ANNUAL REPORT 2014

TRANSFORMING POWER

AFC energy plc

Powering the Hydrogen Economy

Financial Highlights

- Announced strategic partnership with Air Products PLC ("Air Products") at Stade, Germany, within the POWER-UP programme
- Invested in semi-automated manufacturing capability at Dunsfold facilities in advance of commercialisation
- Signed MoU with Allied New Technologies Inc to evaluate feasibility of fuel cells in the US chlor-alkali market
- Foster Wheeler AG successfully completed HAZOP review of KORE system
- Saw initial commercial traction in South Korea with discussions ongoing
- Appointed Christopher Tawney as Finance Director and Company Secretary
- Revenue increased to £796k (2013: £768k)

Contents

AFC Energy is the leading developer of low-cost alkaline fuel-cell systems using hydrogen to produce clean electricity.

- Net research and development expenditure decreased to £1.28m due to increased grant funding levels (2013: £1.48m)
- Diluted loss per share of 2.42p (2013: 1.88p)
- Net cash amounted to £4.9m as at 31 October 2014 (2013: £6.9m)
- Raised £6.1 million through placing and Open Offer

Post Period Highlights

- Appointment of Adam Bond as Chief Executive Officer
- Successful trials of 25 and 51 cell stacks and on-track for successful demonstration of 101 cell stack in Q1 2015
- Announced series of milestones to accelerate POWER-UP programme and delivery of KORE system by 18 months

"2015 will be all about driving our KORE programme forward…

Alongside that, we expect to make further progress in developing and monetising commercial partnerships in our target markets. We have always said that AFC Energy has world-leading technology with strong commercial appeal and the Board remains very confident that this will be proven in the coming months."

Tim Yeo, Chairman

Chairman's Statement

Due to the fund-raising carried out by the Company in October 2014 and the subsequent management and Board changes, it is deemed appropriate that comments in this statement and in subsequent sections relate to the 14-month period to 31 December 2014.

Overview

Last year the Company operated against a background of change throughout the energy industry at home and abroad. Conditions in the fossil fuel sector were particularly challenging with a sharp fall in the oil price, weakness in gas prices and mounting pressure on the coal industry to curb its greenhouse gas emissions.

In Britain low carbon technologies mostly fared better, although the planned revival of civil nuclear power encountered delays. The implementation of the Government's electricity market reforms established new support mechanisms for wind, solar and some other renewable forms of power generation.

If the threat of climate change is to be successfully averted then the switch to more low carbon energy now has to accelerate worldwide. The Paris Conference of Parties, to be held at the end of 2015 as the next stage in the process organised by the United Nations Framework Convention on Climate Change, will focus global attention on the need for the wider use of fiscal tools and emission reduction policy measures such as carbon pricing and carbon emissions trading.

An alkaline fuel cell of the sort which the Company is developing has the potential to contribute substantially to averting the climate change threat. Our aim is to produce low carbon energy at a competitive price without depending on subsidy from either taxpayers or consumers.

In the short term however early stage technologies benefit from favourable treatment, as successive governments have acknowledged through the help they have given other types of low carbon electricity generation. We hope therefore that Britain will soon follow the example of countries like the United States and South Korea in recognising the important role which alkaline fuel cells can make towards the achievement of low carbon driven economic growth.

Key developments

The Company's strategic target remains to develop and deliver efficient, commercially viable low-cost alkaline fuel cell systems to the industrial marketplace within the shortest possible time-frame. In order to achieve that, continued fuel cell performance improvements, scaling-up of production and investment are all required. I am pleased to be able to report very positive developments in all three areas.

Firstly, we have now made sufficient technical progress both in relation to power output and operating temperature that we are able to freeze the electrode design and chemistry ahead of the commissioning of our larger alkaline fuel cell system (KORE) planned for mid-2015.

Furthermore, during the year, we took receipt of our automated extruder, which will be integral to the production of 101 cells in each stack and our assembly robot was delivered from its manufacturer, GB Innomech. Our 'semi-automated' production line therefore began operating in the fourth quarter of 2014. Finally, in October 2014, we concluded a placing that raised £6.1 million, which significantly strengthens our ability to deliver our milestone POWER-UP programme in 2015.

All of these represent huge strides towards the validation of the KORE system technology as a prelude to commercialisation.

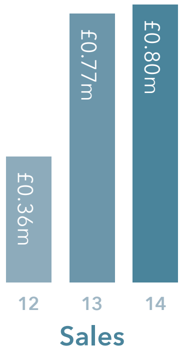
POWER-UP programme

This EU-funded programme represents our key strategic focus and, when successfully deployed, will demonstrate the world's largest alkaline fuel cell system at Air Products' industrial gas plant in Stade, Germany. POWER-UP is the final phase of AFC Energy's pre-commercialisation technical development programme and the first power generation is now expected in July 2015 ahead of full testing in December 2015.

During the year, we announced our first order (for the Beta+ fuel cell test system) from Powerhouse Energy, the waste-to-energy systems company, which will be delivered when PHE's facility comes onstream. AFC Energy will receive £150,000 from PHE for the supply of its Beta+ fuel cell test system with a deposit of £50,000 paid in the form of PHE shares and the balance becoming payable after delivery.

Two Memoranda of Understanding were signed with companies in AFC's target markets of the US and South Korea. The first with Allied New Technologies in the US to undertake a feasibility study for a fuel cell system to generate clean energy

"The board remains very confident of the company's future success."
Tim Yeo, Chairman



from hydrogen produced at Allied's bleach production plant in Florida. The second was with Chang Shin Chemical, a leading South Korean hydrogen supplier, for multiple fuel cell systems with a total potential generating capacity of up to 5MW. AFC then followed this with a Heads of Agreement with Daniel Inc., a fuel cell focused power plant owner and development company in South Korea, for an initial 1MW fuel cell system.

Partners

AFC added more companies to its sterling list of partners. The most recent additions to the list were Artelia, a leading European engineering, consulting and project management firm and their sub-contractors, PlantIng, a leading German process engineering consultancy. Together they will undertake all the engineering and design work associated with delivering POWER-UP to Stade. In terms of the POWER-UP "team", they join Air Products and Foster Wheeler (now Amec Foster Wheeler), the latter completing the HAZOP review for the KORE system in June 2014.

Management and Board

There were three changes at Board level during the year and three after the financial year-end.

In June, Jane Dumeresque our Finance Director and Company Secretary decided to leave the Company to pursue other interests and was replaced in September 2014 by Christopher Tawney, who has extensive experience of the cleantech and technology sectors.

In November, Ian Williamson stepped down after three years as Chief Executive and was replaced by Adam Bond, who has been a non-executive Director since May 2012. At the same time, our technical director Gene Lewis stepped down from the Board in order to focus fully on delivery of the development programme.

I should like to record the Board's thanks for Ian's insight and invaluable contribution during his time at the Company.

In addition, Sir John Sunderland, who has been a director since March 2012, is retiring at this year's Annual General Meeting. I am extremely grateful to Sir John for his wise advice and help throughout his time on our board. His contribution has been immensely valuable and very widely appreciated.

Summary

Fuel cell penetration continues to grow globally driven by increasing awareness of their inherent advantages relative to other forms of power generation. If one just considers the US market alone, dozens of Fortune 500 companies are now utilising fuel cells for both stationary and back-up power and federal and local government adoptions continue to increase. The opportunities for AFC Energy clearly remain very substantial.

Going forward, 2015 will be all about driving our KORE programme forward, where we have announced a series of technical milestones that we expect to achieve and this is covered later. Alongside that, we expect to make further progress in developing and monetising commercial partnerships in our target markets.

As usual, my thanks go to all Board members for their efforts while special thanks go to the forever hard-working employees who remain the lifeblood of the Company.

We have always said that AFC Energy has world-leading technology with strong commercial appeal and the Board remains very confident that this will be proven in the coming months.

Tim Yeo
Chairman
27 February 2015

Our Business

AFC is focused on markets where:
Hydrogen is readily available and offers low feedstock costs as a byproduct from manufacturing processes...

CHLOR-ALKALI

Hydrogen is a byproduct of chlorine manufacture. Around 15% is wasted and the remainder typically has low value. Alkaline fuel cells powered from this hydrogen are chemically compatible with chlorine manufacture. Using AFC Energy's alkaline fuel cell systems both electrical costs and carbon emissions can be reduced by up to 20%.

1% of world electricity consumption

76 manufacturing sites in Europe

625 MW of waste hydrogen in Europe

ENERGY FROM WASTE (EFW)

Hydrogen can be generated economically from domestic and commercial waste – due to its high hydrocarbon content. AFC Energy's alkaline fuel cell systems have the potential to generate c. 40% more electrical power from the same waste, lowering carbon emissions by the same amount.

1.3 billion t/Yr amount of MSW* worldwide

40% more power than a turbine

140 £/MW revenue from a double ROC** qualified plant

NATURAL AND BIO-GAS

Natural gas and bio-gas are predominantly methane which is hydrogen-rich. Hydrogen is released using a standard industrial process known as reforming (SMR). Developments in this field are leading to improving economics for the reforming process at smaller-scale steam methane.

70% efficiency of SMR process for H2 production

48% of H2 today produced by SMR globally

130 number of bio-gas plants in the UK

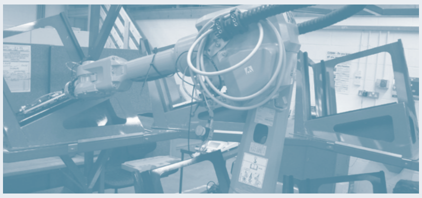
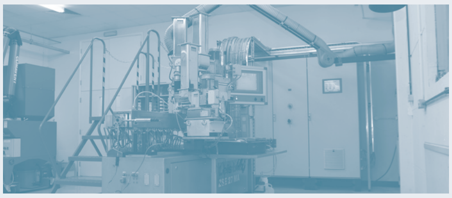
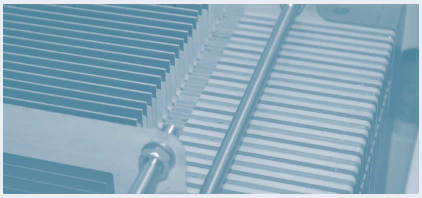
COAL GASIFICATION

Coal can be gasified either underground or at the surface to produce hydrogen and carbon dioxide (which is captured, ready for storage if available). AFC Energy's alkaline fuel cell systems enable the cleaner, more efficient use of coal for electricity generation as well as providing water required for the gasification process.

85% of energy content of coal recovered

1.5 trillion tonnes estimated coal reserves if accessed

50% expected power efficiency with fuel cells

The production of low-cost electricity that is competitive against mainstream forms of electricity generation has enormous market potential for a wide range of industrial settings, sectors and regions.

...and regions that offer attractive subsidies for electricity that is generated from fuel cells.

SOUTH KOREA

Financial incentives paid for electricity generated from fuel cells makes South Korea a particularly attractive target market for AFC Energy fuel cell systems.

250
$/MW market value of power from a fuel cell

11.2
MW installation of the worlds largest fuel cell power plant

10%
portion of renewable energy to be supplied by 2022

SOUTH EAST ASIA

In Asia, Thailand is leading a push towards more efficient EFW solutions. Strong electrical and population growth together with government incentives and support makes EFW in Thailand attractive.

5.6%
annual electrical growth over the next 15 years

4.9%
growth in MSW per year over the next 10 years

29
million tonnes of MSW available by 2025

USA

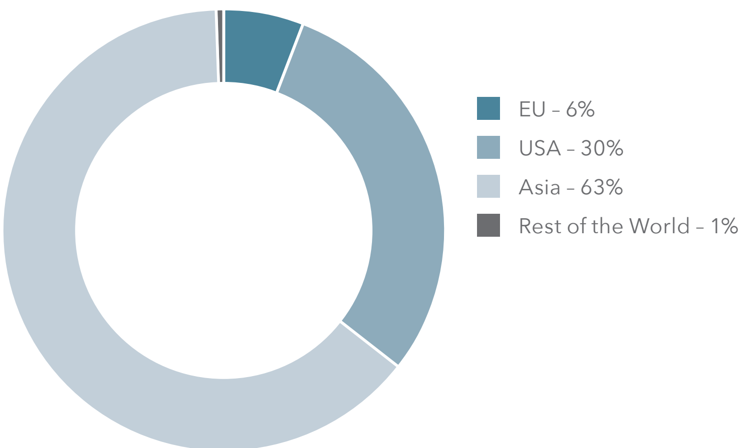
Despite 2014 forecast being below 2013 actuals the US remains the largest potential for stationary fuel cells after Korea. With an estimated 52 MW installed in 2014, US legislature continues to support fuel cells via a number of Federal and state incentive plans, some of which extend out to 2020.

2nd
largest user of power in the world (second only to China)

#1
largest chlor-alkali producer in the world

600
mile long hydrogen pipeline, the longest in the world

MW INSTALLED



Strategic Report and Operational review

Chief Executive's overview

I took over as Chief Executive on 1 December 2014, having been a member of the Board as a non-executive director for just over two years. That experience has given me a strong insight into what I believe needs to be done at AFC Energy to capitalise on the tremendous opportunities available to us.

What my time at the Company has taught me is that AFC Energy is blessed with a tremendous technical team with a desire to succeed and most importantly, a technology that is unique and compelling. My primary objective from this point is to drive a renewed and intense focus on commercialisation, for which a successful POWER-UP programme is key. AFC must increasingly transition from a focus on technical development to a focus on commercial deployment in order to deliver value to shareholders.

I am acutely aware that many shareholders have felt disappointed at the Company's inability to secure material orders for its fuel cells or to take these orders forward to completion following an initial signing of MoUs – this is despite the genuine interest and desire for the product in a number of industrial and geographical markets. I hope to start rectifying this issue over the next 12 months with a growing pipeline of opportunities that our team is continuing to develop both in our target markets, and elsewhere.

The significant improvements in the technical performance of the fuel cells in 2014 has positioned the company to accelerate the date for a commercial fuel cell demonstration of the KORE at its full design specification to the end of 2015, an improvement in the timeline of some eighteen months. Since taking over as Chief Executive, our technical teams have really began to demonstrate focus and clarity of objectives in pushing forward with this accelerated outcome, and I remain confident that we are now on the cusp of great success in 2015.

Operating Review

Technology

In last year's operating review, we reported that we had extended the electrode life in the laboratory but more importantly had made good progress in increasing the power and the longevity of the cells and in the field, achieving outputs between 20% and 30% higher than before.

These results were achieved using the standard testing deck at Dunsfold – comprising 25 fuel cells – and during 2014, three different stacks with the same electrode configuration were trialled, with a focus on achieving an operating temperature solely from the heat produced from cell reactions without a loss in cell performance. The power-to-heat ratio is a key operating parameter and is very important for extending the lifetime of any fuel cell. In addition, in a large system this will remove capital from the cost equation and improve overall system efficiency.

Pleasingly, the performance of the third stack trial saw an increase of 11.09% in electrical output relative to the first stack, producing the highest voltage output of any Beta-based fuel cell cartridge tested at AFC. The third stack was also started with a self-heating strategy and the very positive result from this trial allows AFC to freeze the electrode design and chemistry for the KORE system commissioning in mid-2015.

In early 2015, we look forward to commencing an operational performance monitoring of a 51 cell stack in an industrial environment before increasing this to 101 cells – the standard KORE size.

The progress made in 2013 in terms of preparation for higher production levels continued throughout 2014. We took delivery of an automated extruder early in the year and, in the fourth quarter, finally took delivery of our assembly robot from our partners GB Innomech and our production line is now "semi-automated".

The development of our patent portfolio has continued and is a vital part of securing our technology development and delivering value to our shareholders.

Funded projects

POWER-UP

This €6.1 million EU-part funded programme will be the world's first demonstration of an alkaline fuel cell system on a large scale and will prove AFC's ability to deliver the technical performance and economic viability that commercial end-users demand.

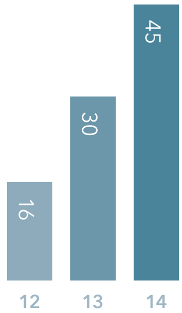
The Company has now set nine milestones it intends to achieve over the course of 2015 in relation to its programme with the key highlights being:

1. First power generation (up to 15kW) in July 2015
2. Produce commercial revenue from KORE in Q4 2015 by connecting to the German grid
3. Demonstrating 240kW power generation in December 2015

"I remain confident that we are now on the cusp of great success in 2015"

Adam Bond

Cash at Year End



Number of patents filed

Partners

With POWER-UP being our prime area of focus in 2015, our key partnerships revolve around that project. Air Products is a key partner, given it is their gas processing plant in Stade that is the location for our first operational KORE system.

However, new to our list of partners are Artelia and PlantIng, both in Germany, who are undertaking all engineering and design work associated with delivering the POWER-UP programme on site in Stade.

In the UK we continue to work closely with GB Innomech which has developed the robotic automated stack assembly/ disassembly system which enables the 101 fuel cell stack to be accurately assembled and aligned. The first round of 101 fuel cell stacks assembled utilising the automation process are expected to be transferred to Germany for initial trial in the first quarter of 2015.

Our ongoing partners continue to include Akzo Nobel, Waste2Tricity and Lancaster University.

Financial Overview

In 2014 AFC's revenue again increased to £796,000 (2013: £768,000).

Revenue for the year arose from a combination of licence fee and EU grant income. AFC continued to receive support from the EU by way of grants which strongly underpin the AFC research and development programme. Throughout the year and at the year end the company was actively engaged in three EU funded projects, Alkammonia, Laser-Cell and POWER-UP, with the focus increasingly on POWER-UP which entails the construction and delivery of the first KORE system to an operational site in Germany. These grants continue to allow the company to strengthen its technical and production teams in preparation for commercial production. R&D spend actually decreased slightly to £1.28 million (2013: £1.48 million) as more cost relating to the grant funded activity was included in cost of sales.

With commercial production imminent, the company continued to invest in plant, people and the premises at Dunsfold to facilitate the automation of production; a robot which will assemble fuel cell cartridges has been ordered and was delivered to the Dunsfold site and commissioned shortly after the year end.

Overall post tax losses to 31 October 2014 were £5.8 million (2013: £4.1 million).

In October 2014 the Company raised funds through a placing and open offer to shareholders amounting to £6.1 million before expenses; the general meeting to approve the allotment of the new shares took place on 30 October so that £1.5 million of the funds raised were not received until after the balance sheet date. Cash balances at 31 October were £4.9 million (2013: £6.9 million).

AFC continues to focus significant efforts on its IP protection and registered a number of new patents this year. Each year the registered patents are reviewed and, where appropriate, written down to a realistic carrying value.

Financial risk management objectives

These are detailed in note 21 to the accounts.

Principal risks and uncertainties

The major risk faced by the business relates to the technical progress in development of the commercial fuel cell system. Financial risks include the risk of additional development expenditure being required to produce a commercial product.

Key Performance Indicators

AFC sets internal technical targets and milestones that are regularly reviewed. The Company closely monitors spending on its EU grant projects where costs are agreed ahead of the grant and measured against actual expenditure. The Company also maintains a cost model and monitors actual cost of production against expected costs and the Directors constantly review overall expenditure compared to budget and the Company's cash position. At 31 October 2014, the Company's cash balance was in line with the target set.

Cash and cash equivalents at the year end were £4,858,203 (31 October 2013: £6,961,338).

Outlook

The fast-tracking of the delivery of the KORE and POWER-UP is a significant step forward for the Company and 2015 is likely to be a pivotal year. Our future is in our own hands and I have great confidence in the ability of our technical team to deliver what we need and for the company as a whole to make the transition to an organisation focused on commercialisation.

Our targets are ambitious, but in my view they must be and this makes it an exciting time to be a shareholder in AFC Energy. In order to ensure that my interests are fully aligned with the wider shareholder base, as well as underlining my confidence in the Company, I have agreed that a large percentage of my salary will be payable in shares and not cash. I strongly believe that AFC Energy will become a huge success and my intention is to create significantly greater value for all shareholders in the years ahead.

This report was approved by the board on 27 February 2015 and signed on its behalf by

Adam Bond
Chief Executive Officer
27 February 2015

Board of Directors

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"Our aim is to become one of the lowest cost generators of electricity on an industrial scale"

1. Tim Yeo
Non-Executive Chairman

Tim Yeo has been MP for South Suffolk since 1983. He held various Ministerial posts under Margaret Thatcher and John Major, including Minister of State at the Department of the Environment. Between 1998 and 2005, he was a member of the Shadow Cabinet, shadowing a record seven different departments. Between 2005 and 2010, he was Chair of the Environmental Audit Committee and, since 2010, he has been the chairman of the ECC Select Committee. Tim holds a number of non-executive directorships in the energy and transport sectors, including Groupe Eurotunnel SA. He was appointed chairman of AFC Energy in 2007.

2. Adam Bond
Chief Executive Officer

Adam has over 15 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. Adam's mandate is focussed on driving AFC Energy's transition to an industry leading alkaline fuel cell company, whose focus is on project execution in defined key global markets. Adam has been a Non-Executive Director of AFC Energy since 2012, is currently a Director of Waste2Tricity Ltd and is a member of the Supervisory Board of JS Yerostigaz (Uzbekistan). He is qualified with Bachelor degrees in commerce and law and a Master in Laws (Taxation).

3. Christopher Tawney
Finance Director

Christopher Tawney brings over 25 years senior level experience in public and private businesses, and has extensive expertise in the cleantech and technology sectors. Most recently, Christopher was FD for three years at Algaecytes Limited, a biotechnology company. In addition, he also served as FD for Dettingen Ltd, a financial consultancy where he fulfilled similar boardroom roles for a number of early-stage cleantech companies including the solar power company, Sonnedix Solar LP, clean energy business, Coomtech Ltd, and a forestry carbon start-up, Global Oxygen.

4. Mitchell Field
Non-Executive Director

Mitchell, who lives in Wales, owns Richards and Appleby Ltd, which is engaged in the manufacture, sales and distribution of branded toiletries and cosmetics. Among these are Leighton Denny, and several well-known heritage brands, including 'Cyclax' which formerly held the Royal Warrant from Her Majesty the Queen. His principal role is sales and marketing, dealing with blue-chip companies in the UK and exporting to over 60 companies internationally. Mitchell has other investments and manages interests in fashion, property, import/export and general trading.

5. Sir John Sunderland
Non-Executive Director

Sir John has a distinguished career spanning more than 40 years in leadership roles, including as the former chief executive and later as chairman of Cadbury Schweppes plc, where he steered the confectionery and beverage company through a period of major change and growth. He retired as chairman of Cadbury in 2008 after 40 years with the company. He is currently a non-executive director of Barclays Bank plc, chairman of Cambridge Entertainment Group, an adviser to CVC Capital Partners and chairman of Merlin Entertainments plc. From 2004 to 2006, he served as President of the Confederation of British Industry. He is a Fellow of the Royal Society of Arts and was knighted in the Queen's Birthday Honours 2006, for services to business. He is the Chancellor of Aston University.

6. Eugene Tenenbaum
Non-Executive Director

Eugene served as head of corporate finance for OAO Sibneft in Moscow from 1998 through 2001. In 1994, he joined Salomon Brothers where he worked until 1998. Prior to that, he spent five years in corporate finance with KPMG in Toronto, Moscow and London. He was an auditor at PriceWaterhouse in Toronto from 1987 until 1989. Eugene is a chartered accountant and holds a bachelors degree in commerce and finance from the University of Toronto. He has numerous other directorships; notably, he is a member of the boards of Chelsea FC plc, Evraz plc (a FTSE 100-listed company) and Highland Gold Mining Ltd (an AIM-quoted company).

7. Eugene Shvidler
Non-Executive Director

Eugene worked at Russian oil major OAO Sibneft from 1996 through 2005, initially as senior vice president and, from 1998, as president of the company. Eugene is a graduate of the I. M. Gubkin Moscow Institute of Oil and Gas with a Masters in applied mathematics and he received an MBA and Masters in International Taxation from Fordham University in New York. He is currently non-executive Chairman of Highland Gold Mining Ltd, an AIM-quoted company, and is a member of the Board of Evraz plc, a FTSE 100-listed company.

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 October 2014. The comparative period was from 1 November 2012 to 31 October 2013. Information required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 has been included within the Directors report and accounts.

Principal activity and review of business developments

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

Reviews of operations, business developments and current projects are included in the Chairman's Statement and the Strategic Report and Operational Review.

Results and dividend

The results for the year are set out in the Statement of Comprehensive Income on page 18.

No dividends were paid in the year. The Directors do not intend to declare a dividend in respect of the year.

Directors and their interests

The Directors who served during the year were:

Tim Yeo	Non-Executive Chairman
Ian Balchin	Deputy Chairman and Chief Strategy Officer (resigned 18 November 2013)
Ian Williamson	Chief Executive Officer (resigned 30 November 2014)
Christopher Tawney	Finance Director (appointed 16 September 2014)
Jane Dumeresque	Finance Director (resigned 3 June 2014)
Dr Gene Lewis	Technical Director (resigned 27 November 2014)
Adam Bond	Non-Executive (appointed Chief Executive Officer on 1 December 2014)
Mitchell Field	Non-Executive
Sir John Sunderland	Non-Executive
Eugene Shvidler	Non-Executive
Eugene Tenenbaum	Non-Executive

A Director appointed during or after the year must stand for re-appointment at the first Annual General Meeting after such appointment. Accordingly Christopher Tawney offers himself for re-election. In addition, Tim Yeo is required to retire by rotation in accordance with the Company's Articles of Association and, being eligible, offers himself for re-election.

On 31 October 2014 the beneficial interests of Directors and their families in the equity share capital of the Company were:

	Number of Ordinary shares of 0.1p 2014	Number of Ordinary shares of 0.1p 2013
Tim Yeo	**877,272**	777,272
Dr Gene Lewis	**45,000**	10,000
Mitchell Field	**2,644,810**	2,144,810
Sir John Sunderland	**420,270**	370,270
Eugene Shvidler	**13,853,633**	12,043,633
Ian Williamson	**50,000**	–
Christopher Tawney	**50,000**	–

On 31 October 2014 the Directors' interests over share capital of the Company were:

	1 November 2013	Options/ Warrants granted in year	Options/ Warrants exercise/ lapsed in year	31 October 2014	Exercise price	Date from which exercisable[1]	Expiry date	Type
Tim Yeo	1,100,000	–	–	**1,100,000**	£0.031	18/04/2012	17/04/2019	Warrant
	1,000,000	–	–	**1,000,000**	£0.240	14/04/2013	13/04/2020	Warrant
Dr Gene Lewis	1,954,000	–	–	**1,954,000**	£0.240	14/04/2013	13/04/2020	Warrant
	40,909		40,909	**-**	£0.220	01/06/2016	01/12/2016	SAYE
	–	38,709	38,709	**-**	£0.186	01/09/2017	01/03/2018	SAYE
Mitchell Field	350,000	–	–	**350,000**	£0.031	18/04/2012	17/04/2019	Warrant
	750,000	–	–	**750,000**	£0.240	14/04/2013	13/04/2020	Warrant
Ian Williamson	500,000	–	–	**500,000**	£0.320	08/11/2013	07/11/2021	EMI option
	500,000	–	–	**500,000**	£0.320	08/11/2014	07/11/2021	EMI option
	40,909	–	–	**40,909**	£0.220	01/06/2016	01/12/2016	SAYE
	–	48,387	–	**48,387**	£0.186	01/09/2017	01/03/2018	SAYE

Note:
1 Warrants/Options exercisable from/after 14 April 2013 are subject to achievement of performance conditions.

Adam Bond and Eugene Tenenbaum had no direct interest over share capital during the reporting period.

Directors' remuneration

Name	Salary £	Share-based payment expense £	Other compensation[1] £	Company pension contributions £	Total 2014 £	Total 2013 £
Tim Yeo (see note 25)	19,800	–	38,525	**-**	**58,325**	81,942
Ian Williamson	260,606	77,136	16,871	**8,000**	**370,613**	378,114
Ian Balchin	138,660	–	3,469	**-**	**183,400**	183,400
Jane Dumeresque	51,000	–	486	**-**	**51,486**	8500
Dr Gene Lewis	147,413	6,693	1,401	**4,569**	**160,076**	183,318
Adam Bond (see note 25)	–	–	25,567	**-**	**25,567**	17,916
Mitchell Field (see note 25)	13,600	–	11,400	**-**	**25,000**	41,385
Sir John Sunderland (see note 25)	13,600	–	8,000	**-**	**21,600**	27,409
Eugene Tenenbaum	11,200	–	6,000	**-**	**17,200**	16,222
Eugene Shvidler	11,200	–	6,000	**-**	**17,200**	16,222
Christopher Tawney	23,833	–	–	**-**	**23,833**	–

Note:
1 Other compensation includes private medical insurance, company car, benefits and consultancy fees.

Directors' Report

continued

Directors' service contracts

Tim Yeo's services as a Chairman and Non-Executive Director are provided under a service agreement with the Company dated 1 January 2012 for an indefinite term, subject to a minimum of six months' notice. Additional consultancy services are provided under an agreement between the Company and Locana Corporation (London) Ltd dated 1 January 2012.

Ian Williamson's services are provided under a service agreement with the Company dated 7 November 2011 for an indefinite term, subject to six months' notice by either party.

Dr Gene Lewis's services are provided under a service agreement with the Company dated 3 June 2011 for an indefinite term, subject to twelve months' notice by either party.

Adam Bond's services as a Non-Executive Director are provided under an agreement between the Company and Linc Energy Ltd dated 23 May 2012, subject to a minimum of six months' notice (see also note 25).

Mitchell Field's services as a Non-Executive Director are provided under the terms of a Non-Executive letter dated 17 October 2013 for an indefinite term, subject to a minimum of six months' notice (see also note 25). Additional consultancy services are provided under an agreement between the Company and Richards & Appleby Ltd dated 17 October 2013.

Sir John Sunderland's services as a Non-Executive Director are provided under an agreement between the Company and John Sunderland Associates Ltd dated 8 March 2012, subject to a minimum of six months' notice (see also note 25).

Eugene Shvidler's services as a Non-Executive Director are provided under the terms of a letter of appointment, dated 17 October 2013, for an indefinite term, subject to a minimum of six months' notice. Additional consultancy services are provided under an agreement between the Company and Eugene Shvidler dated 17 October 2013.

Eugene Tenenbaum's services as a Non-Executive Director are provided under the terms of a letter of appointment, dated 17 October 2013, for an indefinite term, subject to a minimum of six months' notice. Additional consultancy services are provided under an agreement between the Company and Eugene Tenenbaum dated 17 October 2013.

Christopher Tawney's services are provided under a service agreement with the Company dated 18 August 2014 for an indefinite term, subject to six months' notice by either party.

Board changes

Details of changes to the membership of the Board are disclosed within the 'Directors and their interests' section on page 10.

Capital structure

Details of the Company's share capital are disclosed in notes 17 and 18 the financial statements.

Shareholder funds have been used for the development and testing of industrial scale fuel cell systems than can compete with conventional electricity generation technologies.

On 27 February 2015, the Company was aware of the following holdings of 3% or more in the Company's issued share capital:

	Number of shares	Approximate percentage of the Company's issued share capital
Ervington Investments Limited	38,021,149	13.26%
Lanstead Capital	23,100,000	8.05%
Age of Reason Foundation	22,602,420	7.88%
Linc Energy Limited	22,000,705	7.67%
TD Direct Investing Nominees	15,534,222	5.42%
Barclayshare Nominees Limited	14,565,040	5.08%
Eugene Shvidler	13,853,633	4.83%
Hargreaves Lansdown (Nominees) Limited	10,034,886	3.50%

Financial Instruments

Financial instruments are disclosed in note 21.

Political and charitable donations

Charitable donations in the year amounted to £Nil (2013: £Nil).

Corporate governance

The Directors seek, as far as is considered appropriate having regard to the size and nature of activities of the Company, to comply with the Combined Code on Corporate Governance applicable to listed companies. The Board is assisted in this regard by a number of committees with delegated authority.

The Company's organisational structure has clearly documented and communicated levels of responsibility, delegated authority and reporting procedures. The professionalism and competence of employees is maintained through recruitment, performance appraisal, written job descriptions, personal training and development plans. The Board supports the highest levels of commitment and integrity from employees. Expected standards of behaviour are set out in the Staff Handbook, a copy of which is given to all employees.

Audit Committee

The Company's Audit Committee members during the financial year were Mitchell Field (chairman), Sir John Sunderland, Adam Bond and Eugene Tenenbaum. The Committee meets at least twice a year, on dates linked to the Company's financial calendar, and at any other time when it is appropriate to discuss audit, accounting or control issues.

The Committee's principal responsibilities are:

- to monitor the integrity of the financial statements of the Company, reviewing the annual and interim financial statements to ensure that they present a balanced assessment of the Company's position;
- to review accounting policies;
- to review with the management and the Company's external Auditor the effectiveness of internal controls;
- to oversee the publication of reserve and resource statements to ensure compliance with best practice under AIM rules;
- to review with the Company's external Auditor the scope and results of their audit; and
- to oversee the relationship with the Auditor.

The Auditor attends meetings of the Committee except when their appointment or performance is being reviewed. Executive Directors attend as and when appropriate.

Directors' Report

continued

Remuneration Committee

The Remuneration Committee's members during the financial year were Sir John Sunderland (Chairman), Tim Yeo, and Mitchell Field. The Committee reviews the performance of the Executive Directors and sets the scale and structure of their remuneration and the basis of their service agreements. In determining remuneration, the Committee seeks to enable the Company to attract and retain Executives of the highest calibre. In doing so, the Committee takes advice as appropriate from external advisers on executive remuneration. The Committee also makes recommendations to the Board concerning allocation of share options to employees.

No Directors participate in discussions or decisions concerning their own remuneration. This Committee is also responsible for nominating candidates, for the approval of the Board, to fill either Executive or Non-Executive vacancies or additional appointments to the Board. The Committee retained independent search consultants in respect of the appointment of the Chief Executive and Finance Director.

Details of the Directors' remuneration, service agreements and their interests in the share capital of the Company are disclosed in the Directors' Report.

Employees

AFC is an equal opportunities employer and it is our policy to ensure that all job applicants and employees are treated fairly and on merit, regardless of their race, gender, marital status, age, disability, religious belief or sexual orientation. In common with many organisations we operate a performance appraisal system, the aim of which is to support employees to contribute fully to the organisation and to assist them to fulfil their potential. The Company encourages the involvement of its employees in its performance through both its Save As You Earn Scheme and its Share Option plan.

AIM Rules Compliance Committee

The AIM Rules Compliance Committee comprises Tim Yeo, Mitchell Field and Sir John Sunderland and meets as appropriate. The Committee monitors internal procedures, resources and controls to enable the Company to comply with AIM rules.

Information disclosed in the Strategic Report and Operational Review

The following matters required to be disclosed in this Report under the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 are covered in the Strategic Report on pages 6 to 7: the principal risks and uncertainties and key performance indicators.

Payments to creditors

The Company's policy is to settle the terms of payment with its suppliers when agreeing the terms of each transaction, either by accepting the suppliers' terms or by making the suppliers aware of alternative terms, and to abide by the agreed terms. Trade creditors of the Company at 31 October 2014 represented 128 days (2013: 97 days) of annual purchases.

Liability insurance for Company officers

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

Research and development

The Company invests substantially in research and development and makes claims under the Government's R&D tax credit scheme. In the year to 31 October 2014, relevant expenditure totalled £1,284,044 (2013: £1,478,542).

Going concern

The Company has cash of £4,858,203 at 31 October 2014 and the Directors are satisfied that the Company has sufficient resources to continue its operations and to meet its commitments for the foreseeable future.

Post-balance sheet events

Details of post-balance sheet events are provided in note 23 to the financial statements.

Relations with Shareholders

The Board attaches great importance to maintaining good relationships with Shareholders. The Board regards the Annual General Meeting as an opportunity to communicate directly with investors, who are encouraged to attend and participate.

Auditor

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

This report was approved by the board on 27 February 2015 and signed on its behalf by

Christopher Tawney
Finance Director and Company Secretary

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and International Financial Reporting Standards.

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted for use in the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 confirm that they have complied with the above in preparing the financial statements.

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Statement of disclosure to Auditor

So far as the Directors are aware, there is no relevant audit information (as defined by section 418 of the Companies Act 2006) of which the Company's Auditor is unaware, and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information. This confirmation is given and should be interpreted in accordance with section 418 of the Companies Act 2006.

Independent Auditor's Report

to the Shareholders of AFC Energy plc

We have audited the financial statements of AFC Energy plc for the year ended 31 October 2014 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Cash Flow Statement, the Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 16, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

In addition, we read all financial and non-financial information in the Chairman's Statement, the Strategic Report and Operational Review and the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs at 31 October 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept; 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.

Jonathan Isaacs
(Senior statutory Auditor)
for and on behalf of
Jeffreys Henry LLP
Statutory Auditor
Chartered Accountants & Registered Auditors
Finsgate
5–7 Cranwood Street
London
EC1V 9EE

27 February 2015

Statement of Comprehensive Income

for the year ended 31 October 2014

	Note	Year ended 31 October 2014 £	Year ended 31 October 2013 £
Revenue		**782,236**	759,441
Cost of sales		**(1,029,460)**	(542,924)
Gross (loss)/profit		**(247,224)**	216,517
Other income		**13,899**	8,990
Administrative expenses		**(5,673,639)**	(4,842,468)
Analysed as:			
Administrative expenses		**(5,433,671)**	(4,459,053)
Equity-settled share-based payments	18d	**(239,968)**	(383,415)
Operating loss	5	**(5,906,964)**	(4,616,961)
Financial income	8	**48,667**	114,374
Loss before tax		**(5,858,297)**	(4,502,587)
Taxation	9	**421,280**	365,939
Loss for the financial year and total comprehensive loss attributable to owners of the Company		**(5,437,017)**	(4,136,648)
Basic loss per share	10	**(2.42)p**	(1.88)p
Diluted loss per share	10	**(2.42)p**	(1.88)p

All amounts relate to continuing operations.

The notes on pages 22 to 39 form part of these financial statements.

Statement of Financial Position

as at 31 October 2014

	Note	31 October 2014 £	31 October 2013 £
Assets			
Non-current assets			
Intangible assets	11	**279,073**	180,733
Property and equipment	12	**609,441**	858,806
Investment	13	**52,500**	52,500
Trade and other receivables	15	**479,761**	-
		1,420,775	1,092,039
Current assets			
Inventory and work in progress	14	**157,048**	174,469
Trade and other receivables	15	**4,256,801**	1,717,808
Cash and cash equivalents	16	**4,858,203**	6,961,338
		9,272,052	8,853,615
Total assets		**10,692,827**	9,945,654
Capital and reserves attributable to owners of the Company			
Share capital	17	**285,684**	223,325
Share premium	17	**33,332,478**	27,566,408
Other reserve		**3,032,472**	2,792,504
Retained deficit		**(27,089,095)**	(21,652,078)
Total equity attributable to Shareholders		**9,561,539**	8,930,159
Current liabilities			
Trade and other payables	19	**1,131,288**	1,015,495
		1,131,288	1,015,495
Total equity and liabilities		**10,692,827**	9,945,654

The notes on pages 22 to 39 form part of these financial statements.

These financial statements were approved and authorised for issue by the Board on 27 February 2014.

Tim Yeo
Chairman

Christopher Tawney
Finance Director and Company Secretary

AFC Energy plc
Registered number: 05668788

Statement of Changes in Equity

for the year ended 31 October 2014

	Share Capital £	Share Premium £	Other Reserve £	Retained Loss £	Total Equity £
Balance at 1 November 2012	217,299	27,221,606	2,409,089	(17,515,430)	12,332,564
Loss after tax for the year	–	–	–	(4,136,648)	(4,136,648)
Total recognised in income and expense for the year	–	–	–	(4,136,648)	(4,136,648)
Issue of equity shares	6,026	344,802	–	–	350,828
Share issue expenses	–	–	–	–	–
Equity-settled share-based payments	–	–	383,415	–	383,415
Balance at 31 October 2013	223,325	27,566,408	2,792,504	(21,652,078)	8,930,159
Loss after tax for the year	–	–	–	(5,437,017)	(5,437,017)
Total recognised in income and expense for the year	–	–	–	(5,437,017)	(5,437,017)
Issue of equity shares	62,359	5,766,070	–	–	5,828,429
Equity-settled share-based payments	–	–	239,968	–	239,968
Balance at 31 October 2014	**285,684**	**33,332,478**	**3,032,472**	**(27,089,095)**	**9,561,539**

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 credit to equity in respect of equity-settled share-based payments.

Retained earnings represent the cumulative loss of the Company attributable to equity Shareholders.

The notes on pages 22 to 39 form part of these financial statements.

Cash Flow Statement

for the year ended 31 October 2014

	Note	31 October 2014 £	31 October 2013 £
Cash flows from operating activities			
Loss before tax for the year		**(5,858,297)**	(4,502,587)
Adjustments for:			
Depreciation and amortisation		**312,487**	464,432
Impairment of intangible assets		**-**	118,314
Equity-settled share-based payment expenses	18d	**239,968**	383,415
Finance income		**(48,667)**	(114,374)
Cash flows from operating activities before changes in working capital and provisions		**(5,354,509)**	(3,650,800)
Corporation tax received		**361,174**	-
(Increase)/Decrease in Inventory and Work in Progress		**17,421**	(47,450)
(Increase)/Decrease in trade and other receivables		**(1,724,978)**	(674,421)
Increase/(Decrease) in trade and other payables		**115,793**	577,786
Cash absorbed by operating activities		**(6,585,099)**	(3,794,885)
Cash flows from investing activities			
Purchase of plant and equipment	12	**(51,247)**	(471,292)
Acquisitions of patents	11	**(110,215)**	(123,136)
Increase in investment		**-**	(50,000)
Interest received	8	**48,667**	114,374
Net cash absorbed by investing activities		**(112,795)**	(530,054)
Cash flows from financing activities			
Proceeds from the issue of share capital		**6,232,428**	350,828
Costs of issue of share capital		**(403,999)**	-
Derivative financial asset	15	**(1,233,670)**	-
Net cash from financing activities		**4,594,759**	350,828
Net (decrease)/increase in cash and cash equivalents		**(2,103,135)**	(3,974,111)
Cash and cash equivalents at start of year		**6,961,338**	10,935,449
Cash and cash equivalents at 31 October 2014	16	**4,858,203**	6,961,338

The notes on pages 22 to 39 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 address of its registered office is Finsgate, 5–7 Cranwood Street, London, EC1V 9EE.

2. Basis of preparation and accounting policies

The financial statements of AFC Energy plc have been prepared in accordance with International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations (collectively 'IFRSs') as adopted for use in the European Union and as issued by the International Accounting Standards Board and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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.

a. New and Revised standards adopted by the Company

- IFRS 10 Consolidated Financial Statements is effective from 1 January 2013. This requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities.
- IFRS 11 Joint Arrangements is effective from 1 January 2013. The core principle of the standard is that a party to a joint arrangement determines type of joint arrangements in which it is involved by assessing the rights and obligations and accounts for those rights and obligations in accordance with the type of joint arrangement. Joint ventures now must be accounted for using the equity method. Joint operator which is a newly defined term recognises its assets, liabilities, revenues and expenses and relative shares thereof.
- IFRS 12 Disclosures of Interests with Other Entities is effective from 1 January 2013. It requires increased disclosure about the nature, risks and financial effects of an entity's relationship with other entities along with its involvement with other entities.
- IFRS 13 Fair Value Measurement is effective from 1 January 2013. It defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. It includes a three-level fair value hierarchy which prioritises the inputs in a fair value measurement.
- IAS 19 'Employee benefits' is effective for annual periods beginning on or after 1 January 2013. It changes a number of disclosure requirements for post-employment arrangements and restricts the options available on how to account for defined benefit pension plans.
- IAS 27 Separate Financial Statements. Requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 Financial Instruments/IAS39 Financial Instruments: Recognition and Measurement.
- IAS 28 Investments in Associates and Joint Ventures. This standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.
- The IASB issued improvement to IFRSs (2011), an omnibus of amendments to its IFRS standards. The amendments have been adopted as they become effective for annual periods on or after 1 January 2011. They include:
  - Amendments to IAS 12 – Deferred tax; recovery of underlying assets
  - Amendments to IAS 1 – Presentation of items of other comprehensive Income
  - Amendments to IFRS 7 – Disclosures; offsetting financial assets and financial liabilities
  - Amendment to IAS 32 – Offsetting financial assets and financial liabilities
  - Amendments to IFRS 1 – Government Loans

There is no impact from the adoption of the above amendments on the Company's financial position or performance.

b. Standards, amendments and interpretations to published standards not yet effective

At the date of authorisation of these consolidated financial statements, the IASB and IFRIC have issued the following standards and interpretations, which are effective for annual accounting periods beginning on or after the stated effective date. These standards and interpretations are not effective for and have not been applied in the preparation of these consolidated financial statements:

- IAS 32 Financial Instruments: Presentation is effective from 1 January 2014. The standard outlines the accounting requirements for the presentation of financial instruments, particularly as to the classification of such instruments into financial assets, financial liabilities and equity instruments. The standard also provides guidance on the classification of related interest, dividends and gains/losses, and when financial assets and financial liabilities can be offset.

- IAS 36 Impairment of Assets is effective from 1 January 2014. The standard seeks to ensure that an entity's assets are not carried at more than their recoverable amount (i.e. the higher of fair value less costs of disposal and value in use).
- IAS 39 Financial Instruments: Recognition and Measurement is effective from 19 November 2013. It outlines the requirements for the recognition and measurement of financial assets, financial liabilities, and some contracts to buy or sell non-financial items.
- IFRS 9 Financial Instruments is effective from 1 January 2015. This standard includes requirements for recognition and measurement, derecognition and hedge accounting.

The Company expects no impact from the adoption of the above amendments on its financial position or performance.

c. 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.

d. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. Revenue arising from the provision of services is recognised when and to the extent that the Company obtains the right to consideration in exchange for the performance of its contractual obligations. Licence income is recognised in accordance with the substance of the agreement. When a licensee has the right to use certain technology for a specified period of time, this is usually on a straight-line basis over the life of the agreement in accordance with IAS 18. Revenue based grants , including grants from the European Union, are recognised in the profit and loss account in the same period as the expenditure to which the grant relates.

e. Development costs

Development expenditure does not meet the strict criteria for capitalisation under IAS 38 and has been recognised as an expense.

f. 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 balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date.

g. Inventory and work in progress

Inventory is recorded at the lower of cost and net realisable value. Work in progress is valued at cost, less the cost of work invoiced on incomplete contracts and less foreseeable losses. Cost comprises purchase cost plus production overheads.

h. Trade and other receivables

Trade and other receivables arise principally through the provision by the Company of goods and services to customers (trade debtors). They also include other types of contractual monetary assets. These assets are initially recognised at fair value and are subsequently measured at amortised cost less any provision for impairment.

i. Loans and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

The Company's loans and receivables include cash and cash equivalents. These include cash in hand, and deposits held at call with banks.

j. Property and equipment

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.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Depreciation is charged to the income statement 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:

– Leasehold improvements	1 to 3 years
– Fixtures, fittings and equipment	1 to 3 years
– Vehicles	3 to 4 years

Notes forming part of the Financial Statements

continued

2. Basis of preparation and accounting policies continued

j. Property and equipment continued

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

The useful economic lives of property, plant and equipment and the carrying value of tangible fixed assets are assessed annually and any impairment is charged to the income statement.

k. Intangible assets

Expenditure on research activities is recognised in the income statement as an expense as incurred. Expenditure in establishing a Patent is capitalised and written off over its useful life.

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

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

– Patents	20 years

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

l. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with major banking institutions realisable within 12 months.

m. Other financial liabilities

The Company classifies its financial liabilities as:

- **Trade and other payables**

  These are initially recognised at invoiced value. These arise principally from the receipt of goods and services. There is no material difference between the invoiced value and the value calculated on an amortised cost basis or fair value.

- **Deferred income**

  This is the carrying value of income received from a customer in advance which has not been fully recognised in the Income Statement pending delivery to the customer. The carrying value is fair value.

n. Leases

Finance leases

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit or loss. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating leases

Operating lease rentals are charged to the Income Statement on a straight-line basis over the lease term.

o. Financial assets

All of the Company's financial assets are loans and receivables and investments. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets at fair value and comprise trade and other receivables and cash and cash equivalents. Investments are accounted for at cost less impairment.

p. Financial instruments

Financial assets and liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument.

- Cash and cash equivalents comprise cash held at bank and short term deposits
- Trade payables are not interest bearing and are stated at their nominal value
- Equity instruments issued by the Group are recorded at the proceeds received except where those proceeds appear to be less than the fair value of the equity instruments issued, in which case the equity instruments are recorded at fair value. The difference between the proceeds received and the fair value is reflected in the share-based payments reserve.

q. Valuation of derivative financial asset

The Company has placed shares with Lanstead Capital L.P. and at the same time entered into equity swap and interest rate swap agreements in respect of the subscriptions for which consideration will be received monthly over an 18 month period as disclosed in the notes to these financial statements. The amount receivable each month is dependent on the Company's share price performance. At each period end the amount receivable is restated based on the share price of the Company at that date. Any change in the value of the receivable is reflected in the income statement.

r. Share-based payment transactions

The Company awards share options and warrants to certain Directors and employees to acquire shares of the Company. The fair value of options and warrants granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the Directors and employees become unconditionally entitled to the options or warrants. The fair value of the options and warrants granted is measured using a binomial option valuation model, taking into account the terms and conditions upon which the options and warrants were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options and warrants that vest only where vesting is dependent upon the satisfaction of service and non-market vesting conditions or where the vesting periods themselves are amended by the introduction of new schemes and the absorption of earlier schemes by agreement between the Company and the relevant Directors and employees. Where options or warrants granted are cancelled, all future charges arising in respect of the grant are charged to the income statement on the date of cancellation.

s. Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group 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 balance sheet date and are discounted to present value where the effect is material.

t. Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement 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 balance sheet 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.

3. Significant accounting estimates and judgements

Carrying values of property and equipment

The Company monitors internal and external indicators of impairment relating to its property and equipment. Management has considered whether any indicators of impairment have arisen over certain assets relating to these assets. After assessing these, management has concluded that no impairment has arisen during the year and subsequent to 31 October 2014 (2013: £Nil).

Useful lives and impairment of intangible assets, and property and equipment

Intangible assets, and property and equipment are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. After undertaking a comprehensive review of intangible assets with its patent attorneys, management has concluded that no impairment has arisen with respect to intangible assets during the year and subsequent to 31 October 2014 (2013: £118,314).

Income taxes and withholding taxes

The Company believes that its receivables for tax recoverable are adequate for all open audit years based on its assessment of many factors, including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgements about future events. To the extent that the final tax outcome of these matters is different from the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

Capitalisation of development expenditure

The Company uses the criteria of IAS 38 to determine whether development expenditure should be capitalised. After assessing these, management has concluded it would not be appropriate to capitalise development expenditure incurred during the year ended 31 October 2014.

Share-based payments

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

The fair value is determined using an appropriate pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Notes forming part of the Financial Statements

continued

3. Significant accounting estimates and judgements continued

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied. Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Licence fees

Licence fees are recognised on a straight line basis over the life of the licence, with payments being received in staggered instalments. Fees which are contingent on an event are recognised when the Company believes that it is probable that the event will occur.

Going Concern

The Company prepares cash flow forecasts based on current estimates of future revenues and expenditure. These are agreed by the Board and monitored against actual expenditure to ensure the Company's resources are sufficient for the directors to prepare the accounts on a going concern basis.

4. Segmental analysis

A segment is a distinguishable component of the Company that is engaged in providing products or services in a particular business sector (business segment) or in providing products or services in a particular economic environment (geographic segment), which is subject to risks and rewards that are different in those other segments. The Company operated in the year in one business segment, the development of fuel cells, and in one principal geographic segment the United Kingdom.

5. Operating loss

This has been stated after:

	Year ended 31 October 2014 £	Year ended 31 October 2013 £
Government grants received and receivable	**(591,269)**	(341,651)
Loss on derivative financial asset	**636,330**	–
Depreciation/Impairment of property and equipment	**300,612**	432,831
Research and Development expenditure	**1,284,044**	1,478,542
Amortisation/Impairment of intangible assets	**11,875**	149,915
Equity-settled share-based payment expense	**239,968**	383,415
Foreign exchange differences	**44,211**	15,881
Auditor's remuneration – audit	**20,000**	15,000
Auditor's remuneration – tax	**2,500**	2,500
Auditor's remuneration – other services	**14,360**	2,000

6. Staff numbers and costs, including Directors

The average numbers of employees in the year were:

	Year ended 31 October 2014 Number	Year ended 31 October 2013 Number
Support, operations and technical	**37**	33
Administration	**12**	5
	49	38

The aggregate payroll costs for these persons were:

	£	£
Wages and salaries (including Directors' emoluments)	**2,214,039**	2,140,744
Social security	**247,339**	248,876
Equity-settled share-based payment expense	**239,968**	383,415
	2,701,346	2,773,035

7. Directors' remuneration

	Year ended 31 October 2014 £	Year ended 31 October 2013 £
Wages and salaries	**667,078**	589,174
Social security	**80,535**	112,026
Equity-settled share-based payment expense	**83,829**	247,777
Other compensation (see note 25)	**82,923**	174,554
Company pension contributions	**12,569**	–
	926,934	1,123,531
The emoluments of the Chairman	**58,325**	81,942
The emoluments of the highest-paid Director	**370,613**	378,114
Company pension contributions of highest paid director	**8,000**	–

The remuneration, details of share options and interests in the Company's shares of each Director are shown in the Directors' Report on pages 10 to 15.

Notes forming part of the Financial Statements

continued

8. Financial income

	Year ended 31 October 2014 £	Year ended 31 October 2013 £
Bank interest receivable	**48,667**	114,374
Total interest receivable	**48,667**	114,374

9. Taxation

Recognised in the income statement	Year ended 31 October 2014 £	Year ended 31 October 2013 £
Research and development tax credit – current year	**421,280**	365,939
Total tax credit	**421,280**	365,939

Reconciliation of effective tax rates

Loss before tax	**(5,858,297)**	(4,502,587)
Tax using the domestic rate of corporation tax of 21.67% (2013: 23.42%)	**1,269,298**	1,054,507
Effect of:		
Expenses not deductible for tax purposes	**151,115**	126,098
Above the line tax credit	**19,643**	–
Research and development allowance	**(347,762)**	(432,843)
Research and development tax credit	**421,280**	365,939
Depreciation in excess of capital allowances	**65,133**	3,642
Losses surrendered for research and development	**625,971**	779,117
Unutilised losses carried forward	**755,198**	578,491
Total tax credit for the year	**421,280**	365,939

10. Loss per share

The calculation of the basic loss per share is based upon the net loss after tax attributable to ordinary Shareholders of £5,437,017 (2013: loss of £4,136,648) and a weighted average number of shares in issue for the year.

	Year ended 31 October 2014	Year ended 31 October 2013
Basic loss per share (pence)	**(2.42)p**	(1.88)p
Diluted loss per share (pence)	**(2.42)p**	(1.88)p
Loss attributable to equity Shareholders	**(5,437,017)**	(4,136,648)

	Number	Number
Weighted average number of shares in issue	**224,533,287**	220,570,011

Diluted earnings per share

The diluted loss per share is the same as the basic loss per share, as the loss for the year has an anti-dilutive effect.

11. Intangible assets

	2014 Patents £	2013 Patents £
Cost		
Balance at 1 November	**637,898**	514,762
Additions (developed internally)	**110,215**	123,136
Balance at 31 October	**748,113**	637,898
Amortisation		
Balance at 1 November	**457,165**	307,250
Charge for the year	**11,875**	31,601
Impairment	**-**	118,314
Balance at 31 October	**469,040**	457,165
Net book value	**279,073**	180,733

Notes forming part of the Financial Statements

continued

12. Property and equipment

	Leasehold improvements £	Fixtures, fittings and equipment £	Motor Vehicles £	Total £
Cost				
At 31 October 2012	216,197	2,238,469	–	**2,454,666**
Additions	5,315	455,482	10,495	**471,292**
At 31 October 2013	221,512	2,693,951	10,495	**2,925,958**
Additions	51,247	–	–	**51,247**
At 31 October 2014	272,759	2,693,951	10,495	**2,977,205**
Depreciation				
At 31 October 2012	196,578	1,437,743	–	**1,634,321**
Charge for the year	16,479	409,647	6,705	**432,831**
At 31 October 2013	213,057	1,847,390	6,705	**2,067,152**
Charge for the year	27,047	270,067	3,498	**300,612**
At 31 October 2014	240,104	2,117,457	10,203	**2,367,764**
Net Book Value				
At 31 October 2014	32,655	576,494	292	**609,441**
At 31 October 2013	8,455	846,561	3,790	**858,806**

There are no assets held under finance leases.

13. Investment

The Company holds 23% in Waste2Tricity Ltd (W2T) (a company registered in England & Wales). As at 31 October 2014 the Company held 230,000 shares representing 23% (2013: 230,000 representing 23%) of the share capital of W2T.

	Year ended 31 October 2014 £	Year ended 31 October 2013 £
Investment in W2T	**52,500**	52,500

14. Inventory and work in progress

	Year ended 31 October 2014 £	Year ended 31 October 2013 £
Inventory	**88,304**	105,724
Work in progress	**68,744**	68,745
	157,048	174,469

15. Trade and other receivables

	Year ended 31 October 2014 £	Year ended 31 October 2013 £
Current:		
Corporation tax receivable	**787,075**	726,969
Derivative financial asset	**753,909**	–
Other receivables	**2,715,817**	990,839
	4,256,801	1,717,808
Non-current:		
Derivative financial asset	**479,761**	–
Aggregate amounts	**4,736,562**	1,717,808

The trade and other receivables balances are categorised as loans and other receivables. There is no significant difference between the fair value of the trade and other receivables and the values stated above.

Included above is an amount of £1,233,670 due from Lanstead Capital L.P. ('Lanstead'). In October 2014, as part of a placing and general offer to raise, in aggregate, £6,120,863 (before expenses) from new and existing shareholders, the Company initially issued 22,000,000 new ordinary shares of 0.1p each in the capital of the Company ("Ordinary Shares") at a price of 10p per share to Lanstead for £2,200,000. The Company simultaneously entered into an equity swap with Lanstead for 75 per cent of these shares with a reference price of 13.3333p per share (the "Reference Price"). The equity swap is for an 18 month period. All 22,000,000 Ordinary Shares were allotted with full rights on the date of the transaction.

Of the subscription proceeds of £2,200,000 received from Lanstead, £1,870,000 (85 per cent) were invested by the Company in the equity swap with the remaining £330,000 (15 per cent) available for general working capital purposes.

To the extent that the Company's volume weighted average share price is greater or lower than the Reference Price at each swap settlement, the Company will receive greater or lower consideration calculated on a pro-rata basis i.e. volume weighted average share price / Reference Price multiplied by the monthly transfer amount. As the amount of the effective consideration receivable by the Company from Lanstead under the swap agreements will vary subject to the movement in the Company's share price and will be settled in the future, the receivable is treated for accounting purposes as a derivative financial asset and has been designated at fair value through profit or loss.

The Company also issued, in aggregate, a further 1,100,000 Ordinary Shares to Lanstead as a value payment in connection with the equity swap agreements.

Notes forming part of the Financial Statements

continued

16. Cash and cash equivalents

	Year ended 31 October 2014 £	Year ended 31 October 2013 £
Cash at bank	**2,956,871**	961,108
Bank deposits	**1,901,332**	6,000,230
	4,858,203	6,961,338

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

17. Issued share capital

	Number	Ordinary shares £	Share premium £	Total £
At 31 October 2013	223,324,907	223,325	27,566,408	**27,789,733**
Issue of shares on 28 April 2014	50,000	50	1,515	**1,565**
Issue of shares on 13 October 2014	22,000,000	22,000	2,178,000	**2,200,000**
Issue of shares on 13 October 2014	1,100,000	1,100	108,900	110,000
Issue of shares on 30 October 2014	39,208,627	39,209	3,477,655	3,516,864
At 31 October 2014	**285,683,534**	**285,684**	**33,332,478**	**33,618,162**

All issued shares are fully paid.

The Company considers its capital and reserves attributable to equity Shareholders to be the Company's capital. In managing its capital, the Company's primary long-term objective is to provide a return for its equity Shareholders through capital growth. Going forward the Company will seek to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Company to meet its working capital needs. The Company's commercial activities are at an early stage and management considers that no useful target debt to equity gearing ratio can be identified at this time.

Details of the Company's capital are disclosed in the Company 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.

18a. Share options

	Number of options	Exercise price	Weighted average remaining contractual life
At 31 October 2012	10,240,000	3.13–32p	6.58 yrs
Options granted in the year	810,000	35.75p	
Options exercised in the year	(3,975,000)	3.13-24p	
Options lapsed in the year	(210,000)	32–35.75p	
At 31 October 2013	6,865,000	3.13–35.75p	6.27 yrs
Options granted in the year	1,375,000	35.75p	
Options exercised in the year	(50,000)	3.13–24p	
Options lapsed in the year	(210,000)	32–35.75p	
At 31 October 2014	**7,980,000**	**3.13–35.75p**	**6.08 yrs**

18b. Warrants

	Number of warrants	Exercise price	Weighted average remaining contractual life
At 31 October 2012	11,546,000	3.13–24p	6.75 yrs
Warrants exercised in the year	(2,050,000)	3.13p	
Warrants lapsed in the year	(488,100)	24p	
At 31 October 2013	9,007,900	3.13–24p	6.25 yrs
Warrants exercised in the year	–	–	
Warrants lapsed in the year	(1,960,100)	24p	
At 31 October 2014	**7,047,800**	**3.13–24p**	**5.13 yrs**

Notes forming part of the Financial Statements

continued

18c. SAYE

During the year the company launched a share save scheme.

	Number of SAYE	Exercise price	Weighted average remaining contractual life
At 31 October 2012	–	–	–
SAYE issued during the year	610,354	22p	
SAYE exercised during the year	(1,363)	22p	
SAYE lapsed/cancelled during the year	(55,909)	22p	
At 31 October 2013	553,082	22p	3.1 yrs
SAYE issued during the year	655,928	18.6p	
SAYE lapsed/cancelled during the year	(143,751)	18.6–22p	
At 31 October 2014	**1,065,259**	**18.6–22p**	**2.2 yrs**

18d. Equity-settled share-based payments charge

Share options

Option price (p)	Average grant date share price (p)	Average expected volatility (p.a.)	Average risk-free interest rate (p.a.)	Average dividend yield (p.a.)	Average implied option life (years)	Average fair value per option (p)	Amount expensed in the 2014 accounts £
10	9	46%	4.4%	0%	3.5	2.5	–
22	20	46%	4.4%	0%	3.5	6	–
23	21	46%	4.4%	0%	3.5	6	–
23	14	46%	4.4%	0%	3.5	2	–
3.13	3.13	113.8%	4.4%	0%	3.0	2	–
17.5	18.75	188%	4.4%	0%	3.5	14.07	–
24	23.75	188%	4.4%	0%	3.5	17.80	–
20.75	20	214.8%	4.4%	0%	3.0	15	–
32	31.75	243%	4.4%	0%	3.5	24	(87,236)
34	34p	137.5%	1.5%	0%	3.5	21.94	(92,025)
35.75	35.75	124.7%	1.5%	0%	3.5	21.8	(54,535)
Adjustments for leavers							8,994
Total charge for the year (2013: £310,357)							224,802

Warrants

Warrant price (p)	Average grant date share price (p)	Average expected volatility (p.a.)	Average risk-free interest rate (p.a.)	Average dividend yield (p.a.)	Average implied option life (years)	Average fair value per option (p)	Amount expensed in the 2014 accounts £
10	20	46%	4.4%	0%	3.5	10	–
22	20	46%	4.4%	0%	3.5	6	–
3.13	3.13	113.8%	4.4%	0%	3.0	2	–
24	23.75	188%	4.4%	0%	3.5	17.8	–
30	23.75	188%	4.4%	0%	3.5	17.64	–
Adjustments for leavers							–
Total charge for the year (2013:£70,493)							–

SAYE

SAYE price (p)	Average grant date share price (p)	Average expected volatility (p.a.)	Average risk-free interest rate (p.a.)	Average dividend yield (p.a.)	Average implied option life (years)	Average fair value per option (p)	Amount expensed in the 2014 accounts £
24	29.25	124.7%	1.5%	0%	3.5	17.35	15,166
Total charge for the year (2013: £2,565)							15,166
Total equity-settled share-based payment charge (2013: £383,415)							239,968

Expected volatility has been based on the 3 year historical volatility of share price. Vesting requirements are three years for the exercise of warrants and options, except for 500,000 options granted to Ian Williamson which vest in two years. Certain options and warrants granted to directors are also subject to performance conditions.

The fair value of services received in return for share options and other share-based incentives granted is measured by reference to the fair value of share options and incentives granted. This estimate is based on a Black-Scholes model, adjusted for non-vesting market-related conditions, which is considered most appropriate considering the effects of the vesting conditions, expected exercise period and the dividend policy of the Company.

Notes forming part of the Financial Statements

continued

19. Trade and other payables

	Year ended 31 October 2014 £	Year ended 31 October 2013 £
Trade payables	**543,878**	569,227
Deferred income	**68,744**	68,744
Other payables	**311,378**	116,248
Accruals	**207,288**	261,276
	1,131,288	1,015,495

20. Operating lease commitments

	Year ended 31 October 2014 £	Year ended 31 October 2013 £
Non-cancellable operating leases are as follows:		
Within one year	**49,190**	127,114
Between one and five years	**61,954**	44,697
Greater than five years	**-**	-
	111,144	171,811

The lease commitments relate to accommodation and three vehicles.

21. Financial instruments

In common with other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements. The significant accounting policies regarding financial instruments are disclosed in note 2 and the significant accounting estimates and judgements are set out in note 3.

Principal financial instruments

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

	Year ended 31 October 2014 £	Year ended 31 October 2013 £
Trade and other receivables	**3,502,892**	1,717,808
Derivative financial asset	**1,233,670**	-
Cash and cash equivalents	**4,858,203**	6,961,338
Trade and other payables	**1,131,288**	1,015,495

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 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 overleaf.

Credit risk

Credit risk arises principally from the Company's trade and 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 2014 £	Year ended 31 October 2013 £
Trade and other receivables	**4,736,562**	1,717,808
Cash and cash equivalents	**4,858,203**	6,961,338

The Company's principal trade and other receivables arose from: a) annual payments for various services held as pre-payments b) a VAT debtor c) an R&D tax credit d) a derivative financial asset and e) funds receivable from shareholders in respect of the placing and open offer. Credit risk with cash and cash equivalents is reduced by placing funds with a range of 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 was temporarily held on short term deposit, following maturity of term deposits.

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 Company raised £6.1 million before costs in October 2014 to provide additional financial resources.

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

Notes forming part of the Financial Statements

continued

21. Financial instruments continued

Interest rate risk

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

Fair value of financial liabilities

	Year ended 31 October 2014 £	Year ended 31 October 2013 £
Trade and other payables	**£1,131,288**	1,015,495

There is no difference between the fair value and book value of trade and other payables.

Currency risk

The Company does not enter into forward exchange contracts or otherwise hedge its potential foreign exchange exposure. The Board considers that this exposure is not currently material. The Board monitors and reviews its policies in respect of currency risk on a regular basis. At 31 October 2014 the Company held no monetary assets or liabilities in currencies other than the functional currency of the operating units involved (2013: nil).

22. Capital commitments

The Company had capital commitments of £51,780 for automated production equipment outstanding at 31 October 2014 (2013: £62,136).

23. Board changes and post-balance sheet events

Board changes during the year are reported under 'Directors and their interests'. Adam Bond was appointed as Chief Executive Officer on 1 December 2014. Gene Lewis and Ian Williamson resigned from the Board on 27 and 30 November 2014 respectively.

24. Ultimate controlling party

There is no ultimate controlling party.

25. Related party transactions

During the year ended 31 October 2014:

£129,000 (plus VAT) was invoiced by Cranwood Management Ltd (a company registered in England & Wales) for consultancy services. The company is owned by Adam White (2013: £144,000). Members of Mr White's family are nominated beneficiaries of the Age of Reason Foundation, which is a major Shareholder in the Company. At 31 October 2014, the sum owing to Cranwood Ltd was nil (2013: nil).

£11,400 (plus VAT) was invoiced by Richards and Appleby Ltd (a company registered in England & Wales) for the services of Mitchell Field as a Director of AFC Energy plc (2013: £16,883). Mr Field is also a Director and Shareholder of Richards and Appleby Ltd. At 31 October 2014, the sum owing to Richards and Appleby Ltd was nil (2013: nil).

£25,567 was invoiced by Linc Energy Ltd (a company registered in Australia) for the services of Adam Bond as Director of AFC Energy plc (2013: £18,190). Linc Energy Ltd is a major shareholder in the Company. At 31 October 2014 the amount owing to Linc Energy Ltd was £1,667 (2013: £1,667).

£38,525 (plus VAT) was invoiced by Locana Corporation (London) Ltd (a company registered in England & Wales) for consultancy services (2013: £40,050). Mr Yeo is also a Director and Shareholder of Locana Corporation (London) Ltd. At 31 October 2014, the sum owing to Locana was £1,675 (2013: £3,350).

£8,000 was invoiced by John Sunderland Associates Ltd (a company registered in England & Wales) for the services of Sir John Sunderland as a Director of AFC Energy plc (2013: £19,566). Sir John Sunderland is also a Director and Shareholder of John Sunderland Associates Ltd. At 31 October 2014, the sum owing to John Sunderland Associates Ltd was nil (2013: nil).

£7,289 (plus VAT) was invoiced by Stellar Accountants Ltd (a company registered in England & Wales) for accountancy and bookkeeping services (2013:£14,244). Mrs Pauline Williamson is a Director and Shareholder of Stellar Accountants Ltd. At 31 October 2014, the sum owing to Stellar Accountants Ltd was nil (2013: £1,241).

£6,454 (plus VAT) was invoiced by Waste2Tricity Ltd (a company registered in England & Wales) for contributions towards trade shows (2013: nil). The total sum received from W2T in the year ended 31 October 2014 was £150,000 (2013: £50,000). The sum owing to W2T at 31 October 2014 was nil (2013: nil). The Shareholders in W2T include Age of Reason Foundation, Adam White, Eturab Trade Corporation and Ervington Investments. Members of the White family are nominated beneficiaries of the Age of Reason Foundation. The Age of Reason Foundation, Eturab Trade Corporation and Ervington Investments are substantial Shareholders in AFC Energy. Ian Balchin's shareholding in W2T was granted in lieu of payment for work done for W2T before he was employed by AFC Energy.

£1,298 (plus VAT) was invoiced by Chelsea Football Club for the provision of facilities for the Company's AGM (2013: £639). Eugene Tenenbaum is also a Director of Chelsea Football Club. At 31 October 2014, the sum owing to Chelsea Football Club was nil (2013: nil).

£6,000 was invoiced by Eugene Tenenbaum for his services as a Director of AFC Energy plc (2013: £9,555). At 31 October 2014, the sum owing to Eugene Tenenbaum was nil (2013: nil).

£6,000 was invoiced by Eugene Shvidler for his services as a Director of AFC Energy plc (2013: £9,555). At 31 October 2014, the sum owing to Eugene Shvidler was nil (2013: nil).

Company Information

Directors
Tim Yeo
Adam Bond
Christopher Tawney (Company Secretary)
Mitchell Field
Eugene Shvidler
Sir John Sunderland
Eugene Tenenbaum

Registered office
Finsgate
5–7 Cranwood Street
London
EC1V 9EE
Registered in England: 05668788

Joint Broker
Peat & Co
118 Piccadilly
London
W1J 7NW

AIM Nominated Adviser and Joint Broker
Zeus Capital
23 Berkeley Square
London
W1J 6HE

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

Principal place of business
Unit 71.4 Dunsfold Park
Stovolds Hill
Cranleigh
Surrey
GU6 8TB

Tel: 01483 276726
Fax: 01483 266839

Auditor
Jeffreys Henry LLP
Finsgate
5–7 Cranwood Street
London
EC1V 9EE

Solicitors
Eversheds LLP
1 Wood Street
London
EC2V 7WS

Registrars
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS13 8AE

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www.accruefulton.com

AFC Energy plc
T: 01483 276726 | F: 01483 266839 | www.afcenergy.com
Unit 71.4 Dunsfold Park | Stovolds Hill | Cranleigh | Surrey | GU6 8TB