly await the successes expected throughout 2023.

**Adam Bond**
**Chief Executive**
**21 April 2023**

# Chief Financial Officer’s report

**Peter Dixon-Clarke**
**Chief Finance Officer**

The three themes that characterised the financial year ended 31 October 2022 were:

- First revenue recognised from H-Power Tower deployments
- Increased investment in product research and development
- Continued strong cash levels

## Revenue

Following its announcement in March 2022, AFC Energy deployed its first H-Power Tower, just five months later, to the Spanish construction group, ACCIONA, at one of its sites north of Cadiz.

The H-Power Tower is aimed at displacing diesel generators at off-grid sites, making it well suited to the construction sector. In total, H-Power Towers were deployed to three different construction customers during the year, collectively generating initial revenue of £41,000 from a combination of rental income and sales of the related hydrogen.

Outside of the H-Power Tower, the balance of revenue was generated from continued support of the Extreme E racing series, giving total revenue for the year of £0.6 million (2021: £0.6 million), which generated a gross profit of £0.1 million (2021: £0.0 million) and a net loss after tax of £16.4 million (2021: £9.4 million).

The £1.6 million of deferred revenue relates mainly to the ABB contract, where the £2.0 million initial payment, less the fair value of the warrants granted, will be earned as a discount to ABB over the sales of the first 10 units, up to pre-agreed value per unit.

## Product progress

The year saw increased investment in the engineering and operational capability required to manufacture and deploy the H-Power Tower to a growing number of customer validation sites. Based on the early stage in the product development lifecycle during the year (both in terms of economic and technical feasibility). We still expense all of our research and development expenditure to operating costs, which are further analysed below:

| **Qualifying R&D spend** | **£’m** |
|---|---|
| Payroll | 3.7 |
| Materials | 4.7 |
| Other employment & administration expenses | 0.6 |
| | **9.0** |
| **Non-qualifying** | |
| Payroll (inc. directors) | 2.9 |
| Other | 4.3 |
| Non-cash | 3.5 |
| | **10.8** |
| | **19.8** |

Within the £9.0 million (2021: £3.0 million) of qualifying R&D spend, the £3.7 million (2021: £2.0 million) payroll balance relates almost entirely to our Fuel Cell and Fuel Conversion departments, whilst materials of £4.7 million (2021: £1.0 million) includes both third party consultancy and tangible items.

Within non-qualifying expenditure, other items of £4.3 million (2021: £3.2 million) relate mainly to other employment costs of £0.8 million (2021: £1.2 million) and other administrative expenses of £2.4 million (2021: £1.8 million).

## Cash levels

A summary of the cash deployed in the year is set out in the table below:

| | £'m |
|---|---|
| Net loss before tax | (19.5) |
| Non-cash items | 4.1 |
| | **(15.4)** |
| R&D tax credits received | 0.5 |
| Working capital movement | 2.1 |
| | **(12.8)** |
| Investing activities | (2.6) |
| Financing activities | 0.2 |
| | **(15.2)** |
| Opening cash | 55.4 |
| Closing cash | 40.2 |

Cash movements relating to the income statement are discussed above. The working capital movement is primarily driven by the first £2.0 million ABB payment, of which £1.4 million was held as deferred income at the year end. Of the £2.6 million (2021: £1.9 million) of investing activities, £2.0 million related to leasehold improvements, primarily to the development and manufacturing facilities, £0.4 million related to fixtures, fittings and computers and the £0.3 million balance to intangible assets, mainly patent expenses.

Based on the above, the annual "cash burn" was £11.2 million (2021: £7.3 million). This is based on operating costs (Note 6) of £19.8 million less materials of £5.1 million and total non-cash items of £3.5 million and is an indication of the annual cash spend on fixed overheads. It equates to £0.9 million (2021: £0.6 million) per month.

## ABB E-mobility (ABB)

At the end of the year the Company had deferred revenue of £1.4 million in respect of the ABB Sale & Development Agreement. This comprised the £2.0 million received during the year, less the £0.6 million of fair value allocated to the Warrant Agreement signed on the same day as the Sale & Development Agreement.

Following the year end, on 28 March 2023, the Sale & Development Agreement was revised by both parties. Under the revised agreement, ABB will have a pre-agreed discount for a defined term to be spread over the purchases of the first ten eligible 200kW fuel cell systems, the first of which will be purchased under the revised contract, with the subsequent nine at ABB's option.

The £2.0 million balance, from the £4.0 million under the original contract, will be used for the purchase of issued shares in AFC Energy. This balance was received on 5 April 2023 and the shares issued and admitted for trading shortly thereafter. The cash value of the original contract therefore remains unchanged at £4.0 million.

## Outlook

2023 has already seen continued, and growing, deployments of the H-Power Tower. This has continued to be on a rental basis, the best model for new market entry, with rentals expected to convert to hardware sales in due course.

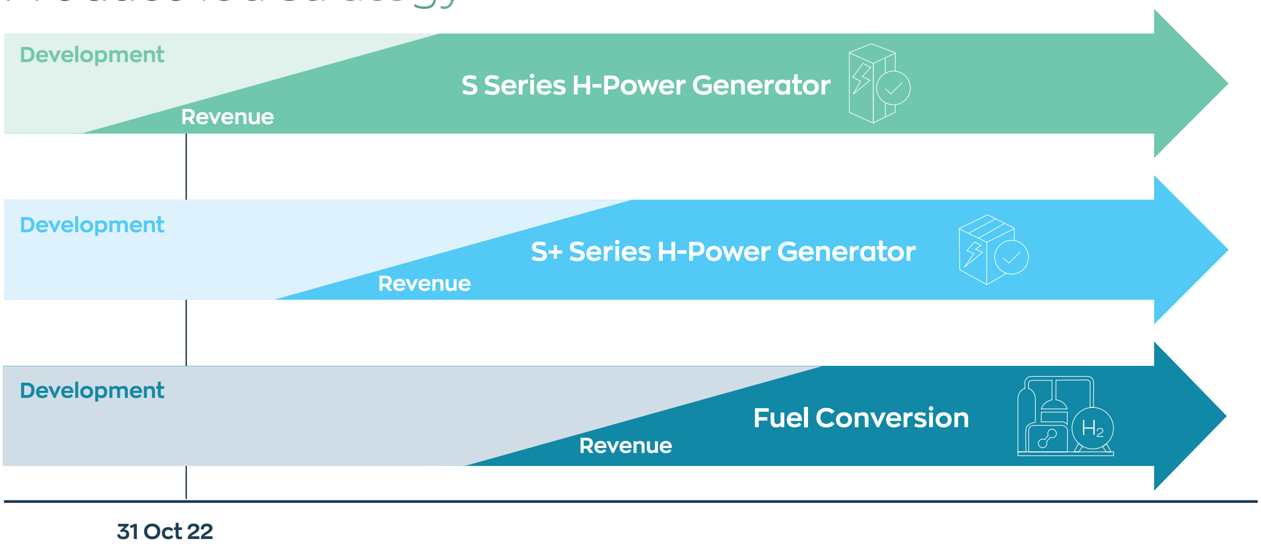
**Peter Dixon-Clarke**
**Chief Finance Officer**
**21 April 2023**

# Our strategy and business model

Our strategy is built around replacing diesel powered generation. We do this through investing in our three key product offerings over the development cycle from research to revenue.

With our S Series air cooled fuel cell already generating revenue, our ongoing strategy is to grow that revenue stream whilst developing the S+ Series liquid cooled and Fuel conversion product offerings to the revenue stage over the near-term and medium-term.

## Product-led strategy




Early stage S Series air cooled systems, such as the H-Power Towers, are focused on short term system rentals consistent with the current diesel generator market. The rental model is well understood by customers and allows AFC Energy to procure, for a handling fee, hydrogen fuel alongside weekly customer rental fees. With initial H-Power Towers reflecting "first of a kind" capital costings, we have limited the number of systems available for deployment until the next round of value engineering and sizeable cost reductions are scheduled for later this year. AFC Energy is engaging with plant hire businesses who are interested in collaboration during 2023, creating critical mass for future system manufacturing and scale up. Annuity revenue opportunities exist for fuel cell maintenance and stack re-cores at the end of their useful lives.

The S+ Series fuel cell generator, currently being developed in collaboration with ABB, is expected to commence field trials (at 200 kW output) later this year. These higher power systems are expected to see a combination of early rental models adopted for temporary power, EV charging or construction market applications, but are equally expected to see longer term system sales into maritime and data centre customers for which this technology is well suited.

The business model related to adoption of fuel conversion technologies, including ammonia crackers and methanol reformers will vary greatly relative to their end use. Shipping applications, for example, will most likely see ammonia crackers sold and permanently mounted to vessels and so sales and after-market support is considered to be the likely preferred business model in this scenario. However, smaller methanol towers deployed on construction sites are more likely to follow the rental model initially, followed by systems sales similar to the S Series Generators above.

# Key performance indicators

Progress is measured and managed by tracking four areas of Key Performance Indicators (KPIs)

| | |
|---|---|
| **Commercial**<br>generating revenue through commercial contracts with customers | **Financial**<br>control cash burn |
| **Scale up**<br>managing headcount growth to increase team skills and experience | **Employee wellbeing**<br>health and safety performance |

| | Year ended 31-Oct-22 | Year ended 31-Oct-21 |
|---|---|---|
| **Commercial** | | |
| Revenue (£000s) | 582 | 592 |
| Deferred revenue (£000s) | 1,600 | 214 |
| | **2,182** | **806** |
| Number of active customers | 7 | 1 |
| **Financial (£000s)** | | |
| Operating loss | 19,612 | 10,409 |
| Liquidity (Unrestricted cash and cash equivalents) | 40,220 | 55,375 |
| Cash absorbed by operating and investing activities | 14,760 | 10,687 |
| **Scale up (headcount)** | | |
| Support, operations and technical employees | 109 | 36 |
| Directors | 6 | 6 |
| **Health and safety** | | |
| On-site hours | 152,453 | 78,508 |
| Near miss* | 10 | 2 |
| Lost Time Injuries (LTI) | 0 | 1 |

* An increase in near misses reflects the additional reporting taking place since we put more focus on engaging our employees to report near misses, our injuries per on-site hours figure has declined over the same period.

# Technology products

## Power generation

### H-Power Tower S Series

The S Series air cooled 10 kW H-Power Tower has proven itself through multiple commercial deployments.

### H-Power Generator S Series

Through our customer-guided product development process, we have improved on the H-Power Tower.  The new modular diesel generator replacement, with a  scalable power output range of 10 to 50 kW, will be deployed in the field during 2023.

### H-Power Generator S+ Series

The 200 kW high power density S+ series supported by liquid cooling, can deliver multi-megawatt power output over multiple units. This unit will be operational for the first time in 2023.

## Fuel conversion

### Fuel Tower – methanol reformer

Technology to convert methanol to hydrogen on-site. Field-tested in 2022 when coupled to H-Power Tower for a methanol to power solution.


### Ammonia cracker

New technology platform launched in March 2023. The AFC Energy proprietary technology, has potential to unlock ammonia as a clean fuel to support the decarbonisaton of hard-to-abate sectors.

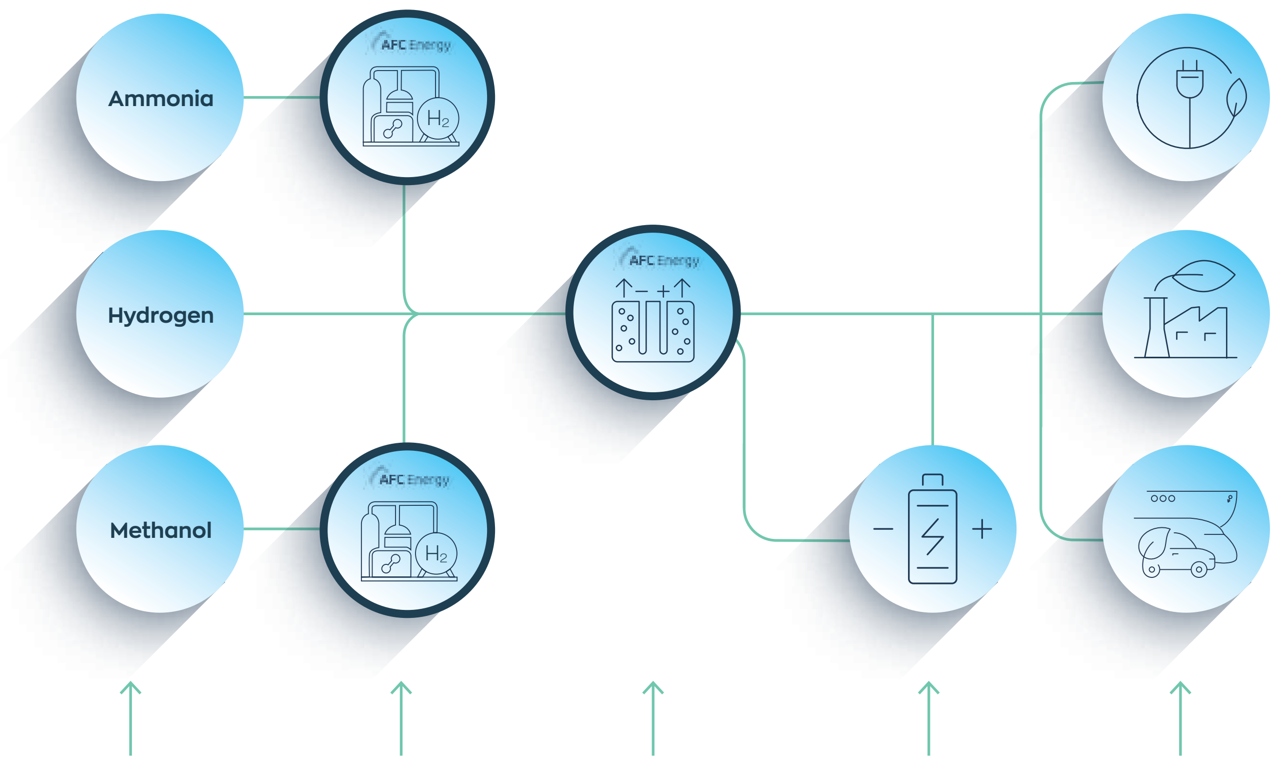
# Market opportunity

## Our place in the market

We believe our capability gives us an edge for today's and tomorrow's marketplace. Our combination of design, engineering, solutions and technology expertise, puts AFC Energy in a strong position to grow its business.

- **Design and engineering –** developing technology from cradle to grave
- **Turn-key end-to-end solutions –** developing comprehensive customer solutions
- **Technology IP and know how –** Intellectual property and technology understanding
- **Integration –** uniquely placed to provide solutions using fuel conversion and fuel cell technology

## Our product development is focused on the following highlighted parts of the hydrogen value chain




**1 | Fuel**

Supply, delivery and on-site storage.

**2 | Fuel conversion**

Methanol reformer and/or ammonia cracker converts carrier fuel into hydrogen, which is then purified, compressed and stored.

**3 | Fuel cell**

Hydrogen used to generate power where and when it's needed.

**4 | Battery storage**

Power stored if required to manage peak demand.

**5 | Power demand for application**

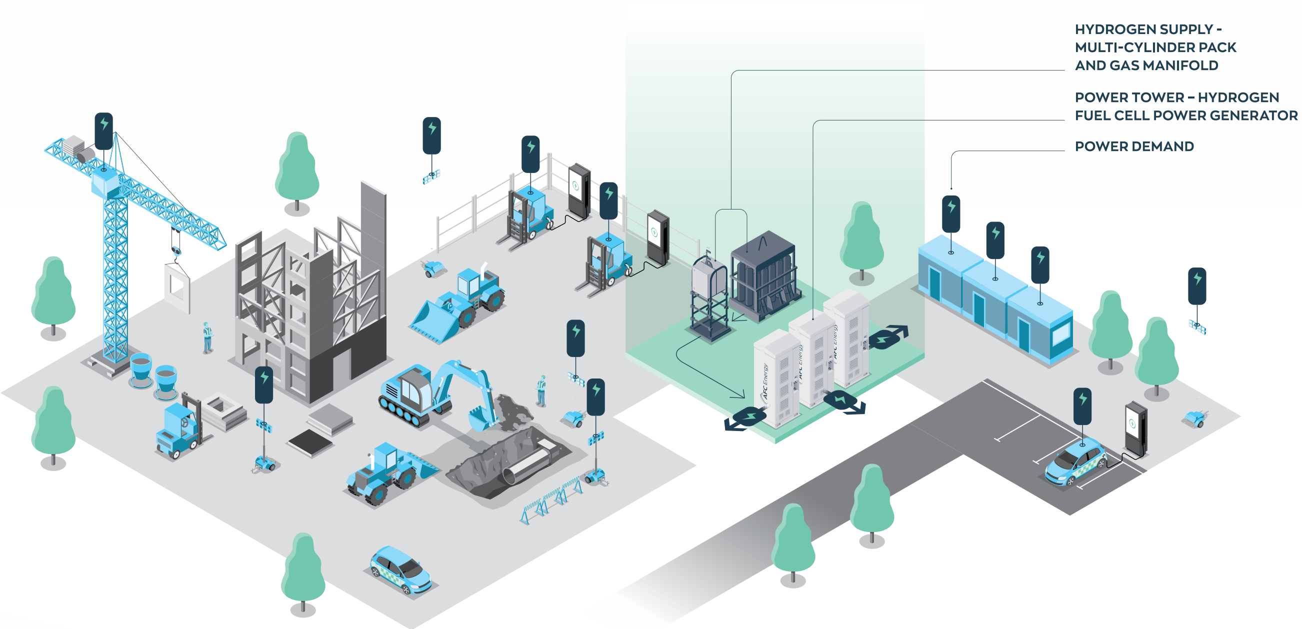
Powering stationary on-site equipment and facilities, or mobile applications in electric vehicles, rail and shipping.

# The growing market for fuel cell technology

Organisations who operate in off-grid or constrained-grid environments are looking for alternatives to fossil fuel power. Today diesel generators remain in widespread use, our focus is to replace them with zero emission fuel cells. Construction, temporary power and EV charging market applications are here today. Future markets include, data centres and maritime.

## The future of construction

ZERO
EMISSION
HYDROGEN
POWER



# Today's market opportunity


## Construction

### Market opportunity

- The major construction firms have announced their intent to reach Net Zero by 2040 or before
- 13%[1] of global carbon emmissions are from building materials and construction
- Diesel generators are in widespread use today on construction sites
- Reduction of air pollutant emissions is a growing priority particularly in urban sites
- The sector sees hydrogen fuel cells as a way to replace diesel generators to reduce $CO_2$ and air pollutants
- Sustainable construction is a growing criteria in bid-winning procurement processes
- The industry body, Construction Leadership Council set sector-wide targets to cut diesel use by 78% by 2035
- Rising cost of diesel and the recent ban on Russian imports

### AFC Energy opportunity

- Our proven track-record of successful deployments
- Existing working relationships within the sector
- Repeat order enquiries from several construction firms
- Modular and scalable power solutions in development

[1] Source: IEA 2022

## Electric vehicle charging

### Market opportunity

- It is forecast that global EV sales will grow to 35%[2] by 2040
- Power is needed to charge the rapid growth of EVs
- 15-25%[3] forecast saving potential for commercial fleet owners to switch to EVs
- Grid capacity threatens to slow down fleet electrification
- Fuel cells and battery storage are increasingly seen as alternatives to grid for rapid charging

### AFC Energy opportunity

- Tried and tested technology in remote locations and harsh conditions
- Proven capability in providing rapid EV charging
- Our modular and scalable solutions can grow as fleets grow
- We can help unlock the potential of hydrogen carrier fuels

[2] Source: Bloomberg NEF 2022
[3] Source: McKinsey and company Sept 22

## Tomorrow's market opportunity

For certain applications, such as in the maritime sector, the use of energy dense carrier fuels will help to lower the cost of storage and transportation of hydrogen. There is a clear market opportunity for technology to convert carrier fuels, such as ammonia, into hydrogen.

### Maritime

#### Market opportunity

- Hydrogen is a solution to decarbonise this hard-to-abate sector
- Ammonia seen as the leading carrier fuels for the maritime sector
- Lowers the cost of fuel transportation and storage
- The marine sector is targeting a 50%[4] reduction in greenhouse gas emissions by 2050
- Ammonia is expected to account for 45%[5] of the global shipping fuel needs

#### AFC Energy opportunity

- Demonstrated ammonia to hydrogen conversion
- Launch of our scalable proprietary ammonia cracker technology
- Modular flexible technology designed to be retrofitted or installed in new builds

[4] Source: International Maritime Organisation
[5] Source: International Energy Agency

### Data centres

#### Market opportunity

- Data centres and networks power requirement is growing
- Microsoft are quoted of saying 'We are eliminating diesel backup generators'
- Fuel cells have potential to provide zero emission back up for data centres

#### AFC Energy opportunity

- New S+ Series high power output technology
- Unlocking the potential of cost effective hydrogen carrier fuels
- Scalable modular flexible technology design

# Product deployment

| | |
|---|---|
| **Customer** | ACCIONA |
| **Sector** | Construction |
| **Type** | Commercial deployment |
| **Location** | Cadiz, Spain |
| **End customer** | Government of Spain |
| **Technology** | S Series fuel cell & methanol reformer |
| **Deployed** | H Power Tower & Fuel Tower |
| **Replacing** | Diesel |
| **Powering** | Site operations |
| **Fuel** | Hydrogen & Methanol |

"ACCIONA aims to be at the forefront of the construction industry's transition to a net zero future. As part of those efforts to decarbonise our business activities, we have been running a field trial of an AFC Energy's H-Power Tower fuel cell in one of our construction sites in Spain. One of the challenges for the construction industry is the transportation to and storage of hydrogen on site. The methanol Fuel Tower will help enable us to overcome those challenges and fully utilise the potential for this technology across all of our construction sites."

**Miguel Paris Torres, Head of ACCIONA's R&D centre**

ACCIONA (Left to right:)
Miguel Paris Torres - Head of ACCIONA'S Construction R&D Centre
Mike Rendall - AFC Energy's Chief Engineer & Product Officer
David Harvey - AFC Energy's Chief Technology Officer

| | |
|---|---|
| **Customer** | ABB |
| **Sector** | E-mobility |
| **Type** | Development partnership |
| **Technology** | S+ Series fuel cell |
| **Developed** | H-Power generator & ammonia cracker |
| **Power** | 200 kW (100 kW initial milestone) |
| **Fuel** | Hydrogen |


"With the accelerating transition to electric vehicles there is an increasingly urgent need for additional fast charging capability and particularly in cost effective areas that are not grid connected or where the grid is constrained. We believe AFC Energy's hydrogen fuel cell system to be an important part of our solution to make EVs accessible to everyone."

**Frank Muehlon,**
**President of ABB's**
**E-mobility Division**

| | |
|---|---|
| **Customer** | Keltbray |
| **Sector** | Construction |
| **Type** | Commercial deployment |
| **Location** | Leeds, UK |
| **End customer** | National Highways |
| **Technology** | S Series fuel cell |
| **Deployed** | H Power Tower generator |
| **Replacing** | Grid |
| **Powering** | Charging EVs |
| **Fuel** | Hydrogen |

"We're pleased to be collaborating with AFC Energy, this is an important step forward in our journey towards a Net Zero future. Keltbray strives to make a positive contribution to the planet and this partnership allows us to further accelerate the sector's transition to a more sustainable world."

**Kiro Tamer,**
**Head of Environmental Sustainability, Keltbray**

mace
DRAGADOS

| | |
|---|---|
| **Customer** | Mace/Dragados joint venture |
| **Sector** | Construction |
| **Type** | Commercial deployment |
| **Location** | Euston, London |
| **End customer** | HS2 rail project |
| **Technology** | S Series fuel cell |
| **Deployed** | H Power Tower generator |
| **Replacing** | Diesel |
| **Powering** | Charging site equipment |
| **Fuel** | Hydrogen |

"HS2 is championing the use of environmentally friendly energy solutions across the project, and this is another great example of just that. A major step forward for the wider construction sector."

**Andrea Davidson,**
**Head of Environmental Sciences at HS2**


"Our trialling of AFC Energy's fuel cell generators at our Euston station site this year, is making clear our commitment to supporting HS2 with its aspiration to help drive a low carbon future in the UK."

**Ben Wheeldon,**
**Programme Director for Mace Dragados Joint Venture**

KIER

| | |
|---|---|
| **Customer** | Kier |
| **Sector** | Construction |
| **Type** | Commercial deployment |
| **Location** | Southampton, UK |
| **End customer** | Southampton Council |
| **Technology** | S Series fuel cell |
| **Deployed** | H Power Tower generator |
| **Replacing** | Grid |
| **Powering** | Charging EVs |
| **Fuel** | Green hydrogen |

"This deployment further demonstrates our commitment to sustainability and finding innovative solutions that will reduce our carbon footprint and help our clients and customers deliver against their targets too."

**Chris Lilley,**
**Health, Safety, Wellbeing and Sustainability Director at Kier Group**

| | |
|---|---|
| **Customer** | Extreme E |
| **Sector** | Motor racing |
| **Type** | Commercial deployment |
| **Location** | UK, Saudi Arabia, Sardinia, Chile, Uruguay |
| **End customer** | Extreme E racers |
| **Technology** | L Series fuel cell |
| **Deployed** | L Series generator |
| **Replacing** | Diesel |
| **Powering** | Charging EVs |
| **Fuel** | Hydrogen |

"Working with AFC Energy has enabled Extreme E to be the world's first sporting event to use zero emission power generators. From the outset, our vision of using battery powered race cars could only be truly fulfilled if we could charge them in a completely sustainable way. AFC Energy has enabled us to do that, and we are delighted to be using their technology again for the 2022 season."

**Alejandro Agag,**
**Extreme E**
**Championship CEO**


The Strategic Report on pages 8 to 29 has been approved by the directors and signed on their behalf by

**Adam Bond**
**21 April 2023**

# ESG Report


ERO
$CO_2$
AFC H2

# ESG Committee report

"Sustainability proudly sits at the heart of our business and products, and whilst there's plenty more to do, we are making good progress."

At AFC Energy we want to improve our world by providing affordable, flexible and clean energy. It's a purpose we're passionate about along with our customers and investors.

We are proud and active players in the energy transition. The Hydrogen Council predicts that hydrogen will account for up to 20% of the decarbonisation required to reach net zero.  So, there's a bright future for hydrogen, and our fuel cells and carrier fuel conversion are proving to be a viable alternative to diesel generators. The shift from diesel to hydrogen has huge potential to reduce greenhouse gas emissions and air pollution.

We don't see investing into ESG as a "separate, nice to have", we believe it is an essential and integrated part of our business that makes good business sense and it is what our customers, investors, suppliers, communities and employees expect. This is why we are putting sustainability at the heart of our purpose, strategy,  product and values.

Monika Biddulph
**ESG board sponsor and Non-Executive Director of AFC Energy**

# Why ESG is so important for us

Whilst we see the principles and practices of ESG as simply the right thing to do, we also see it as good for business.

## Environmental

Environment is, unsurprisingly, top of the agenda for a business like ours in the Energy Transition and hydrogen sector. It is a key reason we are able to attract such great talent, customer interest and investor support. We are working at finding ways to reduce our direct and indirect emissions, whilst helping our customers reduce their impact.

## Social

Being socially responsible is important to us as individuals and for the business as a whole. Doing the right thing for our employees and our customers supports our ability to attract and retain them. We want everyone who works for AFC Energy to be engaged, motivated and feel part of our business.

## Governance

Good governance means good business. Ensuring our business operates responsibly and we deliver on our promises is key to our long-term success. As the business grows we are putting in place new governance processes across purchasing, financial and people areas. We are using the data from stakeholder feedback and our carbon survey to help define our ESG priorities and KPIs.

# How we approach ESG

We have in place organisational structures to lead ESG across the business.

## Board sponsor

Monika Biddulph is the board sponsor and board representative on the ESG Committee.

## ESG Committee

The 12-strong team meets monthly to champion ESG internally, coordinate plans, drive actions and report on progress to the Board and the wider company.

## ESG sub-committees

Three sub-committees are set up to drive progress in

- Environmental
- Social and employee wellbeing
- Diversity and inclusion

## Specialist support

Health and safety, Human Resources, Finance, Procurement, Facilities and Marketing are all represented in the ESG Committee.

## Baseline and target setting

The pre-requisite of setting good targets is to have a good baseline. We are pleased to provide detail on our first carbon footprint report. We worked with independent experts who developed the thorough report. It will form the basis of action planning led by the ESG Committee, and will be used to set targets and report progress in future annual reports.

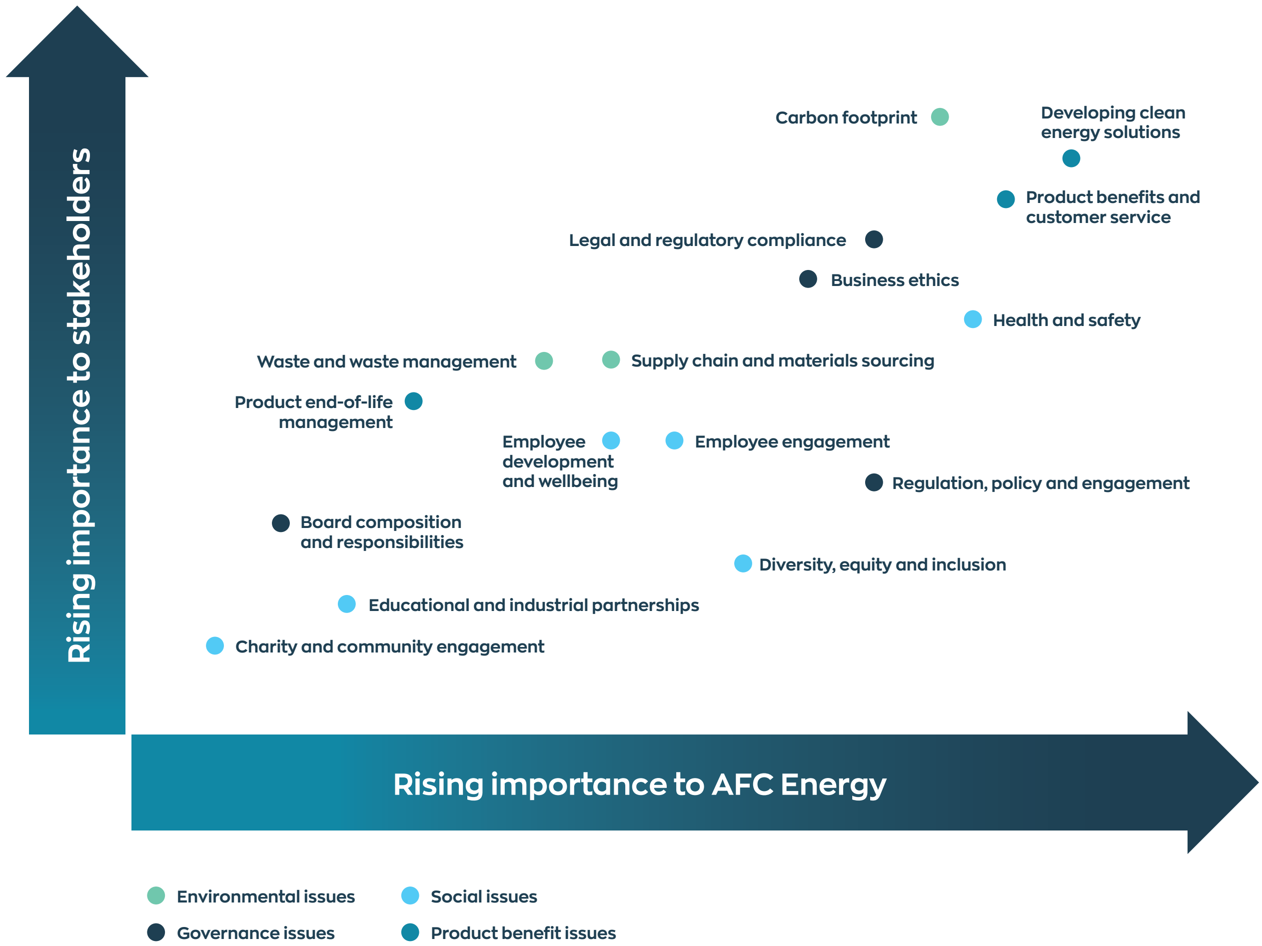
# ESG materiality matrix

## ESG materiality assessment

As we grow and evolve our business, we recognise the need to ensure that our activities are meeting the needs and expectations of our stakeholders. To support this, during the year we commissioned a third-party agency to conduct our first ESG materiality assessment. The aim is to help us to identify and prioritise the ESG issues that are most relevant and material for the business and our stakeholders.

This process followed a robust and recognised approach. It involved initial desk research incorporating a variety of sources, including internal documents, peer and industry sources and external frameworks coupled with internal stakeholder interviews to identify the most material issues for the business. To assess our stakeholders' views on the materiality of these issues, we engaged with our employees, customers and investors using a combination of qualitative and quantitative methods, including interviews and surveys.

Using the insights gained, we created a materiality matrix which can be seen below. This matrix provides the foundation to develop a strategy for sustainability, focusing on those issues where we can have the greatest impact, with our commitment to Health and Safety to the fore.



# How we support the UN sustainability goals

**GOOD HEALTH AND WELL-BEING**

Air pollution remains a significant health issue in many cities across the world, particularly amongst the young or vulnerable. The replacement of diesel generators with hydrogen fuel cells such as ours which produce no air pollutants is a positive contributor to improved health.

**AFFORDABLE AND CLEAN ENERGY**

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

**DECENT WORK AND ECONOMIC GROWTH**

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

**INDUSTRY, INNOVATION AND INFRASTRUCTURE**

We partner with industry to support the decarbonisation of hard-to-abate sectors such as maritime, construction, rail and data centres. For example our strategic partnership with ABB, where we are innovating fuel cell technology for EV charging and data centres.

**CLIMATE ACTION**

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

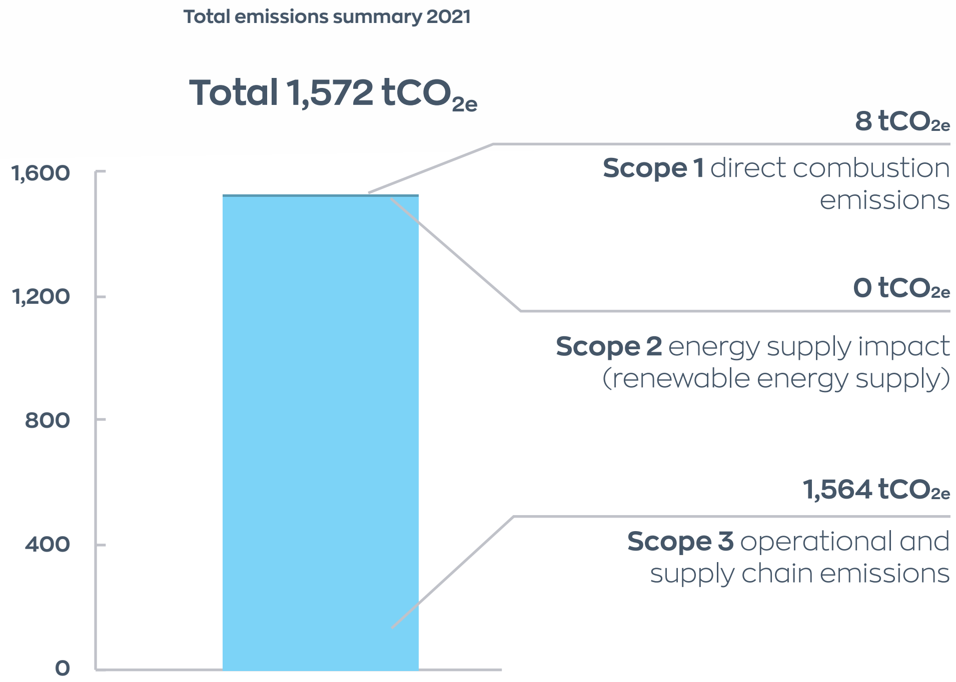
**PARTNERSHIPS FOR THE GOALS**

2022 was the second year of us providing clean power for the international Extreme E racing community touring the world in remote locations to highlight the impact of climate change. The power, generated by our on-site hydrogen fuel cell, charged the Extreme E racing cars. Our partnership with Extreme E is a glimpse into the future of off-grid power generation.

# Environmental

We made progress on our environmental strategy in 2022. We measured our carbon impact for FY 2021 and are in the process of completing the 2022 carbon footprint report. We continue to be supplied by renewable electricity to our premises, mobilised our Environmental ESG sub-committee, reduced emissions through our customer fuel cell deployments, identified the most material ESG issues to the business and canvassed opinion amongst our stakeholders.

## 2021 carbon footprint report highlights




Our total carbon impact between Nov 2020 and October 2021 was 1,572 $tCO_{2e}$.

Based on an average of 32 full-time employees it was 4.70 $tCO_{2e}$ per employee.

0.5% of total emissions were scope 1.

This is associated with the purchasing of metal and other raw materials to support our technology production process.

We will measure and report our carbon emissions each year, and set ourselves targets to improve on the 4.70 $tCO_{2e}$ per employee.

## Scope 1 Direct combustion emissions

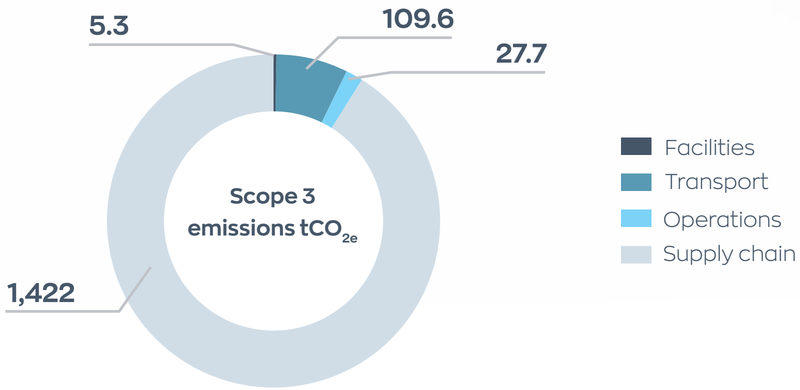
Direct combustion emissions from site facilities and company transport of 8.32 $tCO_{2e}$

## Scope 2 Renewable energy supply

Electricity supplied is delivered under a 100% renewable tariff. The power used was 175,943 kWh in 2021, and as it is renewable electricity supplied, this is reported as zero $tCO_{2e}$.

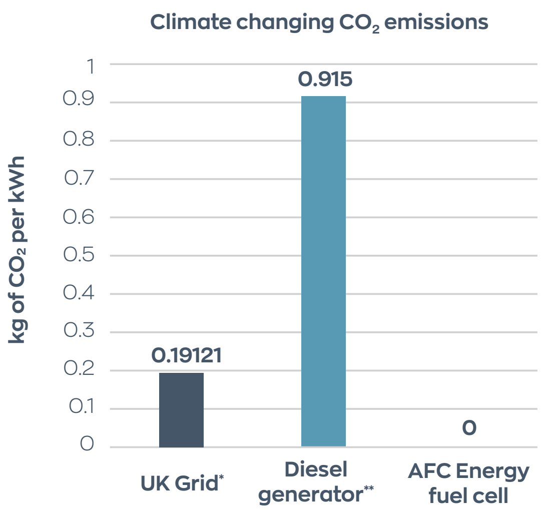
## Scope 3 Operational and supply chain emissions

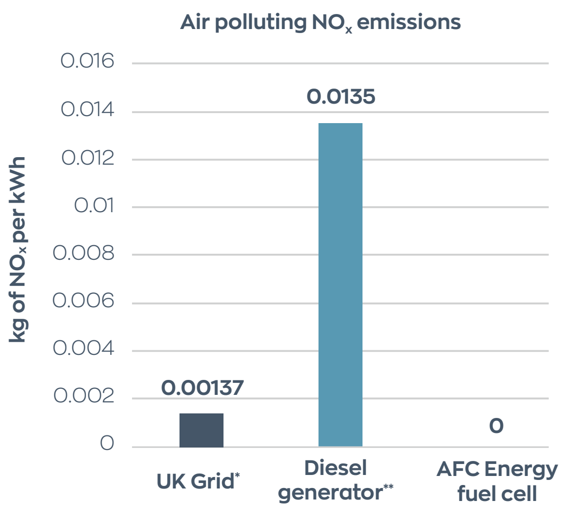
Scope 3 operational emissions of 142 $tCO_{2e}$ and supply chain emissions of 1,422 $tCO_{2e}$ mostly made up of iron-based materials used in the production of our technologies.




## Scope 4 Diesel generator replacement for customers

The fuel cell deployments in 2022 replaced the use of fossil fuel-based power generation. The carbon savings from these field deployments go towards our customer's ESG reporting. The charts below quantify, per kWh power generated, the reduction of $CO_2$ and $NO_x$ when making the switch from grid or diesel generators to fuel cells.




*UK Government greenhouse gas conversion factors for company reporting 2022

**typical 10 kW diesel generator with average biofuel blend

# Social

2022 saw the Company grow significantly. We made progress on our social strategy, on-boarded 80 new starters, improved our health and safety processes, engaged our workforce in shaping the future of the business including the development of our company values, and refurbished our offices improving our work environment.

## Health and safety

### Our foundation

We take our health and safety responsibilities very seriously, it's the foundation of our culture. We provide and maintain a safe and healthy work environment for our employees, subcontractors and other people involved in our operations. Our existing Health & Safety Policy demonstrates our commitment to the prevention of injury and ill health in accordance with the Health & Safety at Work Act (1974) and its associated regulations. We are working towards a Health & Safety Management System (in accordance with ISO 45001: 2018). In 2023 we will introduce new software for every employee in order to better monitor, manage and report health and safety performance.

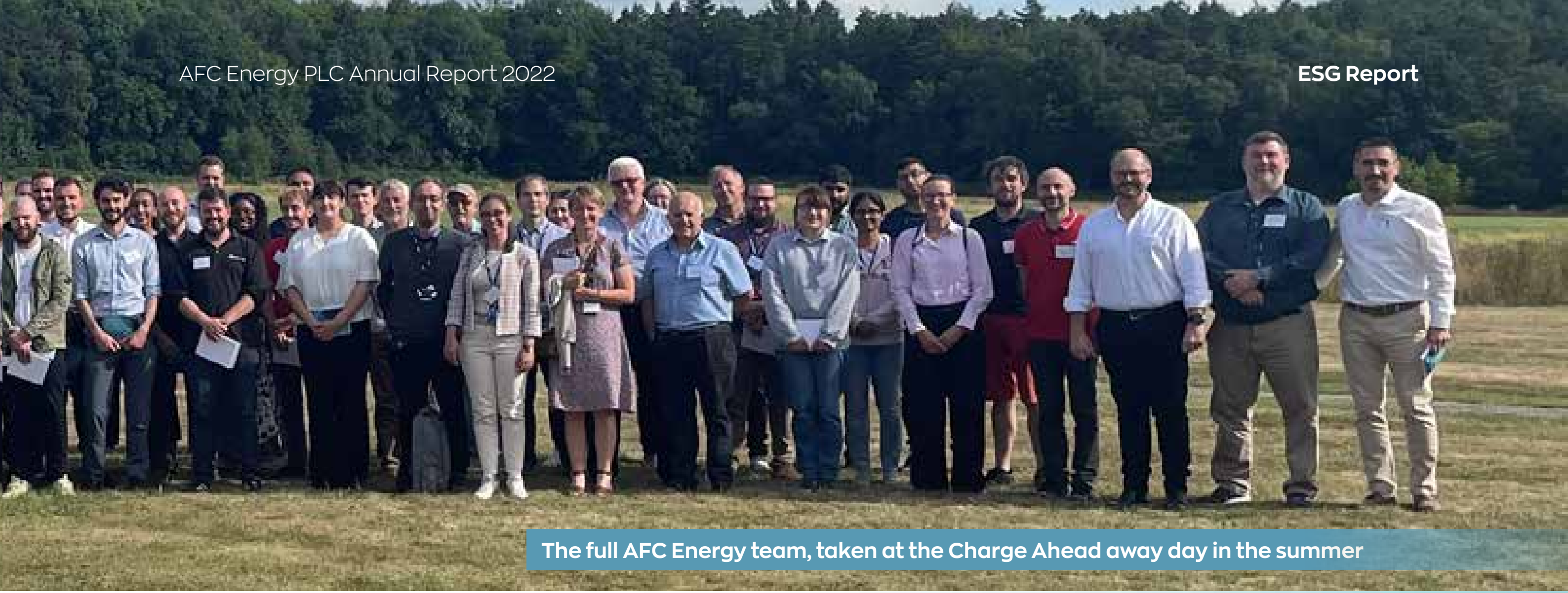
### Training

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

In addition face-to-face health & safety training is provided in-house and through third party specialists. These include NEBOSH HSE Award in Managing Risks and Risk Assessments at Work and COSHH Practical Assessment & Control training provided by the Health and Safety Executive in 2022.

| Health and safety | 2022 | 2021 |
|---|---|---|
| On-site hours | 152,453 | 78,508 |
| Near miss* | 10 | 2 |
| Lost Time Injuries (LTI) | 0 | 1 |
| LTI per on-site hours | 0 | 0.000013 |

* An increase in near misses reflects the additional reporting taking place since we put more focus on engaging our employees to report near misses. Our injuries per on-site hours has declined over the same period.



The full AFC Energy team, taken at the Charge Ahead away day in the summer

# Strengthening the team

## Employee development

We set direction and purpose for employees through the articulation of our strategy, support from line managers and defined job descriptions.

We support employees with their personal development through inductions, training opportunities and professional development. We continue our long-established practice of working with education establishments to promote clean energy as a key career option.

## Charity

In March 2022 we donated to the Ukraine appeal. Motivated by the plight of the Ukrainians, we collected generous donations of money and everyday items from employees and partners. We used the money to buy much needed first-aid kits, baby supplies and warm clothing. We are grateful to the Polish Community Centre in Balham for arranging delivery to Kyiv via Poland.

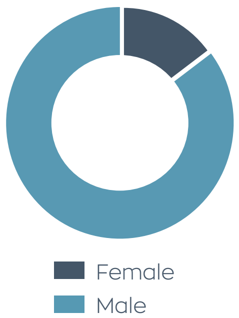
## Diversity and inclusion

As an organisation we believe in attracting and retaining the best talent and that should be merited solely on people's ability to do the job. Having a diverse workforce allows for unique perspectives and promotes innovation. We actively seek to recruit diverse talent and our workforce has a wide range of technical and professional disciplines. Our diversity is our strength, and we are committed to building on this.

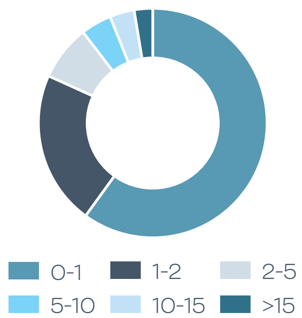
## Working environment

We completed the expansion and refurbishment of our office space this year, to provide a high quality work environment for our growing workforce, including EV charging points for our employees and visitors with electric vehicles.

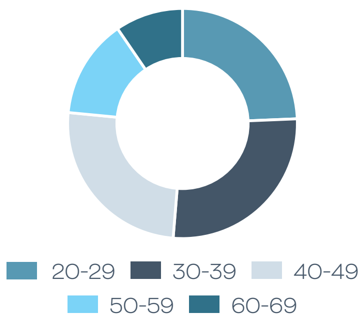
### Gender




### Years of service




### Employee age



# Employee engagement

We strive to provide an engaging and supportive environment for our employees to work at their best. We hold regular "town hall" and team meetings to update on company progress and, of course, to celebrate our successes.

In summer 2022 we had an all-company off-site, where we came together as a 100-strong team for the first time. We discussed and agreed the priorities for the next few years, covering both what we need to do and how we will do it. At the event we developed and refined our shared purpose and values, shown below. We called the initiative Charge Ahead, and we will continue to embed these principles across the business in 2023.

## Our purpose

To improve our world with affordable flexible clean energy.

## Our values

We developed our values by asking two questions, what are we like at our best today and what is important for future success? It was important to us that the values reflected our current culture, whilst also supported our ambition for the future. During 2023 we will continue to embed our values throughout the business.

### Responsibility
We take care of our people and our planet

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

### Innovation
We are pioneering disruptive solutions to decarbonise the future

### Accountability
We're committed owners of structured plans and outcomes

### Collaboration
We diligently deliver by working together towards shared goals

# Governance

We made progress on our ESG Governance in 2022 through improvements in the way we work. We reviewed our purpose and values, delivered our PLC requirements, managed our risks, adhered to our growing list of policies, and made improvements to our operational, financial and procurement processes.

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

- We continue to deliver our strategy and business model, promoting long-term value creation for all our shareholders.
- We continue to seek to understand and meet shareholders needs and expectations, delivering our requirements under Section 172 of the Companies Act.
- We consider wider stakeholder and social responsibilities and their implications for long-term success, reflected by the adoption of this ESG & Sustainability Policy.
- Risk management continues to be effectively embedded throughout the business, overseen by the Audit and Risk Committee.
- The Board maintain 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 ensure that Directors have the necessary and up-to-date experience, skills and capabilities required to effectively discharge their functions.
- Board performance is subject to external annual review to drive continuous improvement in its operation.
- We continue to promote a zero-tolerance approach to bribery and corruption.
- We maintain governance structures and processes that are fit for purpose and support good decision-making throughout the Company.
- We provide 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.
- We maintain a number of policies that are communicated and upheld.
  - Anti corruption policy
  - Health and safety policy
  - Information technology policy
  - Drugs and alcohol policy
  - Business travel and expense policy
  - Environment policy
  - Sustainability policy statement
  - Employee privacy policy
  - Slavery and human trafficking statement
  - Privacy and cookie policies
  - Code of ethics
  - Diversity and inclusion policy

# ESG commitments

## 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 is actively working towards.

### Environmental

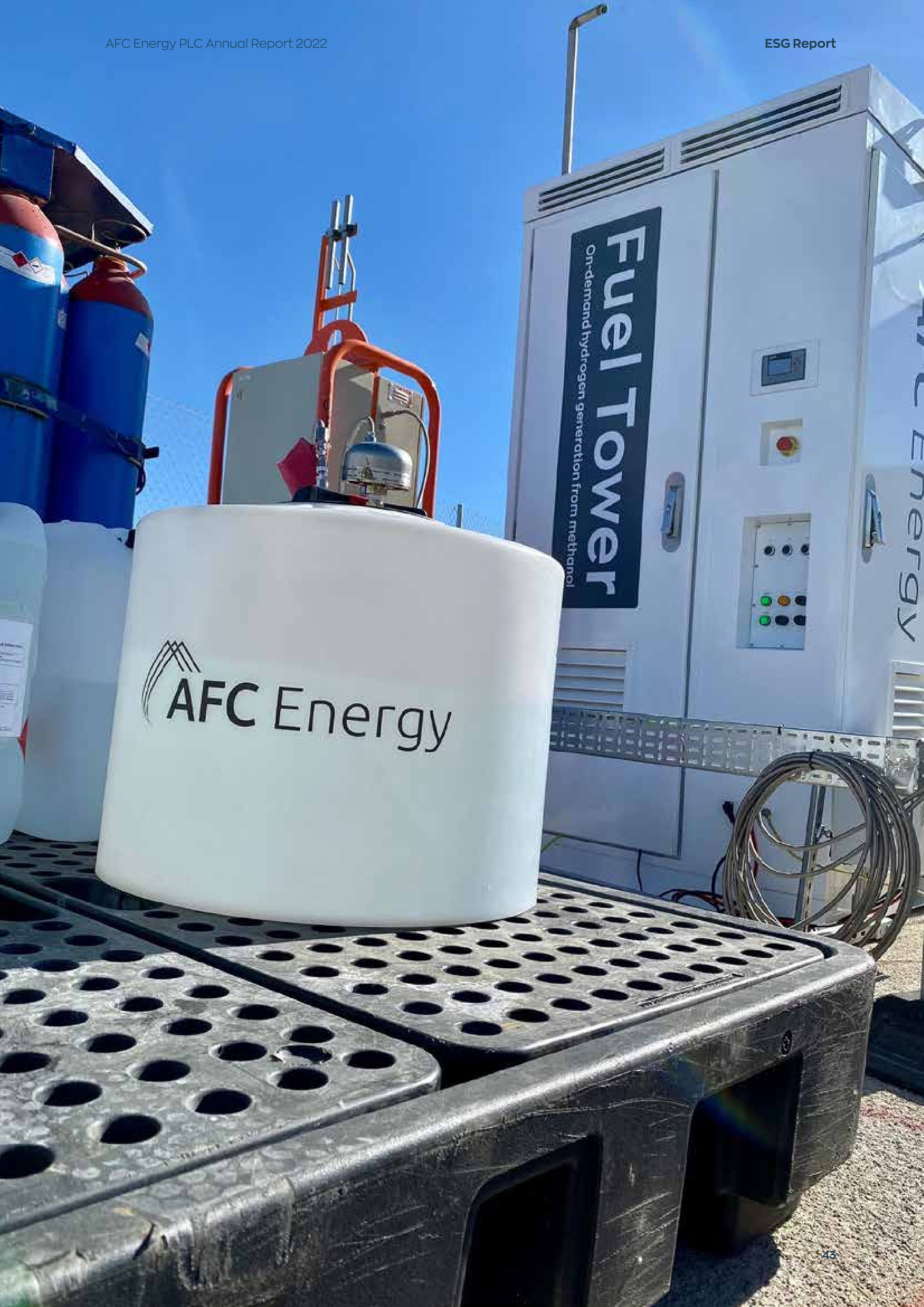
- Development of zero-emission fuel cell generators at point of use
- Ability of systems to use multiple sources of fuel to accelerate deployment to support decarbonisation
- Annual measurement and reporting of our carbon footprint
- Materials sourcing & efficiency, linked to effective supply chain and procurement management

### Social

- Embedding effective health & safety practices in system build and use
- Embedding effective health & safety practices for employees
- Supporting employees with their personal development
- Clear diversity & inclusion practices
- Introduction of HR software
- Commitment to help the communities we live in

### Governance

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


Fuel Tower
On-demand hydrogen generation from methanol
AFC Energy

# Governance Report


EMERGENCY

# Risk management

The Company's business exposes it to a broad range of risks. AFC Energy's approach to managing these risks has been to create a system of internal controls. This system looks to manage, rather than eliminate, risk and, whilst the Company has an Audit & Risk Committee, it is seen as the responsibility of the entire Board.

| **Commercial risk** | Detail | Likelihood | Impact | Trend | Mitigation |
|---|---|---|---|---|---|
| The S and S+ Series fuel cell is at an early stage of commercialisation and so may not initially perform to customer expectations and may take time to gain traction in new markets. | The product has two platforms, being liquid cooled and air cooled. Of these, the latter was launched in March 2022 and first deployed in August that year. | High | High | ▲ | Strict quality control procedures during manufacturing and acceptance tests prior to shipping combined with readily available on-site support.<br><br>Working with strategic partners will help in penetrating new markets, particularly where those partners already have a presence. |
| Most development and commercialisation workstreams are undertaken in conjunction with, and are reliant upon, strategic partners. | Existing strategic partners include ABB, on the liquid-cooled platform, and ACCIONA, on the air-cooled platform. Additional partnership discussions are in progress, some of which have been announced. | High | High | ▲ | Extensive and continued due diligence to confirm financial, technical and commercial competence and alignment.<br><br>Pursuit of multiple partnerships, to mitigate negative impact of any single relationship. |
| High system costs may reduce competitiveness compared to other fuel cell systems. | The Company does not yet manufacture at the scale required to generate material costs savings from operational and purchasing efficiencies. | High | High | ▶ | A proactive value engineering process with a clear product roadmap. |
| Competitiveness compared to non-hydrogen solutions is heavily dependent on the commodity price and handling costs of hydrogen. | Customers' buying decisions will be driven by the total cost of ownership, being both upfront capital expenditure and ongoing operational expenditure (which will include the inputs costs of the fuel). | High | High | ▼ | Increasing levels of global investment in the hydrogen supply chain, particularly in the area of green hydrogen.<br><br>Pursuit of an integrated fuelling strategy covering both direct hydrogen and hydrogen from ammonia. |
| **Technology risk** | Detail | Likelihood | Impact | Trend | Mitigation |
| Ongoing development requires ready access to test equipment and facilities. | Increased activity in the hydrogen space means that the timely access to suitable test equipment cannot be guaranteed and so may lead to delays in product development. | High | High | ▲ | The Company has good relations with existing suppliers, both in the UK and Europe. It is also exploring an opportunity to lease its own facility. |
| The growing levels of customers; employee turnover and strategic partnerships increase the risk of "leakage" of intellectual property and/or "know how". | H-Power Towers have been deployed in the field at a growing number of customers since August 2022 and average employee headcount grew during the 2022 financial year from 42 - 84. | Medium | Medium | ▲ | Through the use of specialist advisers, internal controls, and employee briefings we capture, protect and exploit internally generated IP.<br><br>Partner agreements contain non-disclosure and IP protection provisions.<br><br>The Company does not sell into markets where there is a high risk of "reverse engineering". |

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

| Corporate risk | Detail | Likelihood | Impact | Trend | Mitigation |
|---|---|---|---|---|---|
| The Company does not yet generate positive cash flow. | The Company is at a relatively early stage of commercialisation and so does not yet generate the product margins required to support all its costs. It is therefore likely to require additional funding in the medium to longer term. | High | High | ▶ | Continued sales growth and product development will drive down manufacturing costs per unit and therefore improve product margin. |
| Failure to meet shareholder expectations | Material fundraisings in recent years have increased expectations and poor performance could deter potential investors from buying or existing investors from holding. Further, the existing macroeconomic headwinds may deter capital markets from further exposure in the near term. | Medium | High | ▶ | The Company focuses on cash burn and operates strict cost control measures on a project by project basis. It also has contingency plans in place to curtail certain projects if necessary to slow the cash burn. |

*Continued*

| **Corporate risk** | Detail | Likelihood | Impact | Trend | Mitigation |
|---|---|---|---|---|---|
| Competition attracting & retaining skilled personnel. | In addition, to the national "cost of living crisis", the sector is seeing increasing demand for skilled personnel. | High | High | ▲ | The Company has a proactive remuneration committee with access to specialist advice and a mixture of shorter-term incentives, such as cash bonuses, and longer-term incentives, such as options, to retain and motivate employees. |
| Cyber risk | The use of networked systems across a growing organisation, along with being a "listed" entity, increases the risk of cyber-attacks, such as ransom demands. | Medium | High | ▲ | The Company is well advanced in seeking reaccreditation under the "Cyber Essentials" programme, the government-backed scheme created by the National Cyber Security Centre. |

| **Political & regulatory risk** | Detail | Likelihood | Impact | Trend | Mitigation |
|---|---|---|---|---|---|
| Customers and strategic partners in multiple jurisdictions. | The Company is UK based with customers and strategic partners in both the UK and Europe. Future sales or strategic partnerships are likely to include additional jurisdictions, such as the Middle East & North Africa. | Medium | Medium | ▲ | Seeking specialist external advice, particularly on tax and tariff related matters. |
| State sponsored aggression against other countries. | The invasion and occupation by Russia of Ukraine has had global consequences, including the highest cost of energy for decades. These increases have driven the current "cost of living crisis" which, in turn, places greater pressure on wage inflation. | High | High | ▲ | The Company has a proactive remuneration committee with access to specialist advice and a mixture of shorter-term incentives, such as cash bonuses, and longer-term incentives, such as options, to retain and motivate employees. |
| Emissions targets and government support can impact customer purchasing decisions. | The Company's current customer base is in the UK and Europe, both of which are jurisdictions where considerable support, both legislative and financial, will be required for the continued energy transition. | Medium | Medium | ▶ | Prioritise customers that already have the budget to proceed with their projects, rather than those still subject to government funding. |

# Roles of the Board and sub-committees

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

The Board sets the strategic aims, ensures that the necessary financial and human resources are in place to meet financial and ESG objectives, reviews progress towards the achievement of these objectives and reviews the performance of management. The Board establishes the values, culture, ethics and standards of the Company and sets the framework for prudent and effective controls which enable risks to be assessed and managed. The Company 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 and Risk Committee, the Remuneration Committee and the Nominations Committee. To raise the profile of Environmental, Social and Governance an ESG Committee was formed earlier in the financial year. The Board has delegated the day-to-day management of the Company to the Chief Executive Officer.

## Stakeholder input to decision making

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

Consultation with shareholders, market professionals and professional advisers to understand and resolve the concerns voiced at the approval of the 2021 annual financial statements identified that the principal concerns for the votes against the resolution to approve the accounts were:

- The independence of the key committees due to one member having previously received part of their fee in the form of warrants; and
- The performance conditions for the options granted to the Executive Directors relating only to share price targets.

Following consultation with shareholders no further immediate action was required regarding the independence of key committee membership as Monika Biddulph was appointed to the Board increasing the number of independent directors. Monika has been appointed to the ESG, Remuneration and Audit & Risk Committees.

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

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

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

## Board responsibilities

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

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

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

**The 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 meetings | Audit Committee | Remuneration Committee |
|---|---|---|---|
| **Gary Bullard** | 12 | 2 | 2 |
| **Monika Biddulph** (Appointed 3 December 2021) | 11 | 1 | 1 |
| **Joe Mangion** | 12 | 2 | 2 |
| **Gerry Agnew** | 12 | 2 | 2 |
| **Adam Bond** | 12 | 2 | - |
| **Jim Gibson** | 12 | - | - |
| **Graeme Lewis** (resigned 1 December 2022) | 12 | 2 | - |

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

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

The Directors have overall responsibility for ensuring that the Company maintains a system of internal controls to provide them with reasonable assurance that the assets of the Company are safeguarded, and that shareholders' investments are protected. The system includes internal controls appropriate for 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 as any system can only provide reasonable, and not absolute, assurance against material misstatement or loss. The process in place for reviewing AFC Energy's system of internal controls includes procedures designed to identify and evaluate failings and weaknesses, and to ensure that necessary action is taken to remedy the failings.

The Board has considered its policies regarding internal controls, as set out in the 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.

# Section 172

## 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 or she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members and, in doing so, have regard (amongst other matters) to the following factors:

- The likely consequences of any decision on the long-term value of the Company through the annual strategic review and risk appraisal processes which are reviewed and approved by the Board. 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 employee 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; and
- 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 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 advisers to diversify and strengthen the professional experience and independence of the Board and senior managers to cover commercial, product development, technology and finance. The Nomination Committee report sets out further details of the processes followed;
- Consultation with shareholders, professional advisers 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;

- Market sounding and site validation projects confirm 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 potential improvement to future versions of the Company's products; and
- An ESG 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 during 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.

# Audit and Risk Committee report

The Audit and Risk Committee (the Committee) plays a central role in the review of the Company's financial reporting, risk review and internal control processes. The Committee's role is to assist the Board in its 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 Committee met twice during the period.

The Audit Committee is composed of Non-Executive Directors and is chaired by Joe Mangion supported by Gerry Agnew and Monika Biddulph, both of whom have been members for the whole year. 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 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 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 supported by external technical advisers 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 other Non-Executive Directors (including the Company Chairman) as appropriate. The Committee meets with the external auditor on a regular basis without the Executive Directors being present.

The Committee report includes the following:

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

## Assessing that 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. 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 is to deposit surplus funds with leading regulated financial institutions based in the UK.

The 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 of the Company;
- 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.

## 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's financial statements for the year ended 31 October 2022:

### Revenue recognition in respect of existing and new customer contracts

During the period, revenue was recognised of £0.6 million (2021: £0.6 million) 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 consideration across different performance obligations where there are multiple performance obligations within a contract. 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 ABB sale and development agreement, Extreme E and Jülich contracts. Following discussions in Committee meetings, the Committee considers management's treatment to be appropriate.

### Onerous contracts

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

### Impairment provisions

As a minimum, an annual review of impairment indicators is prepared by management in accordance with the guidelines in IAS 36. The Committee reviewed management's assessment that there had been no indicator of impairment other than for the L Series, which was retired following the end of the Extreme E contract.

In addition, there is an ongoing awareness that indicators might arise at any time during the year and require consideration at that time.

### Valuation and disclosure of share-based payments

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

- Application of a Monte Carlo simulation for market-based targets and a Black Scholes model for options where the conditions relating to the granting, vesting or exercising of such are conditional on certain performance targets; and
- Reviewing the assumptions, especially share price volatility, used in the valuation models.

Independent professional advisers have been consulted to discuss the treatment adopted and to perform valuations. After considering all matters the Committee concurs with the accounting treatment adopted.

### Valuation and disclosure of warrants granted

The warrants granted to ABB have been accounted on initial recognition for as equity and valued in line with IFRS13: Fair Value Measurement, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

## 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 had decided to introduce such an internal audit function during 2022 and to upgrade the management information systems in line with the business needs. During the year project management and time recording processes have been integrated within the financial systems along with other process improvements to reflect the increased complexity and scale of the business. A search for an outsource partner was commenced to provide internal audit services but the final selection has been put on hold whilst the CFO handover is being completed.

**Joe Mangion**
**Audit and Risk Committee Chair**
**21 April 2023**

# 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:

**Directors**

| | |
|---|---|
| Gary Bullard | Non-Executive Chairman |
| Adam Bond | Chief Executive Officer |
| Jim Gibson | Chief Operating Officer |
| Graeme Lewis | Chief Financial Officer (resigned 1 December 2022) |
| Peter Dixon-Clarke | Chief Financial Officer (appointed 1 December 2022) |
| 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. Peter Dixon-Clarke was appointed subsequent to the most recent Annual General Meeting and therefore offers himself for election. Jim Gibson was not elected or re-elected at either of the two preceding Annual General Meetings and therefore offers himself 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 2018 UK Corporate Governance Code.

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. 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 Peter Dixon-Clarke as Chief Financial Officer, who brings extensive experience in the energy sector in the UK and internationally.

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

**Gary Bullard**
**Nomination Committee Chair**
**21 April 2023**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# Remuneration Committee report

"On behalf of the Board, I am pleased to present the 2022 Directors' Remuneration Report, which sets out the remuneration paid to the Directors in 2022 and the implementation of our remuneration policy for 2022."

**Gerry Agnew**
**Remuneration Committee Chair**

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

## Actions taken post 2022 AGM

Last year, we started on a journey to bring AFC's remuneration structure and practices into line with established market practice and expected norms. This involved addressing legacy issues, and in normalising our practices, certain non-standard structures were used on an interim basis. At our 2022 AGM, shareholders provided feedback on these areas, both with their votes and in conversations. We have listened to the areas of concern and responded accordingly, and now believe we have addressed all of the points raised. This puts us in a position whereby the forward-looking remuneration policy and implementation of this policy will be aligned with best practice.

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

- Introducing an advisory shareholder vote on the remuneration report on a voluntary basis
- Creating and maintaining a Remuneration Committee which is made up entirely of independent Non-Executive Directors with relevant experience, and that complies with the UK QCA Code
- Introducing an LTIP scheme for Executive Directors and senior leaders in the business and bridging the gap until this forms the natural pattern of long-term reward
- Maintaining an equal pension policy for our entire workforce, including Executive Directors
- Keeping a consistent philosophy of reward throughout the business, which is strongly linked to performance
- Consulting and maintaining an open dialogue with shareholders and advisory bodies on all key remuneration decisions

The Committee remains satisfied with the current executive remuneration framework and its ability to provide appropriate incentives for management. We are comfortable that the framework is proportionate and predictable, and that it aligns executive pay with value creation while supporting a Company culture that can successfully deliver our strategy. Having set out a policy last year for ongoing elements of remuneration which is fully aligned to best practice, the Committee is not proposing any significant change to the operation of the policy for 2022-2023.

## Incentive outcomes during the year

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

Bonuses for the year were based on a blend of 40% financial, 50% operational and 10% ESG objectives. For the financial objectives an overall payout of 16.7% was determined reflecting a threshold performance for sales revenue and a stretch performance for overall spend. There was no payout in regard to an order book objective that was not met. All assessments were made in line with the Remuneration Policy described in detail below and first rolled out in the previous year's Annual Report.

For the operational objectives, 35% of a maximum 50% bonus was earned. In achieving this determination, the committee recorded good performance in key areas such as health and safety and the on-time delivery of new H-Power Tower units as well as successful delivery of hydrogen-based vehicle charging for the second season of Extreme E racing. A 100 hour demonstration run of a 10 kW H-Power Tower fueled through a methanol reformer was also successfully delivered.

This was the first year in which an ESG objective grouping was set and the Committee assessed performance in this area to warrant the full 10% payout. Overall, the bonus earned across all objective areas came to 61.7% of maximum. The Committee did not exercise any discretion in this outcome.

The first of two tranches of the legacy transition awards granted in 2021 based on share price targets vested in March 2022 yielding 583,169 and 255,136 shares for Adam Bond and Jim Gibson respectively. This outcome corresponded to a vesting level of 51.8%. The Committee did not exercise any discretion in this outcome.

The final tranche of this award will vest in March 2023 and beyond that all LTIP awards will have three-year vesting periods.

## Closing remarks

AFC Energy continues to be a very exciting and fast moving business that has grown rapidly while preserving the key elements of culture that has got it to where it is now. The Remuneration Committee has as at the same time set out to enhance the governance needed to maintain the confidence of stakeholders as it reaches a size that rightly attracts keener scrutiny. We continue to be guided by investors, employees and other key stakeholders as we navigate our way through the challenges of ensuring we have the right people attracted in and motivated to not just stay but take the business to another level. This starts at the top and we look to reward these people while challenging them to go higher without excessive risk. We look to your support in this journey.

**Composition of the Committee**

Gerry Agnew (Chair)

Joe Mangion

Monika Biddulph

**Number of meetings: 2**

**Gerry Agnew**
**Remuneration Committee Chair**
**21 April 2023**

## Directors' remuneration policy

This section of the report sets out the remuneration policy for Executive Directors and outlines how this policy will be implemented for 2022-2023.

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

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 including but extending beyond value creation
- Provide a remuneration structure which looks to attract and retain high quality candidates into senior roles within AFC Energy through being competitive with those of businesses of similar size
- Provide a long-term incentive structure to retain senior management while ensuring maximum award levels are capped

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

The Policy adopts a framework structured around several key elements:

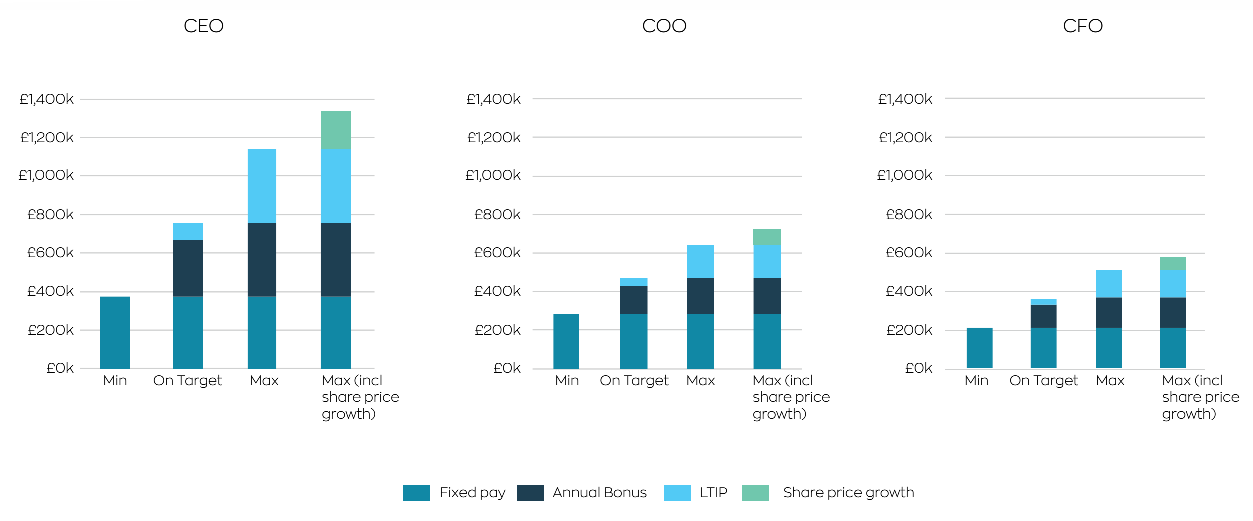
| Element (purpose and link to strategy) | Operation | Opportunity | Performance metrics | Implementation of Remuneration Policy for 2022-2023 |
|---|---|---|---|---|
| **Base salary**<br><br>To reflect size and scope of the role and individual's performance and contribution | Payable in cash. Generally, 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.<br><br>The Committee reviews base salaries with reference to:<br><br>• The size and scope of the individual's roles<br>• The individual's performance and experience<br>• Business performance and the external economic environment<br>• Market practice at other companies of a similar size and complexity<br>• Salary increases across the Group | While there is no maximum salary level, salary increases will generally be in line with increases awarded to other employees in the Company. However, larger increases may be made at the discretion of the Committee to take into account circumstances such as:<br><br>• Changes in an individual's role or responsibility<br>• To reflect an individual's contribution to the company<br>• Where a salary is significantly behind market practice | Company and individual performance are considered when setting Executive Director base salaries. | Base salaries will be increased by 3.5% with effect from 1 December 2022 to:<br><br>CEO £320k<br>COO £240k<br>CFO £200k<br><br>These increases are slightly lower than the average increase across the wider workforce. |

| Element (purpose and link to strategy) | Operation | Opportunity | Performance metrics | Implementation of Remuneration Policy for 2022-2023 |
|---|---|---|---|---|
| **Pension and other benefits**<br>To provide market-competitive benefits and pension | From 1 November 2021, 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. | Not performance related. | In line with policy, Executive Directors will receive 5% contribution from AFC alongside their own contribution of 5% salary. |
| **Annual bonus**<br>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.<br>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.<br>Maximum payout is 120% salary for the CEO and 80% 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. | Objectives have been set based on a blend of 40% financial, 50% operational and 10% ESG objectives. |

| Element (purpose and link to strategy) | Operation | Opportunity | Performance metrics | Implementation of Remuneration Policy for 2022-2023 |
|---|---|---|---|---|
| **LTIP**<br><br>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.<br><br>The new PSP will retain the overall limit on share capital of 10% for all option allocations.<br><br>Annual awards will normally be made after the announcement of the half-year operating statement to avoid potential conflicts.<br><br>Good leavers will retain pro-rated awards according to the fraction of the three-year period they work for the Company with details, along with malus and clawback terms based on advice from external advisers regarding current industry standards. | The maximum award level will be 120% 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. | 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. | Awards are anticipated to be granted with both Relative TSR and Absolute TSR conditions, consistent with the awards granted in 2022. |

## Pay scenario charts

The charts below provide estimates of the potential future reward opportunity for the current Executive Directors in FY 2022-23 in line with the policy described above. The potential is split between the different elements of remuneration under four different performance scenarios: "Minimum", "On Target", "Maximum" and "Maximum with 50% share price growth".



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

| Component | Minimum | On-target | Maximum | Maximum + 50% share price growth |
|---|---|---|---|---|
| Base Salary | CEO: £320k<br>COO: £240k<br>CFO: £200k | | | |
| Benefits | Based on single figure for FYE2022 | | | |
| Pension | 5% of base salary | | | |
| Annual Bonus | No bonus payable | Target bonus (75% of maximum) | Maximum bonus | |
| LTIP | No LTIP Vesting | Threshold vesting (25% of maximum) | Maximum vesting | Maximum vesting with 50% share price growth |

## Service contracts

### Executive Directors

Service contracts for all employees including the 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.

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

### Non-Executive Directors

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

| Non-Executive Director | Date of service contract |
|---|---|
| Gary Bullard | 5 March 2021 |
| Joe Mangion | 5 December 2017 |
| Gerry Agnew[1] | 9 September 2019 |
| Monika Biddulph | 3 December 2021 |

[1] 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 10 September 2022 Gerry will be entitled to a director's fee only.

## Non-Executive Director policy table

Details of the policy on fees paid to our Non-Executive Directors and how this policy will be implemented for 2022-2023 are set out in the table below:

| Element (purpose and link to strategy) | Operation | Opportunity | Performance metrics | Implementation of Remuneration Policy for 2022-2023 |
|---|---|---|---|---|
| **Fees**<br>To attract and retain high-calibre individuals to serve as Non-Executive Directors | Fee levels are set to reflect the time, commitment and experience of the Chairman and the Non-Executive Directors, taking into account fee levels at other companies of a similar size and complexity and to other UK companies.<br>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.<br>Non-Executive Directors receive cash fees only and will not be granted interests in share option schemes or warrants.<br>The Chair and Non-Executive Directors shall expressly not participate in any performance related plans or bonuses.<br>Further additional fees may be paid to reflect additional time, Committee or Board responsibilities if this is considered appropriate. | The fees of Non-Executive Directors shall normally be reviewed annually to ensure that they are in line with market conditions and any changes to said fees will be approved by the Board as a whole following a recommendation from the Chief Executive. | Not performance related. | A review of senior executives and NED remuneration was undertaken in October 2021 with input from remuneration advisers regarding fees in AIM listed companies of a similar size.<br>On the basis of this advice, NED fees were raised to £50k from 1 November 2021. The Chair's fee was set at £100k following advice at time of appointment. |

# Annual report on remuneration

The following section provides details of how AFC Energy's remuneration policy was implemented during the financial year ending 31 October 2022.

## Remuneration Committee membership and activities in 2022

The Remuneration Committee's members as at 31 October 2022 were Gerry Agnew, who is the Chair of the Committee, Joe Mangion and Monika Biddulph. All members of the Committee are independent Non-Executive Directors. Gary Bullard, Company Chairman, is also invited to attend meetings.

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

The Committee's Terms of Reference are available on request from the Company Secretary. The Remuneration Committee met formally twice during the 2021-2022 financial year and also on an ad hoc basis when required.

**Remuneration Committee activities during the year were as follows:**

- Approval of the Directors' Remuneration Report for 2022
- Review and approval of the Executive Directors' performance against 2022 annual objectives
- Determination of performance targets for the Executive Directors' annual bonus for the year ahead
- Determination of performance targets for the 2022 LTIP grant
- Review of developments in corporate governance and best practice
- Review of remuneration arrangements and policies for senior management
- Overseeing implementation of a new all employee SAYE scheme

During the year, the Committee sought internal support from the Chief Executive Officer, who attended Committee meetings by invitation from the Committee Chair, to advise on specific questions raised by the Committee and on matters relating to the performance and remuneration of senior managers. The Chief Executive Officer and Chair were not present for any discussions that related directly to their own remuneration.

The Committee has appointed PricewaterhouseCoopers (PwC) to provide independent advice on executive remuneration matters. PwC is a signatory to the Code of Conduct for Remuneration Consultants in the UK. The fees paid to PwC in relation to advice provided to the Committee for 2021-2022 were £29,150 + VAT. The Committee evaluates the support provided by PwC annually and is comfortable that they do not have any connections with AFC Energy that may impair their independence. No non-remuneration related advice was provided by PwC to the Group in the year.

## Single total figure of remuneration for Executive Directors

The table below sets out a single figure for the total remuneration received by each Director for the financial year ended 31 October 2022:

| | Basic salary/fees (£k) | | Taxable benefits (£k) | | Pension (£k) | | Annual bonus (£k) | | LTIP (£k) | | Total (£k) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **FYE** | **2022** | **2021** | **2022** | **2021** | **2022** | **2021** | **2022** | **2021** | **2022** | **2021** | **2022** | **2021** |
| **Executive Directors** | | | | | | | | | | | | |
| Adam Bond | 309 | 305 | 43 | 88 | 16 | 13 | 229 | 470 | 241 | – | 838 | 876 |
| Jim Gibson | 232 | 229 | 34 | 19 | 12 | 9 | 114 | 135 | 105 | – | 497 | 392 |
| Graeme Lewis[1] | 176 | 167 | – | – | 22 | 22 | 87 | 102 | – | – | 285 | 291 |
| **Non-Executive Directors** | | | – | | | | | | | | | |
| John Rennoks | – | 35 | – | – | – | – | – | – | – | – | – | 35 |
| Gary Bullard | 100 | 55 | – | – | – | – | – | – | – | – | 100 | 55 |
| Joe Mangion | 50 | 25 | – | – | – | – | – | – | – | – | 50 | 25 |
| Gerry Agnew[2] | 37 | 15 | – | – | – | – | – | – | – | – | 37 | 15 |
| Monika Biddulph[3] | 46 | – | – | – | – | – | – | – | – | – | 46 | – |
| | **950** | **831** | **77** | **107** | **50** | **44** | **430** | **707** | **346** | **-** | **1,853** | **1,689** |

[1] Graeme Lewis negotiated a larger pension contribution on joining the business in 2019 and this remains unchanged

[2] Gerry Agnew received part payment through share warrants in lieu of £15,000 of his fees. As a result, he received 300,000 warrants annually until 9 September 2022. This arrangement was part of the original service agreement he signed on joining the Company on 9 September 2019. Only the £35,000 per annum cash element of his fees is disclosed in the table above, as he did not exercise any warrants within the financial year. After the final tranche of warrants was awarded on 9 September 2022 his fees changed to £50,000 per annum.

[3] Monika Biddulph was appointed on 3 December 2021.

4. Gain on vest of LTIP awards.

5. Adam Bond exercised all of the 583,169 options that vested during the year on 25 July 2022 and realised a gain of £133,000.

## Incentive outcomes for the year ended 31 October 2022

### Annual bonus in respect of 2021-2022 performance

Bonuses for the year were based on a blend of 40% financial, 50% operational and 10% ESG objectives. For the financial objectives an overall payout of 16.7% was determined reflecting a threshold performance for sales revenue and a stretch performance for overall spend. Despite continued new orders, there was no payout in regard to an order book objective that was not met.

For the operational objectives' scorecard, 35% of a maximum 50% bonus pool was paid out. In achieving this determination, the Committee noted good performance in key areas such as health and safety and the on-time delivery of new Power Tower units as well as successful conclusion of hydrogen-based vehicle charging for the second season of Extreme E racing.

This was the first year in which an ESG objective grouping was set and the Committee were pleased to see performance in this area achieving full 10% payout. The overall bonus earned across all objective areas came to 61.7% of maximum.

## Vesting of first tranche of transitional LTIP

The first of two tranches of the transitional PSP award announced in September 2021 vested in the year yielding 583,169 and 255,136 shares for Adam Bond and Jim Gibson respectively. This outcome was driven by the share price over the share price averaging window arriving at 39.086p with a corresponding vesting of 51.8% and without the Committee exercising any discretion in these outcomes. Remaining unvested share options from this tranche lapsed per the scheme rules.

## Scheme Interests awarded in 2021-2022

For the PSP LTIP grants made in 2021-2022, working in conjunction with external advice, considerable thought was given to avoiding windfall outcomes linked to the larger fluctuations in share price seen throughout the AIM index within the year. Although the PSP framework explicitly allows discretionary intervention to avoid extreme outcomes, it was felt more appropriate to introduce a relative element to assessing TSR improvement and consequently equal 50% weighting was applied to the relative and absolute elements. In choosing a relative metric, the AIM 100 index grouping was chosen to ensure continued emphasis on pushing toward the top of the market. The choice of 75th percentile performance limits seeks to expressly exclude unusual extremes in performance seen in a handful of stocks at the top end of the market that are actively considering moving onto main market listings. The use of median performance as the lower measure ensures a continued push for stretch and avoids the risk of rewarding mediocre performance. For the absolute TSR growth metrics, fixed prices rather than pure CAGR based measures were chosen. This reflected the strong desire of the Committee to push towards restoring the share price to being substantially above that of the last raise while at the same time not necessitating a framework that looked unachievable.

The second award made under the PSP LTIP scheme was made in July 2022 using performance measures outlined above. This granted the following options:

| Executive Director | No of nil cost options awarded in 2021-2022 PSP |
|---|---|
| Adam Bond | 1,697,802 |
| Jim Gibson | 743,590 |

Performance targets apply to the awards over a three-year period commencing on 13 July 2022 as follows:

| Performance measure | Weighting | Threshold performance (25% vesting) | Maximum performance (100% vesting) |
|---|---|---|---|
| Relative TSR vs FTSE AIM 100 | 50% | Median | Upper quartile |
| Absolute TSR | 50% | 40p | 75p |

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

## Exit payments made in the year

On 29 June 2022 Graeme Lewis announced his retirement as CFO and his intention to remain in service until 30 April 2023 to assist in a smooth handover. No payments beyond normal salary, benefits and annual bonus have been made to Graeme while he has worked this period. He ceased to be a director on 1 December 2022.

## Payments to past Directors

There were no payments to past Directors in the year.

## Directors' interests in shares and options

On 31 October 2022 the Executive Directors' interests over share options and warrants of the Company were:

| | Date of grant | Share price[1] pence | Exercise price pence | Number of shares/ options Awarded | Face value at grant £'000 | Performance period | Vesting date |
|---|---|---|---|---|---|---|---|
| **Adam Bond** | | | | | | | |
| Vested Options | 15/07/2015 rev 16/12/2019 | 22.0 | 22.0 | 5,000,000 | – | 17/07/2017 - 17/05/2025 | Vested |
| Unvested Options[1] | 15/07/2015 rev 16/12/2019 | 22.0 | 22.0 | 1,000,000 | – | 17/07/2017 - 17/05/2025 | – |
| Vested LTIP | 19/11/2021 | 59.713 | 0.1 | 1,125,000 | 671 | 07/09/2021- 30/03/2022 | 30/03/2022 |
| Transitional LTIP | 19/11/2021 | 59.713 | 0.1 | 1,125,000 | 671 | 07/09/2021 - 30/03/2023 | 30/03/2023 |
| PSP LTIP | 19/11/2021 | 59.713 | 0.1 | 620,970 | 370 | 07/09/2021 - 06/09/2024 | 06/09/2024 |
| PSP LTIP | 12/07/2022 | 21.84 | 0.1 | 1,697,802 | 369 | 12/07/2022 - 11/07/2025 | 11/07/2025 |
| **Jim Gibson** | | | | | | | |
| Vested Options | 15/08/2018 | 8.8 | 8.8 | 2,500,000 | – | 19/11/2021 - 30/03/2023 | Vested |
| Vested LTIP | 19/11/2021 | 59.713 | 0.1 | 492,187 | 293 | 07/09/2021 - 30/03/2022 | 31/03/2023 |
| Transitional LTIP | 19/11/2021 | 59.713 | 0.1 | 492,188 | 293 | 07/09/2021 - 30/03/2023 | 30/03/2023 |
| PSP LTIP | 19/11/2021 | 59.713 | 0.1 | 271,968 | 162 | 07/09/2021 - 06/09/2024 | 06/09/2024 |
| PSP LTIP | 12/07/2022 | 21.84 | 0.1 | 743,590 | 162 | 12/07/2022 - 11/07/2025 | 11/07/2025 |
| **Graeme Lewis** | | | | | | | |
| Vested Options | 31/12/2019 | 16.0 | 16.0 | 2,750,000 | – | 31/12/2019 - 31/12/2029 | Vested |
| PSP LTIP | 19/11/2021 | 59.713 | 0.1 | 206,320 | 123 | 07/09/2021 - 06/09/2024 | 06/09/2024 |
| **Gerry Angew** | | | | | | | |
| Vested Warrants in lieu fees | 09/09/2019 | 4.925 | 4.925 | 900,000 | – | 09/09/2019 - 09/09/2022 | Vested |

[1] Final remaining unvested tranche of share options granted 15/07/2015 vesting at 85.0p

Of the existing directors, only Adam Bond has ever exercised any options or warrants and did so during the financial year with the gain from this recorded in Note 9 of the accounts

## Implementation of policy for 2022-2023

The Committee considers the range of base salary and pay increases across the Company when determining the base salary increases for Executive Directors. Although no salary increase was implemented within the financial year 2021-22, a review was made immediately following year end and a 3.5% salary increase was awarded to executives on 1 December 2022, which was slightly lower than the average increase across the business as a whole. Additionally, a one time cost of living driven payment of £1,000 was made to all employees below executive level. The Committee considered more complex arrangements but decided this would be the fairest way of addressing the current UK cost of living challenge without undue complexity.

In line with the recent developments in corporate governance, Monika Biddulph was appointed as the Group's designated Non-Executive Director responsible for engaging with employees and ensuring that the employee voice is represented in the boardroom. She attends employee meetings and engages with employees at all levels both within and beyond the ESG activities that she is heavily engaged in. This has provided an additional path for the employees to feed in their view of remuneration alongside the existing channels provided through HR surveys and NED visits to site.

For 2022-23, the annual bonus continues to use a blend of 40% financial, 50% operational and 10% ESG objectives, recognising the critical importance of operational delivery in building long-term value while at the same time driving an increasingly active emphasis on ESG improvements. Again revenue, order book and control of spend will be equally weighted in the 40% of bonus tied to financial objectives.

LTIP awards are anticipated to be granted during the year with both Relative TSR and Absolute TSR conditions, consistent with the awards granted in 2022.

# 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.

## PETER DIXON-CLARKE

Chief Financial Officer
Year appointed – 2022.

### Relevant skills and experience

A Deloitte trained Chief Financial Officer with over 30 years of experience, of which 20 have been at senior management or board level.

### Previous appointments

Experience has been primarily in the Energy Sector, but also Financial Services and Charity, and always in high profile organisations undergoing strategic change.

Most jobs have been UK based, but usually with a strong International element and time spent overseas in countries including: USA, Norway, Kuwait, Ethiopia, Falkland Islands and Indonesia.

## 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 Adviser to LG Fuel Cell Systems Inc.

Prior to this he was Chief Technologist of Rolls-Royce Fuel Cell Systems, Executive VP Engineering at Rolls-Royce Fuel Cell Systems and Chief Engineer Fuel Cell Systems at Rolls-Royce.

### 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 2022. The comparative period was from 1 November 2020 to 31 October 2021.

## Principal activity and review of future business developments

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

A review of future business developments is included within the Chairman's, Chief Executive's and Chief Financial Officer's reports on pages 8 to 15.

## Results and dividends

The operating loss before tax for the year was £19.5 million (2021: £10.4 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 in the Nomination Report.

On 31 October 2022 the beneficial interests of Directors and their families in the equity share capital of the Company were:

| | Number of Ordinary shares of 0.1p 2022 | Number of Ordinary shares of 0.1p 2021 |
|---|---|---|
| Gary Bullard | 225,000 | 115,000 |
| Joe Mangion | 25,093 | 25,093 |
| Adam Bond | 3,583,169 | 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 note 24 of 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, relevant qualifying expenditure was £9.1 million (2021: £3.1 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 24 to the financial statements.

## Nil cost options

The directors are aware that some shares were issued without payment of the nominal face value of 0.1 pence per share required by the relevant legislation. The Company will work to remediate this issue and processes have been modified to prevent this happening in the future.

## Going concern

The Company had unrestricted cash of £40.2 million at 31 October 2022 (2021: £55.4 million).

The Company's cash outflows currently exceed its inflows, a position that is expected to continue until its development products are sufficiently profitable to generate net cash inflows.

The period covered by the going concern assessment is until 30 April 2024, being greater than 12 months from the date of this report.

At 31 October 2022, unrestricted cash resources were £40.2 million and at 28 February 2023 unrestricted cash resources were £34.3 million.

The Directors have a reasonable expectation that sufficient funds exist to meet all payment obligations as and when they fall due for at least 12 months from the signing of the balance sheet. Much of the expected spend during the period covered by the going concern assessment remains discretionary, particularly as to the rate of materials spend on development projects.

The Directors, having considered current cash resources, business risks and financial forecasts, believe the Company has adequate resources to continue in operational existence for at least 12 months from the date of this report and therefore believe that it continues to be reasonable to adopt the going concern basis in preparing the Annual Report and financial statements.

## Events after the reporting period

### ABB E-mobility

On 28 March 2023, ABB E-mobility confirmed that AFC Energy had successfully validated its first cumulative 100kW liquid cooled fuel cell. As a result of this, the Sale and Development Agreement, signed on 15 November 2021, was revised such that:

- ABB will have a pre-agreed discount, to be spread over the purchases of the first ten fuel cell systems, the first of which would be purchased under the revised contract with the subsequent nine at ABB's option; and
- the payment of the remaining £2.0 million, of the £4.0 million, to be used for the purchase of issued shares in AFC Energy.

The £2.0m balance, was received on 5 April 2023 and the shares issued and admitted for trading shortly thereafter. The shares are of the same class and have the same voting rights as those already in issue. The cash value of the original contract therefore remains unchanged at £4.0 million.

### ACCIONA

On 18 April 2023, ACCIONA signed an order for the first 50kVA H-Power S Series Generator for delivery in the second half of 2023. The system will comprise a 30kW fuel cell and 45kWh battery energy storage system. The system will initially be rented for a six-month period, following which ACCIONA has the option to buy the system at a pre-agreed price or extend the rental.

## Disclosure of information to the auditor

The directors confirm that:

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

## Auditor

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

This report was approved by the Board on 4 April 2023 and signed on its behalf by Peter Dixon-Clarke.

**Peter Dixon-Clarke**
**Chief Financial Officer and Company Secretary**
**21 April 2023**

# Statement of Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Accordingly, the directors have chosen to prepare the financial statements in accordance with UK-adopted international accounting standards. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

## Statement of disclosure to auditor

The Directors confirm that:

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

To the best of our knowledge:

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

# Independent auditor's 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 2022, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards.

In our opinion, the financial statements:

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

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed 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:

- challenging management on their determination of their going concern period;
- an assessment of management's cash flow forecasts, including the impact of the ongoing war in Ukraine and rising inflation;
- sensitivity analysis of management's cash flows forecasts including the robustness of the scenarios modelled;
- assessments of management's forecasting accuracy; and
- discussion with those outside of the finance team to gain a more robust understanding of future expectations and developments of the Company.

# Independent auditor's report
## Continued

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 the ongoing war in Ukraine and rising inflation), 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.

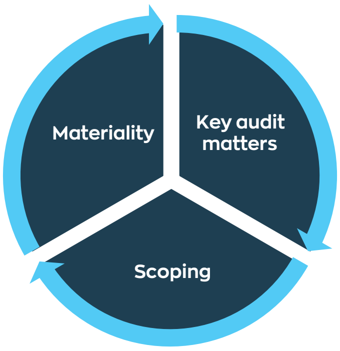
In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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.

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

## Our approach to the audit

GrantThornton




### Overview of our audit approach

Overall materiality: £585,000, which represents 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.

Key audit matters were identified as:

- risk of fraud in revenue recognition (same as previous year); and
- risk of incomplete recognition of the loss provision in relation to contract accounting (new in year).

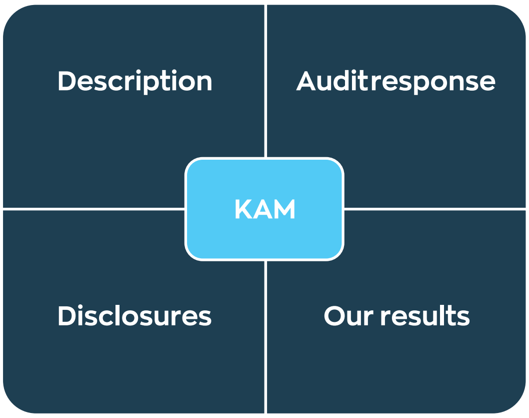
Our auditor's report for the year ended 31 October 2021 included no key audit matters that have not been reported as key audit matters in our current year's report.

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

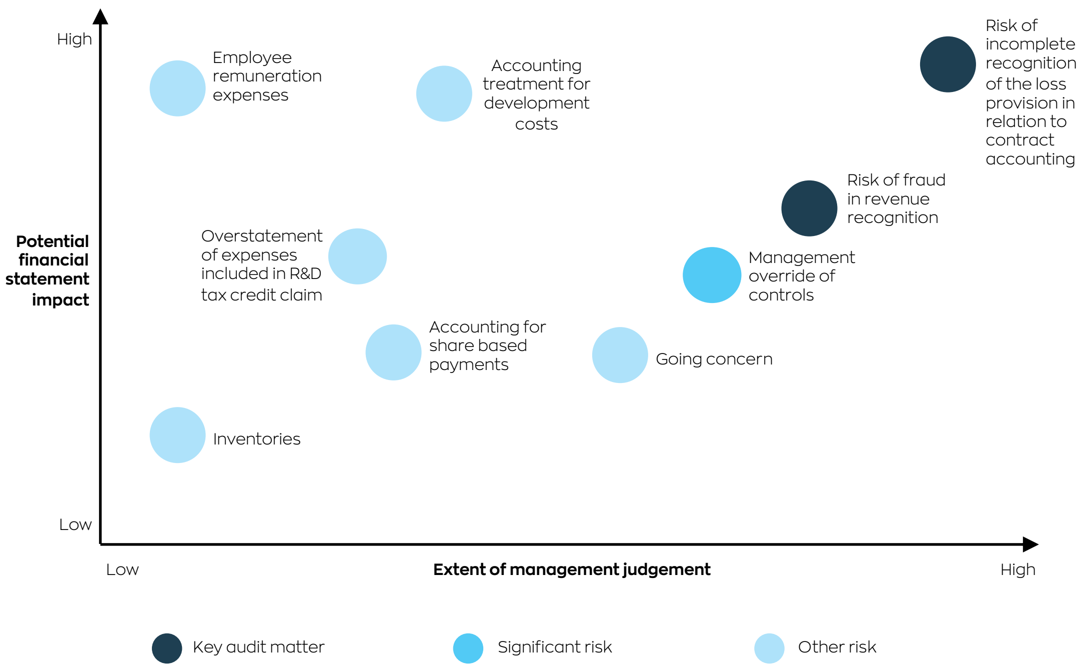
# Independent auditor's report
Continued

## 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.



# Independent auditor’s report
## Continued

### Key Audit 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.

As the Company continues to commercialise its products, the more important revenue growth is to stakeholders. Further, the recognition of revenue requires management to make judgements relating to the nature and terms of the contract, such as the identification of performance obligations, allocation of price to those obligations and timing of revenue recognition.

These judgements and the incentive to misstate revenues increase the associated risk of fraud in relation to revenue recognition.

### How our scope addressed the matter

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 International Financial Reporting Standard (IFRS) 15 ‘Revenue from Contracts with Customers’;
- 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 identification of performance obligations, the amounts allocated to performance obligations and the timing of the satisfaction of the performance obligations;
- inspecting all significant 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 confirmation of delivery or completion; and
- assessing the adequacy of related disclosures within the financial statements.

#### Relevant disclosures in the Annual Report

- Financial statements: Note 5, Revenue; and
- Audit Committee report: Revenue recognition in respect of existing and new customer contracts

#### Our results

Based on our audit work addressing the risk of fraud in revenue recognition, we are satisfied that the assumptions made by management in recognising revenue were appropriate and in accordance with the financial reporting framework, including IFRS 15, and we did not identify any material misstatements in the revenue recognised.

# Independent auditor's report
## Continued

### Risk of incomplete recognition of the loss provision in relation to contract accounting

We identified incomplete recognition of the loss provision in relation to contract accounting as one of the most significant assessed risks of material misstatement due to error.

As a result of the Company beginning commercialisation of products whilst not having history of product delivery and establishing consistent costs of delivery on new products, there is a heightened risk of onerous contracts.

There is a significant level of judgement in management calculating future expected costs on the contracts as the contracts are bespoke in nature. The impact of incorrect assessment of these costs is the potential for immediate recognition of future losses.

In responding to the key audit matter, we performed the following audit procedures:

- challenging the completeness of managements onerous contracts assessment by identification of ongoing contracts;
- testing material costs expected to complete a project through discussions with project managers and comparing total costs to complete to contracted revenue to assess the risk of loss provisions;
- enquiring of specific project managers outside of the finance team to obtain an understanding of the process and methods of estimating costs to complete. Testing for indicators of management bias in their assumptions and corroborating estimates to supporting documentation such as approved project plans;
- testing a sample of forecast costs to complete to supporting evidence, such as purchase orders and supplier quotations;
- assessing whether the loss provision policy is in accordance with the requirements of International Accounting Standard (IAS) 37 'Provisions, Contingent Liabilities and Contingent Assets' and IFRS 15 and has been applied appropriately for the contracts; and
- assessing and challenging the appropriateness and completeness of the financial statement disclosures.

### Relevant disclosures in the Annual Report

- Financial statements: Note 5, Revenue.

### Our results

Based on our audit work addressing the risk of incomplete recognition of the loss provision, we are satisfied that assumptions made by management are appropriate and in accordance with the financial reporting framework, including IAS 37 and IFRS 15.

# Independent auditor's report
Continued

## 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:

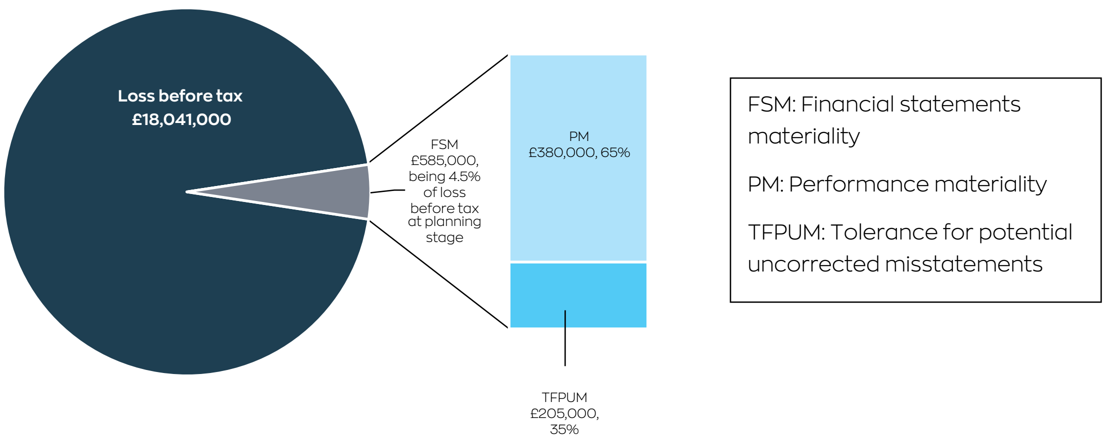
| Materiality measure | Company |
|---|---|
| Materiality for financial statements as a whole | • We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work. |
| Materiality threshold | £585,000, which represents 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, because we believe that the materiality level determined at the planning stage is appropriate to the needs of the users of the financial statements and supports an efficient audit. |
| Significant judgements made by auditor in determining materiality | In determining materiality, we made the following significant judgements:<br>• Loss before tax is considered the most appropriate benchmark due to the Company being within the development phase of its lifecycle. It is also a key performance measure for the Company and therefore of interest to stakeholders.<br>• The engagement team selected a measurement percentage of 4.5% of the Company's loss before tax during the planning of the audit. This was based on the complexity and the size of the Company and the continuing uncertainties in the macro-economic environment.<br>Materiality for the current year is higher than the level that we determined for the year ended 31 October 2021 to reflect the increase in the Company's loss before tax for the current year at the planning stage of the audit. |
| 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. |

# Independent auditor's report
## Continued

| | |
|---|---|
| Performance materiality threshold | £380,000, which is 65% of financial statement materiality. |
| Significant judgements made by auditor in determining performance materiality | In determining performance materiality, we made the following significant judgements:<br>• the number of identified control deficiencies in internal control in the prior year audit; and<br>• 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 certain areas such as directors' remuneration and related party transactions. |
| Communication of misstatements to the audit committee | We determine a threshold for reporting unadjusted differences to the audit committee. |
| Threshold for communication | £29,200 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds. |

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

## Overall materiality



# Independent auditor's report
Continued

## 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 the Company (including how it addressed the key audit matters)

- an audit of the financial information of the Company has been completed to financial statement materiality (full-scope audit), with specific focus on the risk of fraud in revenue recognition and risk of incomplete recognition of the loss provision in relation to contract accounting, which were identified as key audit matters.

### Performance of our audit

- a full-scope audit was performed by the engagement team, including an evaluation of the internal control environment, 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 observing the client's stock count.

### Changes in approach from previous period

- the scope of the audit for the current year in broadly consistent with the scope applied in the previous year's audit. The following scope changes have been made to reflect changes within the Company:
  - Scoping the risk of incomplete recognition of the loss provision in relation to contract accounting as a significant risk in the current year as a result of our enquiries with management and obtaining an understanding of the significant costs relating to contracts entered into by the Company, noting that the Company continues to be loss making. In the prior year the risk of incomplete recognition of the loss provision in relation to contract accounting was not scoped as a significant risk.

## Other information

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

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

We have nothing to report in this regard.

# Independent auditor's report
Continued

## 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 set out on page 74, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

# Independent auditor's report
## Continued

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

- We obtained an understanding of the legal and regulatory frameworks applicable to the Company and the industry in which it operates. We determined that the following laws and regulations were the most significant: the Companies Act 2006, UK-adopted international accounting standards, the AIM Rules for Companies, tax legislation and the QCA Corporate Governance Code;
- In addition, we concluded that there are certain specific laws and regulations that may have an effect on the determination of amounts and disclosures in the financial statements and we identified those laws and regulations as those relating to health and safety, employee matters, environmental matters and bribery and corruption matters;
- We enquired of management and those charged with governance, concerning the Company's policies and procedures relating to the identification, evaluation and compliance with laws and regulations and the detection and response to the risks of fraud. We also enquired of management and those charged with governance as to whether they were aware of any instances of non-compliance with laws and regulations and whether they had any knowledge of actual, suspected or alleged fraud. We corroborated the results of our enquiries to relevant supporting documentation;
- We assessed the susceptibility of the financial statements to material misstatement, including how fraud might occur by evaluating management's incentives and opportunities for manipulation of the financial statements. Audit procedures performed included:
  - identifying and assessing the design and implementation of controls management has in place to prevent and detect fraud;
  - obtaining an understanding how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
  - challenging assumptions and judgements made by management in its significant accounting estimates; and
  - identifying and testing journal entries posted in the year and post year-end which were deemed to be unusual.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;
- The engagement partner's assessment of the appropriateness of the collective competence and capabilities of the engagement team including consideration of the engagement team's:
  - understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation;
  - knowledge of the industry in which the Company operates; and
  - understanding of the legal and regulatory requirements specific to the Company.
- We communicated relevant laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit. 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.

# Independent auditor's report
Continued

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

## Use of our report

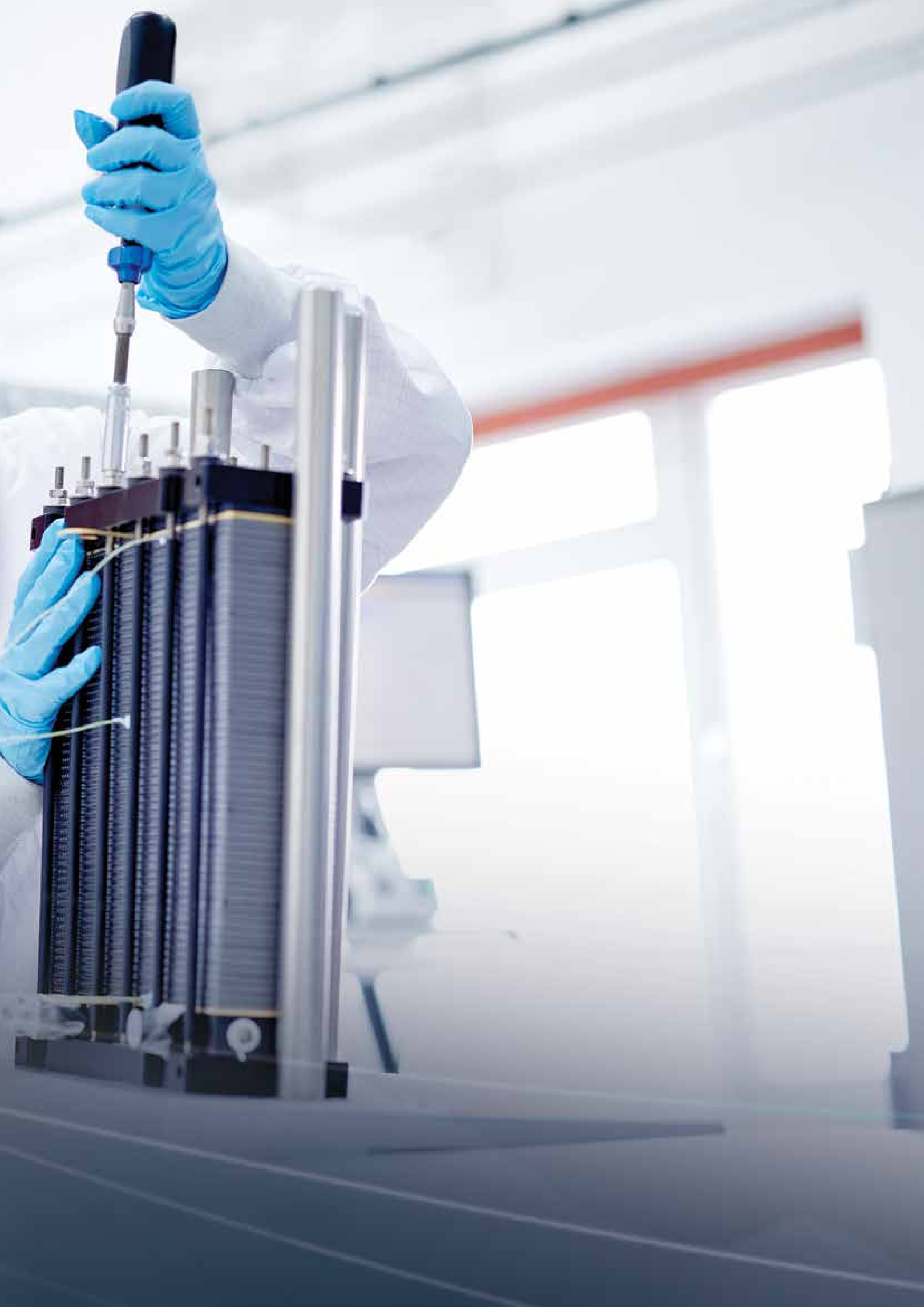
This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other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

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

London

21 April 2023

# Financial Statements



# Statement of comprehensive income

## For the year ended 31 October 2022

| | Note | Year ended 31 October 2022 £000s | Year ended 31 October 2021 £000s |
|---|---|---|---|
| Revenue from customer contracts | 5 | 582 | 592 |
| Cost of sales | | (467) | (577) |
| **Gross profit** | | **115** | **16** |
| Other income | | 22 | 25 |
| Operating costs | 6 | (19,749) | (10,450) |
| **Operating loss** | | **(19,612)** | **(10,409)** |
| Finance cost | 10 | (19) | (52) |
| Bank interest receivable | 10 | 143 | 19 |
| **Loss before tax** | | **(19,488)** | **(10,442)** |
| Taxation | 11 | 3,042 | 1,063 |
| **Loss for the financial year and total comprehensive loss attributable to owners of the Company** | | **(16,446)** | **(9,378)** |
| Basic loss per share (pence) | 12 | (2.24) | (1.33) |
| Diluted loss per share (pence) | 12 | (2.24) | (1.33) |

All amounts relate to continuing operations. There was no other comprehensive income in the period (2021: £nil).

The notes on pages 92 to 116 form part of these financial statements.

# Statement of financial position

As at 31 October 2022

AFC Energy plc
Registered number: 05668788

| | Note | 31 October 2022 £000s | 31 October 2021 £000s |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | 13 | 311 | 746 |
| Right-of-use assets | 14 | 976 | 884 |
| Tangible fixed assets | 15 | 3,282 | 2,269 |
| | | **4,569** | **3,899** |
| **Current assets** | | | |
| Inventory | 16 | 43 | 661 |
| Receivables | 17 | 1,160 | 1,015 |
| Income tax receivable | | 4,075 | 1,581 |
| Cash and cash equivalents | 18 | 40,220 | 55,375 |
| Restricted cash | 18 | 612 | 612 |
| | | **46,110** | **59,243** |
| **Total assets** | | **50,679** | **63,142** |
| **Current liabilities** | | | |
| Payables | 19 | 3,644 | 1,696 |
| Lease liabilities | 20 | 298 | 322 |
| | | **3,942** | **2,018** |
| **Non-current liabilities** | | | |
| Lease liabilities | 20 | 698 | 584 |
| Provisions | 21 | 301 | 654 |
| | | **999** | **1,238** |
| **Total liabilities** | | **4,941** | **3,256** |
| **Capital and reserves attributable to owners of the Company** | | | |
| Share capital | 22 | 735 | 734 |
| Share premium | 22 | 116,487 | 116,448 |
| Other reserve | | 4,073 | 2,456 |
| Retained deficit | | (75,557) | (59,752) |
| **Total equity attributable to shareholders** | | **45,738** | **59,886** |
| **Total equity and liabilities** | | **50,679** | **63,142** |

The notes on pages 92 to 116 form part of these financial statements.

These financial statements were approved and authorised for issue by the Board on 21 April 2023.

Adam Bond
**Chief Executive Officer**

Peter Dixon-Clarke
**Chief Financial Officer**

# Statement of changes in equity

## For the year ended 31 October 2022

| | Share Capital £000s | Share Premium £000s | Other Reserve £000s | Retained Loss £000s | Total £000s |
|---|---|---|---|---|---|
| Balance at 1 November 2020 | 676 | 81,418 | 1,513 | (50,583) | 33,024 |
| Loss after tax for the year | - | - | - | (9,378) | (9,378) |
| Issue of equity shares | 58 | 35,030 | - | - | 35,088 |
| Exercise of share options | | | | | |
| Equity settled share-based payments | | | | | |
| - Lapsed or exercised in the period | - | - | (209) | 209 | - |
| - Charged in the period | - | - | 1,152 | - | 1,152 |
| Balance at 31 October 2021 | **734** | **116,448** | **2,456** | **(59,752)** | **59,886** |
| Loss after tax for the year | - | - | - | (16,446) | (16,446) |
| Issue of equity shares | 1 | 39 | - | - | 40 |
| Equity settled share-based payments | | | | | |
| - Lapsed or exercised in the period | - | - | (641) | 641 | - |
| - Charged in the period | - | - | 1,682 | - | 2,258 |
| Fair value of warrants accounted for as equity | - | - | 576 | - | - |
| **Balance at 31 October 2022** | **735** | **116,487** | **4,073** | **(75,557)** | **45,738** |

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 and warrants granted.

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

The notes on pages 92 to 116 form part of these financial statements.

# Cash flow statement

For the year ended 31 October 2022

| | Note | 31 October 2022 £000s | 31 October 2021 £000s |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before tax for the year | | (19,488) | (10,442) |
| Adjustments for: | | | |
| Amortisation of intangible assets | 13 | 473 | 110 |
| Impairment of intangible assets | 13 | 294 | |
| Depreciation of right-of-use assets | 14 | 379 | 302 |
| Depreciation of tangible assets | 15 | 994 | 448 |
| Impairment of tangible assets | 15 | 255 | |
| Loss on disposal of property and equipment | 15 | 126 | 4 |
| Depreciation of decommissioning asset | | - | 31 |
| Equity settled payments | 23 | 1,682 | 1,152 |
| Interest receivable | | (143) | (19) |
| Lease finance charges | | 33 | 37 |
| **Cash flows from operations** | | **(15,395)** | **(8,377)** |
| R&D tax credits received | | 546 | - |
| (Increase)/decrease in restricted cash | | - | (342) |
| (Increase)/decrease in inventory | | 618 | (411) |
| Decrease/(increase) in receivables | | (145) | (489) |
| (Decrease)/increase in payables | | 1,948 | 459 |
| (Decrease)/increase in provision | | (353) | 353 |
| **Cash absorbed by operating activities** | | **(12,781)** | **(8,807)** |
| Purchase of plant and equipment | 15 | (2,388) | (1,812) |
| Additions to intangible assets | 13 | (334) | (87) |
| Interest received | 10 | 151 | 19 |
| **Net cash absorbed by investing activities** | | **(2,571)** | **(1,880)** |
| Proceeds from the issue of share capital | | - | 36,000 |
| Costs of issue of share capital | | - | (1,348) |
| Proceeds from the exercise of options | | 40 | 437 |
| Proceeds from grant of warrants | 24 | 576 | – |
| Lease interest paid | 20 | (38) | (37) |
| Lease payments | 20 | (381) | (292) |
| **Net cash from financing activities** | | **197** | **34,760** |
| Net (decease)/increase in cash and cash equivalents | | (15,155) | 24,074 |
| Cash and cash equivalents at start of year | | 55,375 | 31,301 |
| **Cash and cash equivalents at end of year** | 18 | **40,220** | **55,375** |

The notes on pages 92 to 116 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 fuel cell and fuel processing 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 UK Adopted International Accounting Standards (IASs).

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

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

The directors make their assessment based on a cash flow model prepared by management which sets out expected cash flows through to 30 April 2024. Extending the period beyond the minimum 12 months from the date of this report provides additional comfort when making the assessment.

Downside sensitivities have been applied to the cash flows primarily related to an overspend of product development costs (for both materials and internal labour) and an under-recovery of R&D tax credits.

Having concluded that the Company remains a going concern, these financial statements have therefore been prepared on that basis.

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

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 October 2022 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.

## Amendments to International Financial Reporting Standards (IFRSs) that are mandatorily effective for the current year

In the current year, the Company has applied the following amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatory:

– Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 for Interest Rate Benchmark reform – phase 2 (effective for periods beginning on or after 1 January 2021)

– IFRS 16 Amendment for COVID-19 related Rent Concessions beyond 30 June 2021 (effective for periods beginning on or after 1 April 2021)

These standards have not had a material impact on the entity in the current reporting period.

## New and revised IFRSs in issue but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 October 2022 reporting periods and have not been early adopted by the Company. These standards are expected neither to have a material impact on the entity in the current or future reporting periods nor on foreseeable future transactions:

– IFRS 3 Amendments to references to the Conceptual Framework Current (effective for periods beginning on or after 1 January 2022)

– IAS 16 Amendments to Property, Plant and Equipment – Proceeds before intended Use Current (effective for periods beginning on or after 1 January 2022)

– IAS 37 Amendments to Onerous Contracts – Cost of Fulfilling a Contract (effective for periods beginning on or after 1 January 2022)

– Annual Improvements to IFRS Standards 2018-2020, affecting IFRS 1, IFRS 9, IFRS 16, IFRS 41 (effective for periods beginning on or after 1 January 2022)

– IAS 1 Classification of Liabilities as Current or Non-Current (effective for periods beginning on or after 1 January 2024)

– IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies from significant to material (effective for periods beginning on or after 1 January 2023)

– IAS 8 Amendments to Definition of Accounting Estimates (effective for periods beginning on or after 1 January 2023)

– IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for periods beginning on or after 1 January 2023)

## Capital policy

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

## Revenue recognition

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

- Identifying the contract with a customer;
- Identifying the performance obligations;
- Determining the transaction price;
- Allocating the transaction price to the performance obligations; and
- Recognising revenue as the performance obligations are satisfied.

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 for 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; and
- Some or all the goods and services comprise a single performance obligation.

The contract terms are analysed to determine if they 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 a suitable indicator of fair value.

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 customers. Contract liabilities are recognised for consideration received in respect of unsatisfied performance obligations and the Company reports these amounts as Deferred revenue in the notes to 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 in 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.

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

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

Sale (customised products) contracts - Revenues for customised contracts (i.e. contracts with no alternative use for the contract deliverable) 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.

Combination of contracts - contracts are combined and accounted for as a single contract if the contracts are entered into at or near the same time with the same customer or if one or more of the following are met; contracts negotiated as a single package; consideration of one contract depends on another; or some of the goods or services are a single performance obligation.

## 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 assessed. In accordance with IAS 38 Development costs and capitalised if they meet all of the criteria required as below:

- technical feasibility of completing the asset for use or sale;
- intention to complete the asset for use or sale;
- ability to use or sell the asset;
- generation of probable future economic benefits;
- availability of adequate technical and financial resources; and
- ability to measure the attributable expenditure reliably.

## Foreign currency

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

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

## Inventory

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

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

## Cash and cash equivalents

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

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

## Other receivables

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

## Tangible fixed assets

Property and equipment are stated at cost less any subsequent accumulated depreciation and impairment losses.

Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Depreciation is charged to the Statement of Comprehensive Income within cost of sales and 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:

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

## Right-of-use assets

At inception each contract is assessed as to whether it conveys the right to control the use of an identified asset, and obtain substantially all the economic benefits from use of the asset, for a period of time in exchange for consideration. In this instance the contract should be accounted for 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 is used. The lease liability continues to be measured at amortised cost using the effective interest method. It is remeasured when there is a change in the future lease payments. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

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

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

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

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

## Intangible assets

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

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses.

Amortisation of intangible assets is charged using the straight-line method to administrative expenses over the following periods:

| | **Years** |
|---|---|
| Development costs | 5 years |
| Patents | 10 to 20 years |
| Commercial rights | 5 years |

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

## 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).

## Financial instruments

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

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

### Financial assets at amortised cost

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

### Financial liabilities

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

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

### Impairment of financial assets

A loss allowance for expected credit losses is recognised in the Statement of Comprehensive Income for financial assets measured at amortised cost. At each balance sheet date, on a forward-looking basis, the Company assesses the expected credit losses associated with its financial assets (such as trade receivables and contract assets) carried at amortised 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 derecognised when either the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party. If neither the rights to receive cash flows from the asset have expired nor the Company has transferred its rights to receive cash flows from the asset, the Company will assess whether it has relinquished control of the asset or not. If the Company does not control the asset then derecognition is appropriate. A financial liability is derecognised when the associated obligation is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of Comprehensive Income.

## Share-based payment transactions

The fair value of options granted under the Employee 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)
- 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 employer's 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.

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

## Taxation

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

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.

## 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 5% of the employee's salary and are reflected in the statement of comprehensive income in the period for which they are made.

# 3. Critical accounting judgements, and key sources of estimation 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:

## Critical accounting 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 goods or services related to the provision of off-grid power generated from the conversion by fuel cells of hydrogen to electricity.

Customer agreements can be complex, involve multiple legal documents and have a duration covering multiple accounting periods including different performance obligations and payment terms designed to manage cash flow rather than the underlying arm's length transaction price. Management 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.

### 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.

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

## Key source of estimation uncertainty

### Share-based payments

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

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

The cost of equity-settled transactions is accrued, together with a corresponding increase in equity over the period the directors expect the performance criteria will be fulfilled. For market performance criteria this estimate is made at the time of grant considering historic share price performance and volatility. For non-market 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.

### Onerous contracts

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

## Estimate

Accounting estimate but not a significant estimate under IAS 1.125.

### Warrant valuation

6.8 million warrants were granted during the year to ABB E-mobility on the same day, 15 November 2021, that the Company signed the Sale and Development Agreement.

As the warrant vesting conditions were dependent on performance conditions within the Sale and Development contract, the two contracts were considered to be linked and therefore accounted as a single contract (meaning that the contract value of the Sale and Development agreement was reduced by the fair value of the warrants, which have been accounted for as equity and so not charged to the Statement of Comprehensive Income).

The fair value is determined using the Black-Scholes valuation model with the Monte Carlo model used for inputs around likelihood of exercise. The main area of uncertainty relates to the inputs to the Black-Scholes model, particularly around the assumptions concerning the exercise period and timing of any potential exercise. This is because the start of the exercise period) (i.e. the point the warrants vest) is subject to performance, and therefore not fixed in time at the point of grant (which is the valuation date). Changing the assumptions around timing could have a material impact on the valuation. Level 1 inputs have been used where suitable but management inputs have also been taken into account. See also note 24.

## 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 2022, the Company operated mainly in the United Kingdom. All non-current assets are in the United Kingdom.

Revenue for the period was all generated from fuel cell systems.

## 5. Revenue

| Revenue from contracts with customers | Year ended 31 October 2022 £000s | Year ended 31 October 2021 £000s |
|---|---|---|
| Rental revenue | 225 | 576 |
| Other revenue | 357 | 16 |
| | **582** | **592** |
| Being | | |
| Cash consideration | 367 | 315 |
| Consideration in kind | 215 | 277 |
| | **582** | **592** |

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

Unsatisfied performance obligations were:

| | Total £000s | Within one year £000s | Within 2 to 5 years £000s |
|---|---|---|---|
| 31 October 2021 [1] | 148 | 148 | - |
| **31 October 2022** | **96** | **96** | **-** |

[1] 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 2022 was £96,000 (2021: £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.

## 6. Operating costs

The operating costs consist of:

| | Note | Qualifying R&D spend 31 October 2022 £000s | Indirect 31 October 2022 £000s | Year ended 31 October 2022 £000s | Qualifying R&D spend 31 October 2021 £000s | Indirect 31 October 2021 £000s | Year ended 31 October 2021 £000s |
|---|---|---|---|---|---|---|---|
| Materials | | 4,654 | 451 | 5,105 | 1,003 | 34 | 1,037 |
| Payroll (excluding Directors) | | 3,660 | 1,247 | 4,907 | 1,767 | 220 | 1,987 |
| | | **8,314** | **1,698** | **10,012** | **2,770** | **254** | **3,024** |
| Directors costs | 9 | - | 1,642 | 1,642 | - | 1,900 | 1,900 |
| Other employment costs | | 251 | 796 | 1,047 | 17 | 1,196 | 1,212 |
| Occupancy costs | | - | 772 | 772 | 27 | 245 | 272 |
| Other administrative expenses | 7 | 440 | 2,310 | 2,750 | 75 | 1,743 | 1,818 |
| | | **9,005** | **7,218** | **16,223** | **3,100** | **5,127** | **8,226** |
| Amortisation of intangible assets | 13 | - | 474 | 474 | - | 110 | 110 |
| Depreciation of right-to-use assets | 14 | - | 379 | 379 | - | 302 | 302 |
| Depreciation of tangible fixed assets | 15 | - | 994 | 994 | - | 480 | 480 |
| Less depreciation of rental asset charged to cost of sales | 15 | - | (218) | (218) | - | (98) | (98) |
| Consideration in kind | 5 | - | 215 | 215 | - | 278 | 278 |
| Share based payment | 23 | - | 1,682 | 1,682 | - | 1,152 | 1,152 |
| | | **9,005** | **10,744** | **19,749** | **3,100** | **7,351** | **10,450** |

The values disclosed as qualifying R&D spend form the total R&D expenditure incurred by the Company during the year.

Occupancy costs include: repair & maintenance, utilities and lease payments. In the prior year the information technology costs were classified within occupancy costs but have been reclassified in the current year into other administration expenses to better reflect the nature of the costs.

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

| | Year ended 31 October 2022 £000s | Year ended 31 October 2021 £000s |
|---|---|---|
| Audit | 244 | 136 |
| Other assurance services | 9 | 12 |

## 7. Other administration expenses

| | Year ended 31 October 2022 £000s | Year ended 31 October 2021 £000s |
|---|---|---|
| Professional fees | 889 | 596 |
| Audit and tax costs | 312 | 155 |
| Information technology | 753 | 342 |
| Travel & entertainment | 486 | 224 |
| Insurance | 260 | 162 |
| Other | 50 | 339 |
| | **2,750** | **1,818** |

In the prior year the information technology costs were classified within occupancy costs but have been reclassified in the current year into other administrative expenses to better reflect the nature of the costs.

## 8. Employee numbers and costs, including directors

The average numbers of employees in the year were:

| | Year ended 31 October 2022 Number | Year ended 31 October 2021 Number |
|---|---|---|
| Support, operations and technical | 77 | 36 |
| Directors | 7 | 6 |
| | **84** | **42** |

The aggregate payroll costs for these persons were:

| | Year ended 31 October 2022 £000s | Year ended 31 October 2021 £000s |
|---|---|---|
| Wages and salaries | 5,961 | 3,108 |
| Social security | 392 | 684 |
| Employer's pension contributions | 196 | 95 |
| | **6,549** | **3,887** |
| Equity-settled share-based payment expense | 1,682 | 1,152 |
| | **8,231** | **5,039** |

## 9. Directors' costs

| | Year ended 31 October 2022 £000s | Year ended 31 October 2021 £000s |
|---|---|---|
| Wages and salaries | 1,380 | 1,538 |
| Accrual for untaken holiday | 37 | – |
| Other compensation | 77 | 107 |
| Company pension contributions | 50 | 44 |
| | **1,544** | **1,689** |
| Social security | 98 | 211 |
| | **1,642** | **1,900** |

Social security and accrued holidays are included in the table above to reconcile to Note 6.

## 9. Directors' costs - continued

| Directors' emoluments | Year ended 31 October 2022 £000s | Year ended 31 October 2021 £000s |
|---|---|---|
| Wages and salaries | 1,380 | 1,538 |
| Other compensation | 77 | 107 |
| Company contributions to defined contribution pension schemes | 50 | 44 |
| | **1,507** | **1,689** |

Of the current directors, Adam Bond is the only director ever to have exercised options or warrants (see below).

| Highest paid director | Year ended 31 October 2022 £000s | Year ended 31 October 2021 £000s |
|---|---|---|
| Wages and salaries | 538 | 775 |
| Other compensation | 43 | 88 |
| | **581** | **863** |
| Company contributions to defined contribution pension schemes | 16 | 13 |
| | **597** | **876** |

Adam Bond realised £133,000 from exercising in full options that vested earlier in the year at value £241,000. He did not exercise any options in the previous year.

The highest paid director received remuneration of £581,000 (2021: £863,000) excluding pension contributions and LTIP.

## 10. Net finance cost

| | Year ended 31 October 2022 £000s | Year ended 31 October 2021 £000s |
|---|---|---|
| Lease Interest | 38 | 37 |
| Exchange rate differences | (21) | 2 |
| Bank charges | 2 | 13 |
| Total finance cost | 19 | 52 |
| Bank interest receivable | (143) | (19) |
| **Net finance cost** | **(124)** | **33** |

## 11. Taxation

| | Year ended 31 October 2022 £000s | Year ended 31 October 2021 £000s |
|---|---|---|
| Recognised in the statement of comprehensive income | | |
| R&D tax credit - current year | (3,050) | (1,034) |
| R&D tax credit - prior year | 8 | (30) |
| **Total tax credit** | **(3,042)** | **(1,063)** |
| | | |
| Reconciliation of effective tax rates | | |
| Loss before tax | (19,488) | (10,442) |
| **Tax using the domestic rate of corporation tax of 19% (2021: 19%)** | **(3,703)** | **(1,984)** |
| | | |
| Effect of: | | |
| Change in unrecognised deferred tax resulting from tax losses | 1,767 | 1,354 |
| Timing differences not deductible for tax purposes | (101) | (165) |
| Depreciation in excess of capital allowances | 299 | 148 |
| R&D enhanced deduction on qualifying R&D expenditure | (2,259) | (766) |
| R&D rate adjustment on surrendered losses | 947 | 380 |
| R&D tax credit - prior year | 8 | (30) |
| **Total tax credit** | **(3,042)** | **(1,063)** |

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

| | Year ended 31 October 2022 £000s | Year ended 31 October 2021 £000s |
|---|---|---|
| Property, plant and equipment, and intangible assets | (187) | (95) |
| Share based payments | 477 | 39 |
| Losses carried forward | 12,037 | 9,595 |
| **Unrecognised net deferred tax assets** | **12,327** | **9,539** |

The cumulative tax losses in the amount of £47.6 million (2021: £37.8 million) that are available indefinitely for offsetting against future taxable profits have not been recognised as the Directors consider that it is unlikely that they will be realised in the foreseeable future.

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

The tax reconciliation for the prior year has been re-presented to reflect the reconciliation in the current year where change in unrecognised deferred tax resulting from tax losses has been disclosed separately from other reconciling items.

## 12. Loss per share

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

| | Year ended 31 October 2022 | Year ended 31 October 2021 |
|---|---|---|
| Basic loss per share (pence) | (2.24) | (1.33) |
| Diluted loss per share (pence) | (2.24) | (1.33) |
| Loss attributable to equity shareholders £000s | (£16,446) | (£9,378) |
| **Weighted average number of shares in issue 000s** | **734,745** | **706,413** |

### Diluted earnings per share

As set out in note 23, there are share options and warrants (accounted for under IFRS 2: Share based payments) outstanding as at 31 October 2022 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 2022 nor the previous year.

## 13. Intangible assets

| | Development costs £000s | Patents £000s | Commercial rights £000s | Intangible assets £000s |
|---|---|---|---|---|
| **Cost** | | | | |
| As at 1 November 2020 | 229 | 800 | 121 | 1,150 |
| Additions | - | 86 | - | 86 |
| 31 October 2021 | 229 | 886 | 121 | 1,236 |
| Additions | - | 334 | - | 334 |
| **As at 31 October 2022** | **229** | **1,220** | **121** | **1,570** |
| | | | | |
| **Amortisation** | | | | |
| As at 1 November 2020 | 28 | 344 | 9 | 381 |
| Charge for the year | 46 | 40 | 24 | 110 |
| As at 31 October 2021 | 74 | 384 | 33 | 491 |
| Intangible: Impairment | 121 | 173 | - | 294 |
| Charge for the year | 34 | 422 | 18 | 474 |
| **As at 31 October 2022** | **229** | **979** | **51** | **1,259** |
| | | | | |
| Net book value 31 October 2020 | 201 | 456 | 112 | 769 |
| Net book value 31 October 2021 | 155 | 504 | 88 | 747 |
| **Net book value 31 October 2022** | **-** | **241** | **70** | **311** |

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 £100k and future payments in kind through the provision of technical support.

The impairment charge relates to certain expenses capitalised during the development of the L-Series and now considered impaired due to the development of the S-Series.

## 14. Right-of-use assets

| | Buildings £000s |
|---|---|
| **Costs** | |
| As at 1 November 2020 | 1,415 |
| As at 31 October 2021 | 1,415 |
| Additions | 470 |
| **As at 31 October 2022** | **1,885** |
| **Depreciation** | |
| 31 October 2020 | 228 |
| Charge for the year | 302 |
| 31 October 2021 | 530 |
| Charge for the year | 379 |
| **As at 31 October 2022** | **909** |
| **Net Book Value** | |
| As at 31 October 2020 | 248 |
| As at 31 October 2021 | 884 |
| **As at 31 October 2022** | **976** |

## 15. Tangible fixed assets

| | Leasehold improvements £000s | De-commissioning Asset £000s | Fixtures, fittings and equipment £000s | Motor vehicles £000s | Demon-stration equipment £000s | Sub-Total £000s |
|---|---|---|---|---|---|---|
| **Costs** | | | | | | |
| As at 1 November 2020 | 222 | 300 | 1,486 | 18 | 327 | 2,353 |
| Additions | 736 | - | 81 | - | 295 | 1,112 |
| Disposals | - | - | (13) | - | | (13) |
| Transfers | - | - | (214) | - | | (214) |
| **As at 31 October 2021** | **958** | 300 | **1,340** | **18** | **622** | **3,238** |
| Additions | 1,620 | - | 241 | - | - | 1,861 |
| Disposals | (8) | - | - | - | (118) | (126) |
| **As at 31 October 2022** | **2,570** | **300** | **1,581** | **18** | **504** | **4,973** |
| **Depreciation** | | | | | | |
| 1 November 2020 | 222 | 234 | 1,310 | 18 | 54 | 1,838 |
| Charge for the year | 80 | 31 | 42 | - | 144 | 297 |
| Disposals | - | - | (10) | - | - | (10) |
| Transfers | - | - | (98) | - | - | (98) |
| **As at 31 October 2021** | **302** | **265** | **1,244** | **18** | **198** | **2,027** |
| Charge for the year | 444 | 20 | 83 | - | 69 | 616 |
| Impairment | - | - | - | - | 67 | 67 |
| **As at 31 October 2022** | **746** | **285** | **1,327** | **18** | **334** | **2,710** |
| **Net Book Value** | | | | | | |
| 1 November 2020 | - | 66 | 176 | - | 273 | 515 |
| 31 October 2021 | 655 | 35 | 96 | - | 424 | 1,211 |
| **As at 31 October 2022** | **1,824** | **15** | **254** | - | **170** | **2,263** |

## 15. Tangible fixed assets - continued

| | Sub-Total £000s | Rental asset £000s | Computer equipment £000s | Manu-facturing and test stands £000s | Assets in construction £000s | Total £000s |
|---|---|---|---|---|---|---|
| **Costs** | | | | | | |
| 1 November 2020 | 2,353 | 423 | - | - | - | 2,776 |
| Additions | 1,112 | 280 | 70 | 351 | - | 1,813 |
| Disposals | (13) | - | - | - | - | (13) |
| Transfers | (214) | - | 129 | 85 | - | - |
| **31 October 2021** | **3,238** | **703** | **199** | **436** | - | **4,576** |
| Additions | 1,861 | - | 119 | 2 | 406 | 2,388 |
| Disposals | (126) | - | - | - | - | (126) |
| **31 October 2022** | **4,973** | **703** | **318** | **438** | **406** | **6,838** |
| **Depreciation** | | | | | | |
| 1 November 2020 | 1,838 | - | - | - | - | 1,838 |
| Charge for the year | 297 | 98 | 39 | 45 | - | 479 |
| Disposals | (10) | - | - | - | - | (10) |
| Transfers | (98) | - | 47 | 51 | - | - |
| **31 October 2021** | **2,027** | **98** | **86** | **96** | - | **2,307** |
| Charge for the year | 616 | 218 | 71 | 89 | - | 994 |
| Impairment | 67 | 188 | - | - | - | 255 |
| **31 October 2022** | **2,710** | **504** | **157** | **185** | **-** | **3,556** |
| Net Book Value | | | | | | |
| 1 November 2020 | 515 | 423 | - | - | - | 938 |
| 31 October 2021 | 1,211 | 605 | 113 | 340 | - | 2,269 |
| **31 October 2022** | **2,263** | **199** | **161** | **253** | **406** | **3,282** |

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.

## 16. Inventory

| | Year ended 31 October 2022 £000s | Year ended 31 October 2021 £000s |
|---|---|---|
| Raw materials | 173 | 453 |
| Work in progress | - | 208 |
| Provision | (130) | - |
| **Inventory** | **43** | **661** |

Inventory expensed as cost of sales during the year was £nil (2021 £nil). During the year, £488,000 of brought forward inventory was written off as research and development costs on projects that did not subsequently meet the anticipated level of commerciality.

## 17. Receivables

| | Year ended 31 October 2022 £000s | Year ended 31 October 2021 £000s |
|---|---|---|
| Accounts receivable | 142 | 299 |
| VAT receivables | 401 | 229 |
| Other receivables | 303 | 154 |
| Prepayments | 314 | 333 |
| | **1,160** | **1,015** |

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

Given the value of VAT receivables for the current year, it has been reclassified as a separate line item, with the balance remaining within other receivables.

## 18. Cash and cash equivalents

| | Year ended 31 October 2022 £000s | Year ended 31 October 2021 £000s |
|---|---|---|
| Cash at bank | 285 | 119 |
| Bank deposits | 39,935 | 55,256 |
| | **40,220** | **55,375** |

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

Restricted cash of £612,000 (2021: £612,000) is not included within cash and cash equivalents and is held on escrow to support bank guarantees provided under contractual obligations to suppliers and customers..

## 19. Payables

| | Year ended 31 October 2022 £000s | Year ended 31 October 2021 £000s |
|---|---|---|
| **Current liabilities:** | | |
| Trade payables | 445 | 353 |
| Deferred revenue | 1,600 | 214 |
| Other payables | 349 | 144 |
| Accruals | 1,250 | 985 |
| | **3,644** | **1,696** |

Included in Accruals as of 31 October 2022 is an amount of £514,000 in relation to bonuses (2021: 507,000).

Deferred revenue under the ABB contract is reduced by the fair value of the warrants granted on the same day, 15 November 2021, as the two contracts are considered to be linked. Also see note 24 for information on the warrants granted.

## 20. Lease liabilities

| | Year ended 31 October 2022 £000s | Year ended 31 October 2021 £000s |
|---|---|---|
| Opening position | 906 | 260 |
| **Cash flows** | - | - |
| - Repayment | (419) | (330) |
| **Non-cash** | - | - |
| - Additions | 471 | 939 |
| - Interest expense | 38 | 37 |
| | **996** | **906** |

| | Year ended 31 October 2022 £000s | Year ended 31 October 2021 £000s |
|---|---|---|
| Lease liabilities less than 12 months | 298 | 322 |
| Lease liabilities more than 12 months | 698 | 584 |
| | **996** | **906** |

The Company has a number of leases, which are mainly of five years in duration and have break clauses after two, or three, years. Leases are renewed, as opposed to being extended, and are granted outside of the 1954 Act, and therefore do not have security of tenure.

## 21. Provisions

| | National Insurance on unapproved share options £000s | Decommissioning provision £000s | Total £000s |
|---|---|---|---|
| Balance at 1 November 2020 | - | (301) | (301) |
| Addition | (353) | - | (353) |
| Balance at 31 October 2021 | (353) | (301) | (654) |
| Utilisation | 353 | - | 353 |
| **Balance at 31 October 2022** | - | **(301)** | **(301)** |

The prior year provision for National Insurance related to options granted outside of the approved EMI scheme. No further grants of similar options were made during the current year and, as the EMI options are marked-to-market and the relevant market benchmark is lower than the exercise price, no provision is required.

The Company has set up a decommissioning provision for 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 the lessor.

## 22. Issued share capital

| | Ordinary shares | Price £000s | Share Capital £000s | Share premium £000s | Cost of issue £000s | Total share premium £000s |
|---|---|---|---|---|---|---|
| 1 November 2021 | 734,484,668 | - | 734 | 119,718 | (3,269) | 116,448 |
| Exercise of options 14 March 2022 | 60,000 | 9,240 | - | 9 | - | 9 |
| Exercise of options 5 July 2022 | 110,000 | 12,320 | - | 12 | - | 12 |
| Exercise of PSP award 21 July 2022 | 583,169 | 583 | 1 | - | - | 1 |
| Exercise of options 26 July 2022 | 60,000 | 9,240 | - | 9 | - | 9 |
| Exercise of options 7 September 2022 | 53,334 | 8,213 | - | 8 | - | 8 |
| **31 October 2022** | **735,351,171** | **39,596** | **735** | **119,756** | **(3,269)** | **116,487** |

All issued shares are fully paid, other than some shares which were issued during the year without payment of the nominal face value of 0.1 pence per share required by the relevant legislation. The Company will work to remediate the issue and processes have been modified to prevent this happening in the future.

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

Share premium is shown before the permitted deduction of cost of issue. After such deduction the value equals £116,487,000.

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

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

In November 2021 the Company granted 6.8 million warrants to ABB (see note 24)

## 23. Share based payments

Share based payment charge:

| | 2022 £000s | 2021 £000s |
|---|---|---|
| Employee Share Option Plan | 1,593 | 1,090 |
| Warrants | 70 | 62 |
| SAYE | 19 | - |
| | **1,682** | **1,152** |

### 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 conditional 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.

## 23. Share based payments - continued

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

| | Average exercise price per share option (£) 2022 | Number of options 2022 | Average exercise price per share option (£) 2021 | Number of options 2021 |
|---|---|---|---|---|
| 1 November 2021 | 0.35 | 14,952,167 | 0.30 | 14,420,835 |
| Granted during the year | 0.01 | 7,708,317 | 0.62 | 1,600,000 |
| Exercised during the year | 0.05 | (866,503) | 0.22 | (718,668) |
| Lapsed during the year | 0.21 | (1,945,548) | 0.33 | (350,000) |
| **31 October 2022** | **0.24** | **19,848,433** | **0.35** | **14,952,167** |
| Vested and exercisable at 31 October | | **11,700,637** | | **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 2022 | Share options 2021 |
|---|---|---|---|---|
| 07 November 2012 | 07 November 2022 | 0.3575 | 95,000 | 95,000 |
| 02 December 2013 | 01 December 2023 | 0.34 | 120,000 | 120,000 |
| 17 July 2015 | 17 July 2025 | 0.22 | 6,000,000 | 6,000,000 |
| 10 September 2018 | 01 August 2024 | 0.088 | 216,667 | 266,667 |
| 15 October 2018 | 15 October 2024 | 0.088 | 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 | 820,500 | 1,720,500 |
| 24 June 2021 | 28 June 2031 | 0.617 | 1,000,000 | 1,500,000 |
| 19 November 2021 | 19 November 2031 | 0.001 | 2,971,582 | - |
| 04 July 2022 | 04 July 2032 | 0.19 | 215,000 | - |
| 15 July 2022 | 15 July 2032 | 0.001 | 3,159,684 | - |
| | | | **19,848,433** | **14,952,167** |

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.

## 23. Share based payments - continued

| 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 2022 £000s |
|---|---|---|---|---|---|---|---|---|
| 16.35 | 31 December 2019 | 16.35 | 95.5% | 0.54% | 0% | 2 | 8.1 | 74 |
| 61.7 | 24 June 2021 | 63.5 | 106.8% | 0.18% | 0% | 3 | 41.8 | 116 |
| 0.001 | 19 November 2021 | 53.8 | 76% | 0.05% | 0% | 0.4 | 0.43 | 698 |
| 0.001 | 19 November 2021 | 53.8 | 76% | 0.35% | 0% | 1.4 | 0.42 | 472 |
| 0.001 | 19 November 2021 | 53.8 | 76% | 0.05% | 0% | 3 | 0.45 | 167 |
| 0.19 | 04 July 2022 | 19 | 95% | 1.83% | 0% | 3 | 11.4 | 3 |
| 0.001 | 15 July 2022 | 20.7 | 95% | 1.76% | 0% | 3 | 12.7 | 27 |
| 0.001 | 15 July 2022 | 20.7 | 95% | 1.76% | 0% | 3 | 16.6 | 36 |
| **Total charge for the year (2021: £ 1,089,887)** | | | | | | | | **1,593** |

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

## SAYE

| | Average exercise price per option (£) 2022 | Number of options 2022 | Average exercise price per option (£) 2021 | Number of options 2021 |
|---|---|---|---|---|
| 1 November | | - | - | - |
| Granted during the year | 0.2 | 2,007,400 | - | - |
| **31 October** | 0.2 | 2,007,400 | - | - |
| Vested and exercisable at 31 October | - | - | - | - |

| Grant date | Expiry date | Exercise price (£) | Share options 2022 | Share options 2021 |
|---|---|---|---|---|
| 03 August 2022 | 31 March 2026 | 0.2 | 2,007,400 | - |
| | | | 2,007,400 | - |

| 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 2022 (£000's) |
|---|---|---|---|---|---|---|---|---|
| 0.2048 | 03 August 2022 | 0.256 | 95% | 2.93% | 0% | 3.08 | 17.7 | 19 |
| **Total charge for the year (2021: £ nil)** | | | | | | | | **19** |

## 24. Financial instruments

### 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 (£) 2022 | Number of warrants 2022 | Average exercise price per warrant (£) 2021 | Number of warrants 2021 |
|---|---|---|---|---|
| 01 November | 0.51 | 8,900,000 | 0.18 | 5,400,000 |
| Granted during the year | 0.59 | 6,802,720 | 0.77 | 5,000,000 |
| Exercised during the year | - | - | 0.19 | (1,500,000) |
| **31 October** | **0.54** | **15,702,720** | 0.51 | 8,900,000 |
| Vested and exercisable at 31 October | | **4,001,300** | | 600,000 |

| 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 warrant life (years) | Average fair value per warrant (pence) | Amount expensed in 2022 (£) |
|---|---|---|---|---|---|---|---|---|
| 19.5 | 13 October 2020 | 18.56 | 102.76% | (0.02)% | 0.0% | 1 | 7.01 | 70 |
| **Total charge for the year** | | | | | | | | **70** |

The total charge for the prior year was £62,100.

| 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 warrant life (years) | Average fair value per warrant (pence) | Accounted as equity in 2022 (£) |
|---|---|---|---|---|---|---|---|---|
| 58.8 | 15 November 2021 | 58.8 | 59.1% | 0.65% | 0.0% | 2 | 6.3 | 215 |
| 58.8 | 15 November 2021 | 58.8 | 59.1% | 0.65% | 0.0% | 2 | 11.3 | 192 |
| 58.8 | 15 November 2021 | 58.8 | 59.1% | 0.65% | 0.0% | 2 | 9.9 | 169 |
| **Accounted as equity** | | | | | | | | **576** |

The warrant life is two years from the date of vesting. The first tranche of 3.4 million warrants have fully vested. Under the revised agreement signed on 28 March 2023, ABB will invest the £2.0 million balance into newly issued share capital, which means that the original milestones 1 and 2 will no longer apply and so the related warrants will not vest and therefore expire in due course.

Further information on the ABB transaction is provided under post balance sheet events within the Directors' Report.

# 24. Financial instruments - continued

## Warrants - continued

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

| Grant date | Expiry date | Exercise price (£) | Warrants 2022 | Warrants 2021 |
|---|---|---|---|---|
| 09 September 2019 | 09 September 2029 | 0.05 | 900,000 | 900,000 |
| 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 | 5,000,000 |
| 15 November 2022 | 04 February 2024 | 0.59 | 3,401,360 | - |
| 15 November 2022 | 24 months after vesting | 0.59 | 1,700,680 | - |
| 15 November 2022 | 24 months after vesting | 0.59 | 1,700,680 | - |
| | | | **15,702,720** | **8,900,000** |

Vesting is conditional on the meeting of the milestones 1 and 2.

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 2022 £000s | Year ended 31 October 2021 £000s |
|---|---|---|---|
| **Financial instruments held at amortised cost:** | | | |
| Cash and cash equivalents | 18 | 40,220 | 55,375 |
| Receivables | 17 | 445 | 453 |
| **Total financial assets held at amortised cost** | | **41,380** | **56,390** |
| Payables | 19 | 2,044 | 1,482 |
| **Total financial liabilities held at amortised cost** | | **2,044** | **1,482** |

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

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

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

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

## 24. Financial instruments - continued

### General objectives, policies and processes

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

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

### Credit risk

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

| | Year ended 31 October 2022 £000s | Year ended 31 October 2021 £000s |
|---|---|---|
| Receivables | 1,160 | 1,015 |
| Cash and cash equivalents | 40,220 | 55,375 |

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.

See also note 20, which sets out the lease liabilities for less than 12 months and more than 12 months.

### Interest rate risk

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

## 24. Financial instruments - continued

### Fair value of financial instruments

| | Year ended 31 October 2022 £000s | Year ended 31 October 2021 £000s |
|---|---|---|
| Receivables | 445 | 453 |
| Cash and cash equivalents | 40,220 | 55,375 |
| Trade and other payables | (2,044) | (1,482) |
| | **38,621** | **54,346** |

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.

## 25. Related party transactions

There were no transactions with any related parties during the year ended 31 October 2022 (2021: £nil) other than key management compensation.

## 26. Ultimate controlling party

There is no ultimate controlling party.

## 27. Post balance sheet events

See within the Directors' Report on page 73.

# Company information

## Directors

Gary Bullard
Adam Bond
Jim Gibson
Peter Dixon-Clarke (appointed 1 December 2022)
Gerry Agnew
Monika Biddulph (appointed 3 December 2021)
Joe Mangion

## Company Secretary

Peter Dixon-Clarke (appointed 1 December 2022)

## Registered Office

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## Joint Broker

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## Bankers

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