AFC Energy

2015 ANNUAL REPORT & ACCOUNTS

Welcome to AFC Energy plc

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

> Visit our website at www.afcenergy.com

AN EVOLUTIONARY TECHNOLOGY

> Adding Value on page 06

A MILESTONE YEAR FOR AFC ENERGY

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A GLOBAL OPPORTUNITY

> Market Overview on page 08

"We made significant progress across the business in 2015 in delivering against our set of milestones."

ADAM BOND
CHIEF EXECUTIVE OFFICER

Cartridges connected for operation

STRATEGIC REPORT

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OUR BUSINESS MODEL

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DELIVERING TECHNICAL PERFORMANCE

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OPERATIONAL REVIEW

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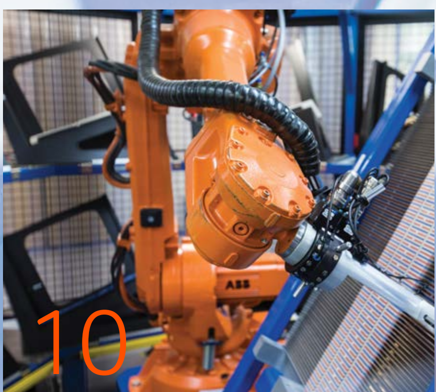


A Milestone Year for AFC

OCTOBER 2015

AFC's KORE Fuel Cell System Successfully Achieves Milestone 10

In October 2015, AFC Energy successfully achieved the penultimate Milestone 10 in its 2015 POWER-UP programme. AFC achieved Milestone 10 by commencing temporary operation of an entire tier of eight fuel cell cartridges on the KORE system, where it achieved a maximum output from the tier of just over 40kWe.

The eight fuel cell cartridges used in this Milestone 10 trial were successfully used to test the second and third tiers of the KORE system. In order to preserve their effective operational longevity for further testing, they were not run to full capacity in the October trial, nor were they run for an extended time period.

Each tier (there are three in total) within the KORE fuel cell system is capable of operating independently of the other so the successful operation of a single tier of eight cartridges was a significant further de-risking of the system and in particular the Balance of Plant.

> See full article at www. afcenergy.com/news/regulatory-announcements

Following the success of Milestone 10, cartridges were installed into each of the remaining two tiers to test the operational capability of the rest of the system before the final milestone of 240kWe is trialled. The achievements at the single tier level provided AFC with the confidence, both in terms of the fuel cell cartridges and the Balance of Plant, to push forward with the delivery of Milestone 11.

40kWe

40kWe of power generated on a single tier

Hitting our Milestones Ahead of Schedule

We are edging increasingly closer to delivery of a commercial-scale fuel cell system capable of deployment across a range of markets we are focusing on. We will continue to push hard to achieve these ambitious goals and ensure the system we take to market achieves not only short-term operational success, but also longevity, safety and stability of power supply across the life of the project. Our programme of work for the remainder of this year and into the next will focus on these points.

MILESTONE PROGRESS THIS YEAR

11 – FIRST TIER OF THE KORE FUEL CELL SYSTEM IN OPERATION

10

09 – COMMISSIONING OF POWER-UP KORE AND FIRST SINGLE CARTRIDGE OPERATION

08

07 – CONSTRUCTION OF POWER-UP FACILITIES, UTILITIES AND CONNECTIONS AT STADE, GERMANY COMMENCED

06

05

04

03

02 – AFC'S FIRST 101 FUEL CELL STACK WAS SUCCESSFULLY TRIALLED IN THE UK

01

MARCH 2015

AFC signs Milestone 50MW Deal with Samyoung and Chang Shin in South Korea for Fuel Cell Development

AFC signed a formal Project Development Agreement with two South Korean partners: Samyoung Corporation and Chang Shin Chemical Co. for the deployment of up to 50MW of fuel cell generation capacity in Daesan, Korea.

South Korea's strong incentives in the deployment of fuel cell technologies has brought significant investment and employment opportunities to the Daesan region, which AFC Energy is proud to support.

> See full article at www. afcenergy.com/ news/regulatory-announcements

FINANCIAL HIGHLIGHT

289.2%

Increase in income

APRIL 2015

Landmark MoU with Dubai Carbon Signed

AFC Energy signed a Memorandum of Understanding with Dubai Carbon Centre of Excellence ("Dubai Carbon") at the 2015 Water, Energy, Technology and Environment Exhibition (WETEX) in Dubai. The MoU provides a framework for the assessment and potential deployment of an estimated 300MW of fuel cell generation capacity in Dubai.

300MW

300MW of fuel cell capacity being assessed for deployment in Dubai by the end of 2020

"At AFC, I set the ambitious target of achieving 1GW (1,000MW) of capacity under development by the end of 2020 and this MoU brings us excitingly closer to our target but I would like to stress that we still have a long way to go."

Adam Bond,
CEO of AFC Energy

> See full article at www. afcenergy.com/ news/regulatory-announcements

APRIL 2015

Agreement with Bangkok Industrial Gas for Fuel Cell Development in Thailand

AFC Energy has executed its first Heads of Agreement in Thailand to initiate a programme of commercial fuel cell deployment with a leading Thai industrial gas company, Bangkok Industrial Gas Co. Ltd ("BIG").

The Heads of Agreement establishes a framework for the assessment and deployment of an initial 10MW of fuel cell capacity utilising surplus hydrogen from BIG-owned hydrogen pipelines and related facilities in the Rayong Province of Thailand.

> See full article at www. afcenergy.com/ news/regulatory-announcements

JULY 2015

Commercial Power Purchase Agreement with Stadtwerke Stade, Germany

AFC Energy executed its first commercial power purchase agreement ("PPA") with Stadtwerke Stade GmbH for the sale of electricity generated at AFC's fuel cell generation facility at Stade, Germany.

The sale of electricity under the PPA represents the first commercial revenue to be generated from an AFC fuel cell system.

> See full article at www. afcenergy.com/ news/regulatory-announcements

CHAIRMAN'S STATEMENT

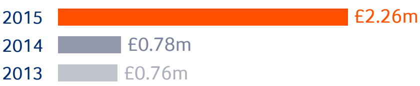
Exceeding Expectations

The Company made great progress in 2015 both technologically and commercially.

TIM YEO
CHAIRMAN

INCOME

£2.26m



LOSS

£4.78m

OVERVIEW

The future for low carbon technology took a huge positive stride forward in early 2016 following the Paris Conference, which commits all countries to cut carbon emissions and means that governments will need to go further and faster to tackle climate change than ever before.

While fossil fuel prices – notably oil – have continued to weaken in recent months, following Paris it is clear that the choice will no longer be simply about price – the world is now committed to a lower carbon future.

Stationary fuel cells can play a major part in this globally and while there has been – and remains – substantial activity in Japan, South Korea and the US, the UK and Europe continue to lag behind outside of the small CHP market. In addition, most developing countries have had insufficient funds to invest in low carbon technology but with the Paris accord promising US$100bn p.a. by 2020, this should slowly begin to change.

The opportunity for AFC Energy remains significant.

KEY DEVELOPMENTS

In December 2014, AFC announced plans to fast-track the development of its KORE fuel cell system in 2015 and set out an ambitious series of 11 milestones against which the progress of this plan could be measured. This would culminate in the demonstration of power output up to 240kW in December 2015 – an acceleration of some 18 months over earlier plans. The first 10 milestones were successfully achieved on time, and Milestone 11 – the key one – was extended by one month to ensure that the entire 24-cell system was fully and precisely conditioned before final testing.

In what was a seminal moment for AFC Energy, the KORE system was initiated at the end of January 2016 with the cells' combined power output reaching in excess of 200kW with 1.3MWh of electricity delivered into the German grid.

This achievement firmly establishes the next important phase of development for the Company.

From a commercial standpoint, during the year the Company signed:

- A formal 50MW project development agreement with Samyoung Corporation and Chang Shin Chemical Co. in South Korea
- A Heads of Agreement for 10MW with Bangkok Industral Gas Co. in Thailand
- A further Memorandum of Understanding with Dubai Carbon Centre of Excellence for a potential deployment of 300MW in Dubai

These build on the commercial progress made in 2014 and demonstrate the very high level of global interest in the Company's fuel cell.

Shortly after the year-end – in December 2015 – the Company raised a further £3.6 million from existing Shareholders to support working capital requirements in advance of receipt of grant funds from the EU in relation to the POWER-UP project in Germany.

PARTNERS

AFC Energy continues to attract – and be supported by – high quality partners. In 2015, a joint venture was signed with DUTCO in Dubai to cover fuel cell deployment in the Middle East. In addition, a Heads of Agreement was signed with a major global manufacturing partner for the international procurement and manufacture of the cells.

SUMMARY

The Company made good progress in 2015, both technologically and commercially. My thanks go to everyone at AFC Energy for what was an outstanding team effort.

Having now established that the full KORE system is capable of delivering what it promised, 2016 is likely to be a pivotal year for the Company as we further demonstrate the system's commerciality and we also anticipate further progress on manufacturing and commercial orders.

The Board remains confident of the Company's potential and, with the right resources, of its ability to achieve shareholder expectations.

TIM YEO
Chairman
23 March 2016

Development at Stade

AFC's key project POWER-UP is demonstrating the world's largest alkaline fuel cell system at Air Products' ("AP") industrial gas plant in Stade, Germany.

Milestone 10 demonstrated that the KORE fuel cell system is capable, on a tier level (comprising eight fuel cell cartridges), of operating in an industrial environment and delivering acceptable power output for dispatch into the local power grid.

€11.5m

Investment in the project

An Evolutionary Technology

Why Alkaline fuel cells? A fuel cell is a cell producing an electric current direct from a chemical reaction. Alkaline fuel cells are the most effective of all fuel cell chemistries achieving up to 65% electrical efficiency.

How Does an Alkaline Fuel Cell Work?

OXYGEN | HYDROGEN

ALKALINE FUEL CELL

ELECTRICITY | WATER | HEAT

An alkaline fuel cell is a device that converts oxygen (from the air) and hydrogen (from a supply) into electrical energy, water and heat. It's chemically comparable to a battery that will provide electric power continuously, as long as you feed it with hydrogen and air. The only by-products are demineralised water and heat – both of which also have commercial applications. Excluding water, an alkaline fuel cell is a zero emission device.

Benefits of Fuel Cells

AVAILABLE HYDROGEN

Hydrogen can be made renewable in significant quantities and is sustainable. Waste hydrogen sources include waste bio-mass, hydrocarbon waste and chlor-alkali plants where hydrogen is created as a by-product in the manufacture of chemicals like chlorine.

WATER AND HEAT AS BY-PRODUCTS

The hydrogen fuel cells' by-products consist of water and heat. The production of water is seen as a benefit in specific regions around the world, while the waste heat produced may be captured and used on site or in a local end-user's industrial process. This has the potential to further reduce both the end-user's energy requirements from the grid and carbon emissions.

MORE EFFICIENT AT ALL LEVELS OF UTILISATION

Fuel cells do not burn fuel like in an internal combustion engine or turbine so they do not need to drive pistons or blades. Avoiding this intermediate mechanical step and having a direct conversion route to electricity is what makes fuel cells so efficient. They are "scaleable" without impacting efficiency unlike many of the world's existing power production technologies.

QUIET AND CLEAN AT POINT OF GENERATION

A fuel cell has very few moving parts. Small electrical pumps and blowers move gases and liquids around the system. Therefore, it is quiet compared to traditional technologies. Its only by-products are water and heat.

LOW LIFETIME COST OF OWNERSHIP

AFC has reduced the cost of ownership through a lower operating temperature (i.e. below 100 degrees Celsius) with consequential use of more affordable materials. Plus over 80% of the materials AFC uses can be recycled.

Liquid Nitrogen tank and Evaporators

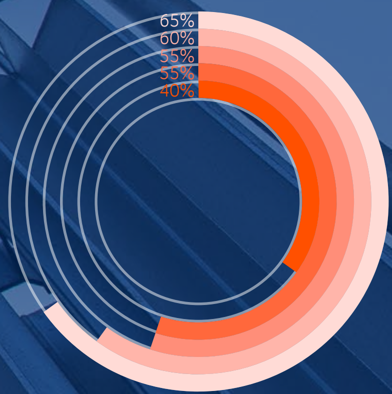
Electrically Efficient

With alkaline fuel cell technology yet to find a commercial foothold, science turned to a number of other electro chemistries. Each chemistry has been adopted by industry for different niche applications. Most offer efficiency advantages over how power is traditionally generated. However, alkaline fuel cells remain the most electrically efficient of them all.

OPERATING TEMPERATURE BY FUEL CELL TYPE

Fuel Cell Type	Operating Temperature
SOLID OXIDE ("SOFC")	500–1,000°C
MOLTEN CARBONATE ("MCFC")	600–700°C
PHOSPHORIC ACID ("PAFC")	120–150°C
POLYMER ELECTROLYTE MEMBRANE ("PEM")	<120°C
ALKALINE ("AFC")	<100°C

ELECTRICAL EFFICIENCY BY FUEL CELL TYPE



65%	ALKALINE ("AFC")
60%	SOLID OXIDE ("SOFC")
55%	POLYMER ELECTROLYTE MEMBRANE ("PEM")
55%	MOLTEN CARBONATE ("MCFC")
40%	PHOSPHORIC ACID ("PAFC")

Source: www.afcenergy.com/technology/advantages_of_alkali_fuel_cells.aspx

MARKET OVERVIEW

A Global Opportunity

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

Key Target Regions

We are focused on regions that offer attractive long-term market conditions for electricity that is generated from fuel cells.

GERMANY

In the EU, Germany has decided to champion the introduction of fuel cells and demonstrated solid support via the European Fuel Cells and Hydrogen Joint Undertaking ("FCH JU").

2016 Strategic Milestones

We are focused on the delivery of these strategic milestones throughout the course of 2016.

FUEL CELL STACK AND BALANCE OF PLANT ("BOP")

1 Develop a second generation ("Gen 2") fuel cell stack and BoP during the second half of 2016.

2 Operate the Gen 2 fuel cell stack and BoP over an extended test period (>1 month) before the end of 2016.

3 Confirm the availability and longevity of the fuel cell system to meet minimum industry standards required for commercial deployment as agreed with project partners.

PRODUCT DEVELOPMENT

4 Conclude basic design and engineering on a simple cartridge 10kW system capable of deployment in 2016.

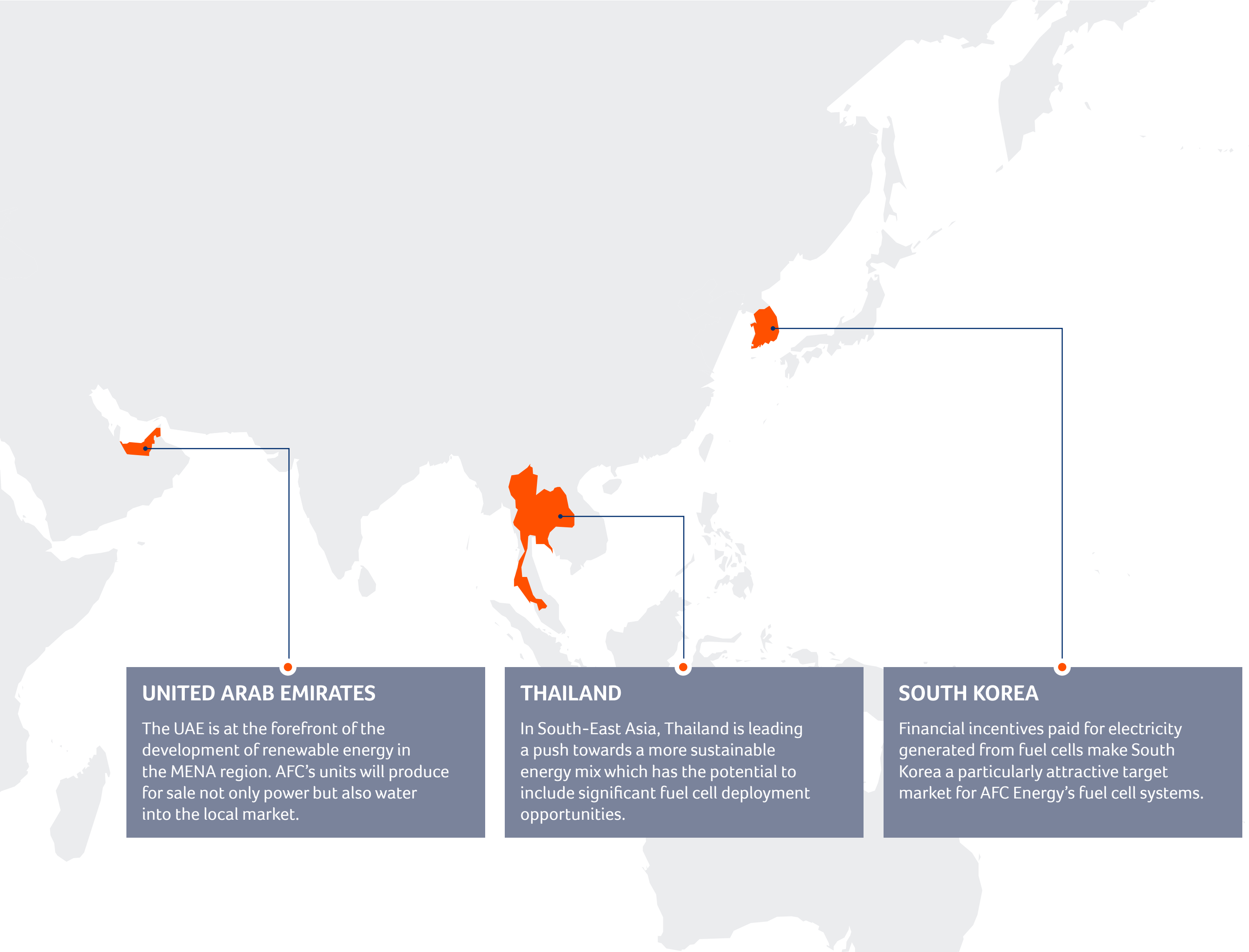
5 Conclude basic design and engineering on a 1MW capacity fuel cell system capable of deployment in 2017.

COMMERCIAL OPPORTUNITIES

6 Commence scoping studies for at least three international fuel cell projects with a focus on the Middle East and Asia.

7 Secure contracts for at least two international fuel cell projects for delivery in 2017.

8 Secure value added strategic partnerships with recognised industrial and institutional groups.



UNITED ARAB EMIRATES

The UAE is at the forefront of the development of renewable energy in the MENA region. AFC's units will produce for sale not only power but also water into the local market.

THAILAND

In South-East Asia, Thailand is leading a push towards a more sustainable energy mix which has the potential to include significant fuel cell deployment opportunities.

SOUTH KOREA

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

The Global Fuel Cell Market

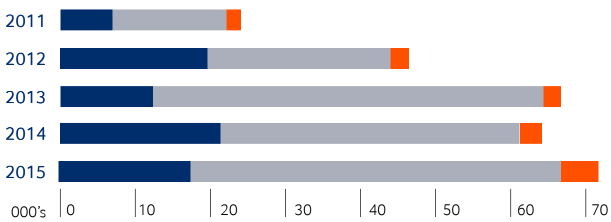
More fuel cell units, more installed power. That's the simple headline for activity in the fuel cell industry in 2015. AFC focuses on stationary fuel cell applications.

- Portable
- Stationary
- Transport

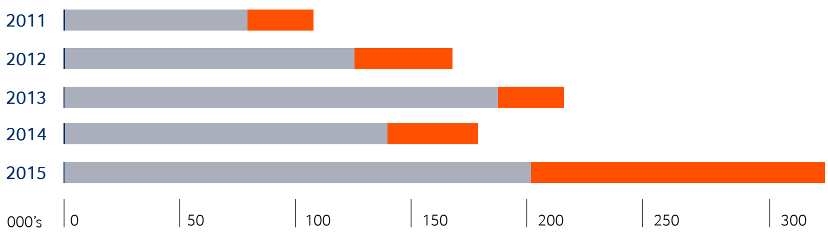
Source: www.fuelcelltoday.com/2015 industry review

OVERALL FUEL CELL MARKET GROWTH 2011-2015

Shipments by application (units)



Megawatts by application



Our Business Model

Our business model is to install, own, operate and maintain alkaline fuel cell power projects.

AFC seeks to be a fuel cell power provider and will target joint ventures, in which AFC aligns its interests with those of its partners, by having "skin in the game".

- INNOVATION
- PARTNERSHIPS
- MULTIPLE MARKETS
- CUSTOMER SALES

Our Strategic Priorities	Our Plan of Action
OUR TECHNOLOGY Project POWER-UP is proving the ability of AFC Energy's alkaline fuel cell system to deliver the technical performance, longevity and stability of power output. In December 2014, announced 11 key milestones for progression in 2015. Delivered 10 of 11 milestones by the end of October 2015.	**ACHIEVING MILESTONES** Conduct an intense and accelerated twelve month fuel cell development programme to successfully deliver gross electrical output of 240kW. To successfully demonstrate in an industrial setting all three tiers of the KORE fuel cell system operated in parallel with each other and to successfully dispatch power into the German power grid.
EXISTING PARTNERS The POWER-UP consortium consists of partners with world-class expertise to achieve the project's objectives. Consortium partners include: Air Products (UK), GB Innomech (UK), Paul Scherrer Institut (Switzerland), ZBT Centre for fuel cell technology (Germany) and European Hydrogen Association (EU).	**NEW PARTNERS** New partnerships include MoU with Dubai Carbon for the assessment and potential deployment of an estimated 300MW of fuel cell generation capacity, making this the largest single fuel cell deployment programme in the world. AFC's first Commercial Power Purchase Agreement ("PPA") with Stadtwerke Stade and successful delivery of first power into the grid.
MULTIPLE MARKETS Power generation in the industrial sector, but ancillary applications for waste water treatment, when combined with electrolysis, are also being investigated.	**CONTINUAL DEVELOPMENT** Gain experience of more hydrogen production methods and integration requirements. AFC is currently in discussions with potential customers and partners, who are assessing opportunities sized at the single cartridge size, up to multi-mega watt projects.
GROWTH MARKETS Targeting generation of revenue from the sale of Balance of Plant, leasing of modular fuel cell cartridges, operation and maintenance fees and dividends from the sale of power and water.	**GLOBAL FOOTPRINT** Position and establish the Company in key international markets. Targeting commercial partners who are most likely to be "early adopters" of the technology, within diversified, international markets.

Our Performance

10/11
Milestones achieved

40kWe
Power generated in October 2015

05
New partnerships this year

360MW
Capacity under assessment

45+
Families of patents

04
Number of key original markets

Our Sources of Income

DEVELOPMENT INCOME
External agency funding makes our share capital work harder. At AFC, we look to fit our development needs within defined funding rules. This allows projects to be delivered earlier and with less call on internal financial resources for capital items.

OVERHEAD COVERAGE
Many agencies fund direct time spent on key technical research, development and demonstration. A portion of overhead recovery is also permitted. This dramatically improves our monthly cash burn rates.

LICENCE REVENUE
Our initial licence revenues were obtained last year. Our work with partners in this area is designed to seed opportunities for our fuel cells in markets, which have a longer sales/delivery process such as Waste-to-Energy. Working in this way minimises our sales costs and helps deliver market recognition earlier.

CAPITAL SALES REVENUES
Although, in the longer term, we wish to retain ownership of our fuel cell systems it may be prudent to engage with some of our partners to sell our systems as we continue our development. This additional revenue will help support the Company during this initial phase.

ELECTRICITY, HEAT AND WATER REVENUES
An Energy Services Company ("ESCo") is AFC Energy's supply method of choice. We believe this will reduce decision time, especially in mature industries, and allow the Company to take advantage of the expected longer term growth in global energy prices.

MAINTENANCE AND SECURITY
Our fuel cell projects will have a life of 20+ years operation, meaning the ability to offer services and maintenance contracts for the fuel cell cartridges and systems provides long-term annuity revenues.

Our Risks

TECHNICAL PROGRESS
AFC holds a vast quantity of operational data that needs to be fully assessed to identify areas for ongoing improvement.

FINANCIAL RISKS
Financial risks include the risk of additional development expenditure being required to produce a commercial product.

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 on page 28.

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.

INTEREST RATE RISK
The Company is exposed to interest rate risk in respect of surplus funds held on deposit.

CURRENCY RISK
The Company operates internationally and therefore is exposed to fluctuations in currency exchange rates.

> Read more on page 17

PROJECT POWER-UP

Delivering Technical Performance

In the 4th Quarter of 2013, AFC Energy was awarded a grant of €6.1 million (£4.9 million) from the European Union's Seventh Framework Programme (the Fuel Cells and Hydrogen Joint Undertaking) to lead a Consortium to demonstrate the world's largest alkaline fuel cell system at Air Products' industrial gas plant in Stade, Germany.

€11.5m

Investment in the project

€6.1m

Backing from the EU

Our Progress at Stade

MARCH 2015 – PERMITTING

AFC receives first partial Building Permit to commence construction. The first partial building permit included approvals to AFC's civil engineering drawings, geotechnical survey results and landowner approvals and allowed sub-contractors to proceed with groundworks and foundations works for the site.

MARCH 2015 – CONSENTING PROCESS

The consenting process for the AFC pilot fuel cell plant in Stade occurred across several phases with multiple phase permits issued for construction, operating and dispatch of power into the German grid. The KORE fuel cell Balance of Plant ("BoP") HAZOP assessment was updated as part of this process.

APRIL 2015 – HAZOP ASSESSMENT

A process hazard assessment of the structure and facilities designed to house the KORE system in Stade was undertaken using the HAZOP methodology. This review took place in two sessions, in February and April 2015, led by engineering consultancy plantIng GmbH and supported by AFC, Air Products plc and specialised consultancy Efficientics. A supporting ATEX (potential explosive atmosphere) study was commissioned to support the HAZOP results for German regulatory requirements.

PROJECT HIGHLIGHTS

POWER-UP is one of the EU Fuel Cell and Hydrogen Joint Undertaking's flagship projects. The project has a budget of €11.5 million and a scheduled duration of 51 months, starting in April 2013 and concluding in June 2017.

Key highlights achieved, or being achieved, for the project:

1. Delivery of an AFC system that converts hydrogen into electricity and heat
2. Successful scaled-up manufacture of fuel cell components
3. Demonstration of an automated process that assembles components into fuel cell stacks ready for incorporation within the system
4. Reduced installation and commissioning times (and costs) of the system through the development of a modular, containerised Balance of Plant
5. Effective recycling of substrate plates, catalyst materials and stack components
6. Understanding and quantifying the direct and indirect environmental burdens of the fuel cell system (including its hydrogen supply and component recycling) and the relevant socio-economic factors
7. Meeting end-user reliability requirements and compatibility with end-user's plant maintenance schedules
8. Power was successfully dispatched and sold to the grid

Air Products is supporting AFC Energy in attaining objectives (1) and (7), by supplying H_2 at competitive rates, leasing part of its industrial facility at Stade, Germany, and having supported AFC in several aspects of engineering design and permitting for this pilot plant.

GB Innomech, a leading UK automation specialist, is supporting AFC in objective (3). Throughout the duration of the POWER-UP project, there will be tens of thousands of fuel cells and ancillary components manufactured and assembled into fuel cell stacks. GB Innomech has used a combination of established automation processes to develop and commission a pilot stack assembly automation system.

The Paul Scherrer Institut of Switzerland is performing a technical, environmental and economic assessment of the project and AFC's current state of technology. The focus of these multi-disciplinary studies is to establish the long-term viability and sustainability of alkaline fuel cells, as compared to conventional, and other environmentally friendly, power generation technologies. This mainly addresses objective (6), supported throughout by AFC.

The Centre for Fuel Cell Technology, or ZBT, has joined the Consortium to ensure project compliance with German and European regulations and standards. Part of its work is to agree the project roadmap and validate key milestones, as well as granting CE-compliance for AFC's technology. Its work addresses parts of milestones (1) and (7).

MID-TERM REVIEW

On October 2015, the Project Mid-Term Review was held in Brussels, wherein the EU Fuel Cell and Hydrogen Joint Undertaking ("FCH JU"), assisted by external experts, assessed the progress of the project. Key AFC staff, including representatives of project partners, were interviewed and questioned in detail to ascertain the level of progress achieved, with immediate positive feedback.

Overall, the project has shown good progress during the period under review. The project has progressed well despite several major complications, largely outside of the control of the project partners. These issues have been addressed in appropriate ways and presented and discussed in a transparent fashion. The project team has worked hard to overcome them and for the most part succeeded. The main scientific and technical achievements of the project have been to design, build, commission and begin to operate (some of) an Alkaline Fuel Cell system in an industrial setting. To do this has required developments in manufacturing technology, both production and assembly, which will significantly assist in meeting future cost and performance targets. The State of the Art has been significantly improved and the project should enable enhanced competitiveness and potentially bring economic and social value to Europe.

POWER-UP CONSORTIUM

To achieve the objectives of project POWER-UP, AFC Energy and AP have put together an international Consortium of world-class expertise:

AFC Energy plc (UK)	**Project Co-ordinator**
Air Products plc (UK)	World's leading supplier of Hydrogen and site host
GB Innomech (UK)	Automation specialists
Paul Scherrer Institut (Switzerland)	Independent technical, environmental and economic evaluation
ZBT Centre for fuel cell technology (Germany)	CE marketing and regulatory compliance
European Hydrogen Association (EU)	Publicity and dissemination of results

JUNE 2015 – FINAL BUILDING PERMIT

AFC receives final Building Permit to conclude construction allowing AFC and its contractors to erect all above ground infrastructure including the industrial steel frame building to house the KORE fuel cell system, all storage tanks, piping, connection points and ancillary above ground equipment. The medium voltage grid code compliance requirements for the fuel cell power conditioning infrastructure were also agreed upon in this period with Stadtwerke Stade, Transmission System Operator ("TSO") for the region supported by Siemens.

AUGUST 2015 – CONSTRUCTION

AFC announces that it has successfully completed the initial commissioning phase of its first KORE fuel cell system at Stade, generating just over 7.5kWe from a single fuel cell stack. This was the culmination of an accelerated construction period on site, effectively erecting and fitting out the building (mechanical, process, electrical and control and instrumentation works) within eight weeks.

KORE COMMISSIONING

EU FCH JU funded project POWER-UP will last for 51 months. Its start date is April 2013 and it will be concluded in June 2017.

Operational Review

The Company is looking ahead to build upon an already established pipeline of commercial opportunities and drive the findings from the development phase into a technically optimised and relevant fuel cell system.

ADAM BOND
CHIEF EXECUTIVE OFFICER

The past 12 months represent a pivotal year for AFC Energy, where we have undertaken to demonstrate for the first time AFC Energy's KORE fuel cell system, representing the largest alkaline fuel cell system in operation internationally today.

OPERATING REVIEW

Technology

Throughout 2015, AFC conducted an intense and accelerated twelve month fuel cell development programme attaining ten out of the eleven internally set milestones. These consisted of a number of firsts for the Company, including the successful testing of a 25 cell stack system, a 51 cell stack and ultimately a complete stack of 101 cells.

This final 101 fuel cell stack test demonstrated the operability of the fundamental building block of the KORE system giving us the flexibility to consider a whole range of alternative products – from a single cartridge product to multi-mega watt systems.

As a result, AFC Energy has picked up a lot of interest from potential customers assessing smaller energy requirement opportunities in integers of 10kWs, dramatically expanding AFC's market potential. Whilst the market potential exists for AFC Energy's systems at a range of different capacity sizes, including smaller scale systems, the Company's immediate focus remains firmly on large stationary systems in markets where positive environmental and fiscal drivers exist.

Achieving the penultimate Milestone 10 in October 2015 demonstrated for the first time the capability of the KORE fuel cell system on a tier level (each of the three tiers comprising of eight fuel cell cartridges for a total of 24 cartridges, or 2,424 cells, operating in sequence), in an industrial environment and delivering acceptable power output for dispatch into the local power grid.

POST YEAR-END DEVELOPMENTS

Equity Funding

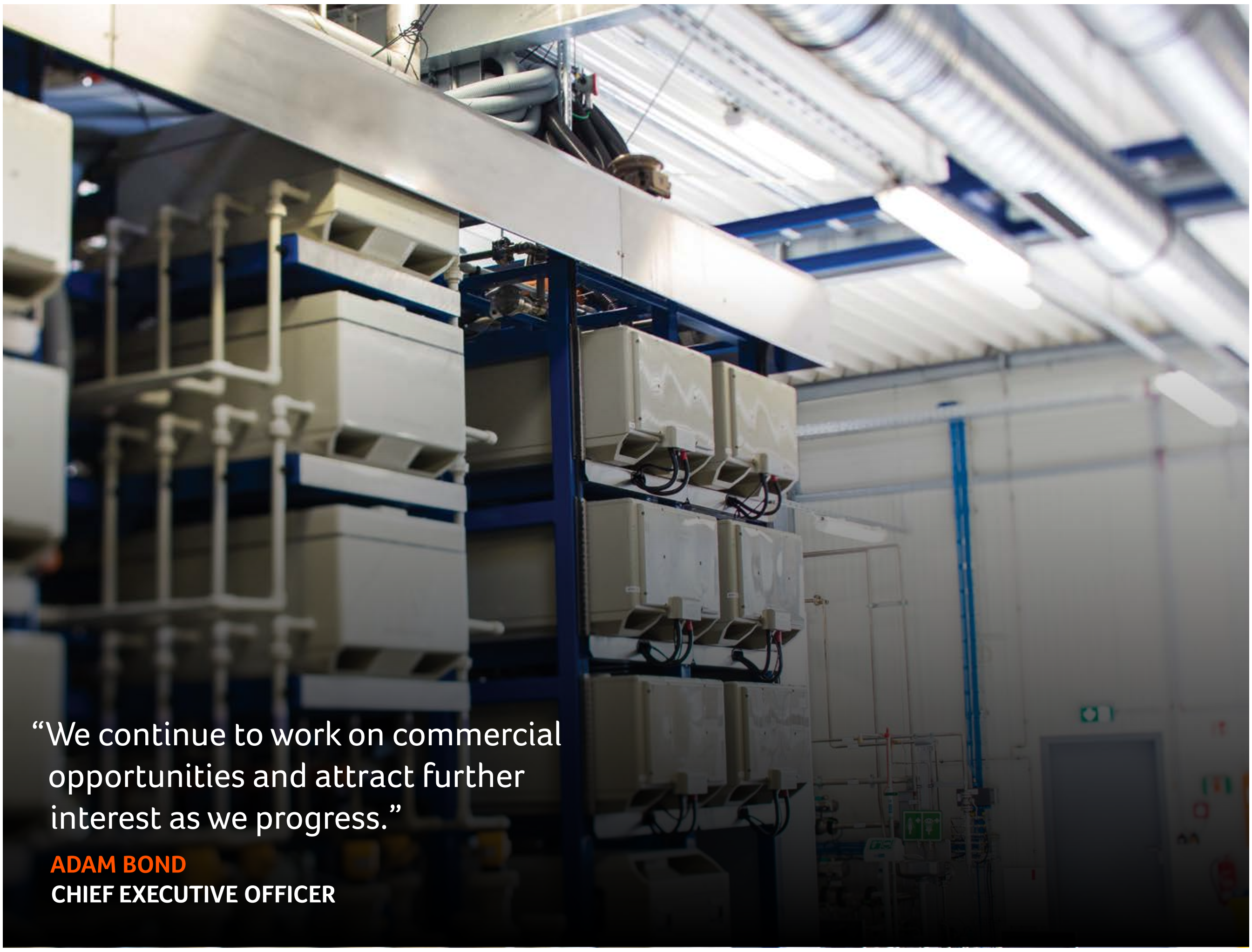
Following on from the penultimate Milestone 10 in December 2015, we announced that the Company had raised a total of £3.6 million by way of a subscription and Shareholder offer at an issue price of 20p per share. One of the great attributes of AFC Energy is its very loyal Shareholder base and it was most pleasing to see that the Shareholder offer was 3.8 times oversubscribed.

The net proceeds of the subscription were deployed to enable AFC to complete pre-commissioning activities in relation to Milestone 11, as well as support the short-term working capital requirements of the Company, in advance of the receipt of EU grant funds by way of reimbursement of expenditure for the POWER-UP project.

MILESTONE 11

Since the fundraise, receipt of >€1 million has been received for work complete to 30 June 2014, and a further £1.5-£2 million is expected from the EU before year end. In January 2016, we completed our final Milestone 11, achieving a gross electrical output in excess of 200kW from AFC's proprietary KORE fuel cell system in Stade, Germany. This was the first time that all three tiers of the KORE fuel cell system had operated in parallel with each other. While total power of 204kW was down from the nameplate 240kW, a maximum output of 11.7kW per stack was achieved, exceeding the 10kW nameplate capacity; an excellent achievement given where we were twelve months earlier. This is one of the key de-risking achievements of the technology to date. In addition, over 1.3MWh of power was generated and sold into the grid under the Power Purchase Agreement with local utility Stadtwerke Stade. Importantly, one of the key successes from trialling the KORE fuel cell system has been the vast quantity of operational data that has been acquired. This has enabled the team to fully assess and identify further areas where improvements can be made to optimise the fuel cell system, which at present is the largest alkaline fuel cell system in the world today.

Following Milestone 11, AFC signed a strategic engineering partnership and services agreement with Germany-based engineering consultancy plantIng GmbH to support the optimisation and rollout of AFC Energy's alkaline fuel cell systems. As plantIng has provided engineering support and Engineering Procurement Construction Management services to AFC's POWER-UP project at Stade for over a year, the firm already boasts a deep knowledge and understanding of AFC 's fuel cell technology. The Engineering Agreement includes a significant investment by plantIng of their time and resources in supporting AFC Energy in addressing the identified deployment opportunities that exist in Germany, Europe and internationally. The decision by plantIng to invest their own time into this optimisation exercise further demonstrates the market potential of the technology and the quality of the partners we are able to attract and collaborate with.



> "We continue to work on commercial opportunities and attract further interest as we progress."
>
> **ADAM BOND**
> **CHIEF EXECUTIVE OFFICER**

2016 STRATEGIC MILESTONES AND OUTCOMES

In March 2016, AFC Energy announced its eight 2016 strategic milestones and outcomes. Milestones 1 to 3 refer to technical optimisation of the fuel cell system during the second half of 2016; operating the second generation system over an extended test period before the end of 2016 and confirming the availability and longevity of the fuel cell system to meet minimum industry standards required for commercial deployment. Milestones 4 and 5 cover the development of two new system configurations to be developed in conjunction with AFC's engineering partner plantIng: the completion of the basic design and engineering on a single cartridge 10kW system capable of deployment in 2016 and a larger 1MW capacity fuel cell system capable of deployment in 2017. The final three milestones, 6 to 8, involve commercial opportunities including the commencement of scoping studies for at least three fuel cell projects internationally, with a focus on the Middle East and Asia; securing confirmed contracts for at least two AFC fuel cell projects internationally and securing value added partnerships with recognised industrial and institutional key players. Importantly, the eight milestones continue to emphasize the positioning of AFC Energy as an industry leading stationary fuel company focusing on large industrial installations, whilst recognising the further potential that exists for optimisation of the system capacity necessary to meet market demand.

PARTNERSHIPS

The POWER-UP programme in Stade has been our main point of focus and its success would not have been possible without the involvement of our key partners.

We now have a system operating in Germany at an industrial plant owned by Air Products, which in turn accepts hydrogen from Dow Chemicals.

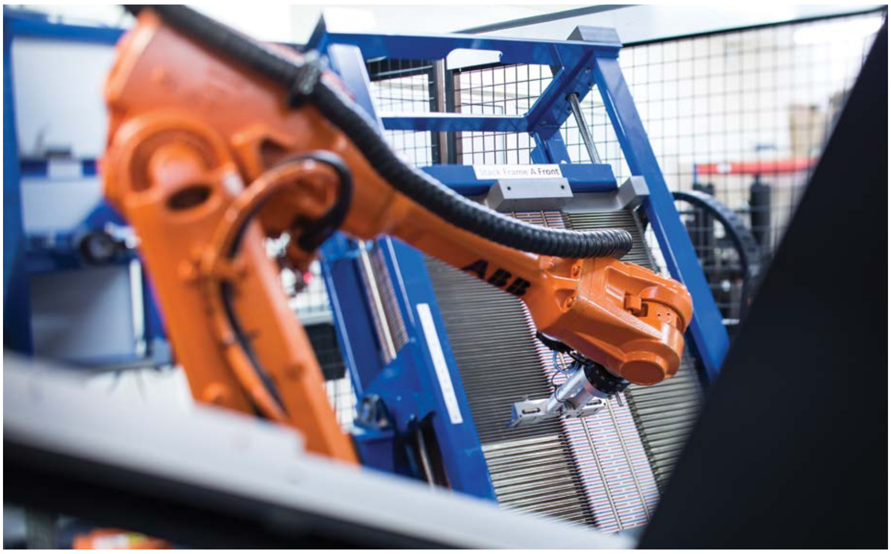
Engineering and design work associated with delivering the POWER-UP programme on site was supported by our engineering partners plantIng and Artelia.

In the meantime, AFC signed Memorandum of Understandings ("MoUs") in three of its key regions, including the Middle East (Dubai), South-East Asia (Thailand) and northeast Asia (South Korea).

I've already mentioned the Power Purchase Agreement with the utility Stadtwerke Stade. This represents the first commercial revenue for AFC, but just as importantly, it allows us to learn how to integrate and interface our KORE power plant with a modern day, established power grid.

AFC continues to work with its partners across a number of opportunities.

Control Panel for the Distributed Control System



2014/5 Milestones Achieved

- 11 Achieve first commercial scale operability of KORE module
- 10 Phase-2 POWER-UP programme
- 09 Phase-1 POWER-UP programme
- 08 Commissioning of POWER-UP KORE
- 07 Installation of POWER-UP KORE system
- 06 Conclude construction of POWER-UP facilities
- 05 Commence construction of POWER-UP facilities, Stade
- 04 101-cell stack trials
- 03 51-cell stack trials
- 02 Appoint engineering consultant
- 01 25-cell stack trials

In view of the lack of certainty that currently exists for Waste2Tricity Ltd ("W2T") and Waste2Tricity International (Thailand) Ltd as regards Government fiscal support mechanisms in the UK and Thailand for its waste to energy developments, together with a reduction in available working capital, whilst these delays continue preventing the payment of outstanding licence fees to AFC Energy, the Board has considered it prudent to write down both its investment in W2T Ltd and the licence fees receivable from W2T Ltd and W2T Thailand. However, we would like to express our ongoing support for W2T and confidence in its prospects once it has obtained the clarity it requires both as regards Government support and funding.

FUNDED PROJECTS: PROJECT POWER-UP

POWER-UP has been AFC's key project for the past 12 months. The €6.1 million EU-part funded programme represents the world's first large-scale demonstration of an alkaline fuel cell system. ZBT GmbH has joined the consortium to ensure that the POWER-UP system complies with all relevant national and European regulations and will ensure that the system is CE-compliant by the end of the project. The project is due to conclude in June 2017.

FINANCIAL OVERVIEW

In 2015, AFC's EU grant and other income increased to £2,313,586 (2014: £796,135).

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 engaged in three EU funded projects, ALKAMMONIA, LASERCELL and POWER-UP, with the focus during the year primarily on POWER-UP, which entails the construction and delivery of the first KORE system to an operational site in Germany. Increased expenditure on the site and on the KORE module itself is reflected in cost of sales. R&D spend qualifying for R&D tax credits increased substantially to £3.48 million (2014: £1.28 million) as a change in HMRC rules now allows some R&D expenditure relating to the EU funded projects and included in cost of sales to qualify for credits.

Overall post tax losses to 31 October 2015 were £4.8 million (2014: £5.4 million). Cash balances at 31 October, excluding restricted cash, were £1.8 million (2014: £4.9 million). As mentioned (in post year-end developments), subsequent to the year end in December 2015 and January 2016, the Company successfully raised £3.6 million before costs through a placing and offer for subscription, which was oversubscribed by a factor of 3.8 times.

OUTLOOK

AFC now has a fuel cell cartridge capable of operating at or above its nameplate capacity and we are continuing the momentum created in 2015 to confirm the longevity of the fuel cell system to meet the industry standards required for commercial deployment.

I said last year that our targets were ambitious and they remain so. I still firmly believe that we will achieve our aggressive target of 1GW (1,000MW) of fuel cell capacity installed or under development by the end of 2020.

Finally, I would like to thank again all the staff and contractors working with AFC together with the FCH JU for their continued support in delivering this project. I also wish to recognise the massive contribution and sacrifices made by many to achieve this outcome. 2016 is going to be another exciting year for AFC.

This Report, including the Principal Risks and Uncertainties on page 17, was approved by the Board on 23 March 2016.

ADAM BOND
Chief Executive Officer
23 March 2016

PRINCIPAL RISKS AND UNCERTAINTIES

Managing Risks

Effective risk management underpins the delivery of our objectives. It is essential to protecting our reputation and generating sustainable shareholder value. We aim to identify key risks at an early stage and develop actions to eliminate them or mitigate their impact and likelihood to an acceptable level.

Risk management processes are embedded at both company and project levels and form an integral part of day-to-day business activity. They help management and delivery teams to identify and understand the risks they face in delivering business objectives and to develop mitigations to manage those risks.

Risk and Impact	Management Strategy
Delayed technology development necessary to meet minimum industry and commercial standards of the fuel cell system	Since 2015, AFC Energy has implemented a robust control of technological progress against a budgeted plan adopting principles of "technology readiness levels" ("TRL"). External partners have also been identified and where relevant, engaged to support the development plan with transparent KPIs and road maps to a product that meets commercial power, availability, longevity, efficiency and cost metrics.
Insufficient working capital to fund the Company's technology development plan and operate the business	The adoption of a budgeted technology development plan, supported by prudent budgetary controls that can be measured and monitored periodically provides a robust means of mitigating risk of insufficient working capital. The ability to demonstrate progress against predefined milestones that demonstrate substantive commercial development of the fuel cell system also enhances the Company's ability to access new funding if required through the capital markets.
Insufficient operational capability and capacity to deliver project contracts	The strategy for transition of AFC Energy from a technology development company into a vehicle for commercial deployment focuses on long-term partnerships and collaborations with industry leading companies. Our partners are identified and developed to complement AFC Energy's project execution capability, both in terms of understanding local regulatory environments, through to construction, funding, operational and logistical support. This strategy will continue to be employed over the short to medium term by the Company.
Loss or breach of intellectual property	AFC Energy has long benefited from the external advice provided by highly qualified patent attorneys and legal practitioners. The integrity of the Company's IP management and the manner in which all contractual negotiations with third parties takes place to ensure IP protection and compliance is of critical importance to the maintaining of shareholder value and prosperity of the Company. IP registers are reviewed regularly both in terms of existing patents, but also in terms of future and unregistered protection. Staff education and internal controls over IT systems and cyber threats are conducted by third party expert consultants to provide assurance over the integrity of our systems.
Health and safety breaches of incidents	Failure of health and safety systems put at risk the reputational integrity of the Company and its operational capability at its respective facilities. Robust health and safety management and an environment of continuous improvement and reinforcement of safety culture is paramount for the Company and enforced at all levels of the management and staff. Adherence to codes and standards surrounding health and safety provides a transparent mitigation to the risk of breaches and ensures the integrity of AFC Energy's health and safety remains intact for the sake of our employees, partners, contractors and shareholders.
Design and quality issues with AFC Energy's fuel cell systems	As the Company progresses to a commercial business entity, design defects and poor quality management could have a direct impact on the Company's market reputation and positioning, with consequential loss of value to shareholders, together with the potential for financial consequences (eg. performance warranties and guarantees). AFC Energy adopts a very high standard of control over manufacturing processes and quality controls mitigating to a large extent the risk of product quality issues and failure. Further, negotiations with partners on commercial contracts cannot over commit the Company in terms of financial exposure whilst the technology continues to mature. Strict adherence to the Manufacturing Readiness Levels (MRL) and the consequential commercial flow on of respective MRLs in partner contracts will provide a high level of risk mitigation from the issues of design and quality management across our project portfolio.

Board of Directors

The Board is responsible for the overall conduct of the Company's business and meet regularly to discuss reviews and reports on the business and plans of the Company.

COMMITTEES MEMBER KEY

- ○ Chair of committee
- ● Member of committee

- (1) Audit committee
- (2) Remuneration committee
- (3) AIM Rules Compliance committee

(2) ●3

TIM YEO
Non-Executive Chairman

Tim Yeo was appointed Chairman of AFC Energy in 2007. He is a non-executive director of Groupe Eurotunnel SE, Chair of the University of Sheffield Energy 2050 Industrial Advisory Board and Chair of New Nuclear Watch Europe. He was formerly Member of Parliament for South Suffolk and Chairman of the House of Commons Energy and Climate Change Select Committee.

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 focused 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 was a Non-Executive Director of AFC Energy since 2012, and was formerly Director of both Waste2Tricity Ltd and JS Yerostigaz (Uzbekistan). He is qualified with Bachelors' degrees in commerce and law and a Master in Laws (Taxation).

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.

1 2 3

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.

1

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 250-listed company) and Highland Gold Mining Ltd (an AIM-quoted company).

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 250-listed company.

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 October 2015. The comparative period was from 1 November 2013 to 31 October 2014. 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, 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 27.

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
Adam Bond	Non-Executive (appointed Chief Executive Officer on 1 December 2014)
Ian Williamson	Chief Executive Officer (resigned 30 November 2014)
Christopher Tawney	Finance Director
Dr Gene Lewis	Technical Director (resigned 27 November 2014)
Mitchell Field	Non-Executive
Sir John Sunderland	Non-Executive (resigned 15 April 2015)
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. No Directors were appointed during the relevant period. Adam Bond, Eugene Shvidler and Eugene Tenenbaum are required to retire by rotation in accordance with the Company's Articles of Association and, being eligible, offer themselves for re-election.

On 31 October 2015 the beneficial interests of Directors and their families in the equity share capital of the Company were:

	Number of Ordinary shares of 0.1p 2015	Number of Ordinary shares of 0.1p 2014
Tim Yeo	877,272	877,272
Mitchell Field	2,644,810	2,644,810
Adam Bond	2,250,000	–
Eugene Shvidler	13,853,633	13,853,633
Christopher Tawney	50,000	50,000

On 31 October 2015 the Directors' interests over share capital of the Company were:

	1 November 2014	Options/ Warrants granted in year	Options/ Warrants exercised/ lapsed in year	31 October 2015	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
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
Adam Bond	–	6,000,000	–	6,000,000	£0.510	17/7/2015	17/7/2025	Unapproved Option
Christopher Tawney	–	500,000	–	500,000	£0.170	20/3/2018	19/3/2025	EMI Option

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

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 2015 £	Total 2014 £
Tim Yeo (see note 25)	18,821	–	38,525	–	57,346	58,325
Ian Williamson	168,099	13,778	216	–	182,093	370,613
Dr Gene Lewis	11,348	371	157	493	12,369	160,076
Adam Bond (see note 25)	661,932	144,531	–	–	806,463	25,567
Mitchell Field (see note 25)	–	–	–	–	–	25,000
Sir John Sunderland (see note 25)	–	–	5,700	–	5,700	21,600
Eugene Tenenbaum	–	–	–	–	–	17,200
Eugene Shvidler	–	–	–	–	–	17,200
Christopher Tawney	118,456	11,321	3,551	1,351	134,679	23,833

Note:
1 Other compensation includes private medical insurance, benefits and consultancy fees.
2 £331,000 of Adam Bond's salary was paid in shares.

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.

Adam Bond's services as Chief Executive Officer and Director during the period were provided under secondment agreements between the Company and Linc Energy Ltd. The secondment agreements expired on 31 December 2015, at which point Adam became an employee of the Company. During the year ended 31 October 2015, a portion of Adam's remuneration was paid to him by Linc Energy and later recharged to the Company. This amount totalled £212,438. A further portion of his salary was settled through the issuance of shares in the Company. A total of 2,250,000 were issued to Adam Bond during the year. The value of the shares received was £331,000. The Company also provided Adam with £87,124 to compensate him in relation to different tax jurisdictions between the UK and Australia. Management believes this amount to be recoverable from the taxing authorities. The remaining £31,170 was accrued for at the end of the year and paid subsequent to year end. As part of Adam Bond's contract with the Company, he was granted 6,000,000 share options. These options have performance conditions attached to them. 3,000,000 of the options will only vest if specific operational targets for energy output are met. The remaining options will only vest if the share price achieves and sustains targeted amounts with equal portions vesting at share prices of £1.00, £1.50 and £2.00. During the year the Company recorded an expense relating to these options of £144,531.

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. During the year to 31 October 2015 Mitchell agreed not to be remunerated.

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. During the year to 31 October 2015 Eugene agreed not to be remunerated.

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. During the year to 31 October 2015 Eugene agreed not to be remunerated.

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 20.

CAPITAL STRUCTURE

Details of the Company's share capital are disclosed in notes 17 and 18 to 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 21 March 2016, 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	39,610,494	12.85%
Age of Reason Foundation	22,602,402	7.33%
Yady Worldwide	22,269,705	7.23%
Barclayshare Nominees Limited	21,059,268	6.83%
TD Direct Investing Nominees (Europe) Limited	15,402,098	5.00%
Mr Eugene Shvidler	14,432,737	4.68%
Hargreaves Lansdown (Nominees) Limited	11,522,962	3.74%
Hargreaves Lansdown (Nominees) Limited	9,520,300	3.09%

FINANCIAL INSTRUMENTS
Financial instruments are disclosed in note 21.

POLITICAL AND CHARITABLE DONATIONS
Charitable donations in the year amounted to £nil (2014: £nil).

CORPORATE GOVERNANCE
The Company does not comply with the UK Corporate Governance Code. However, the Board has reported on the Company's Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code it considers to be relevant to the Company and best practice. 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
- 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.

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.

Directors' Report

CONTINUED

AIM RULES COMPLIANCE COMMITTEE

The AIM Rules Compliance Committee comprises Tim Yeo and Mitchell Field 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 16 to 17: 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 2015 represented 125 days (2014: 128 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 2015, relevant expenditure totalled £3,475,657 (2014: £1,284,044).

GOING CONCERN

The Company has cash of £1,756,445 at 31 October 2015. In order to ensure that the Company has sufficient cash resources to meet its short-term requirements, a firm placing and shareholder offer were completed in December 2015 and January 2016 respectively, raising approximately £3.6 million before expenses. The Directors now believe there is adequate resource available to continue operations for the next twelve months. The Directors believe that future fundraising will be necessary to help the Company achieve its milestones and future growth potential and are confident in the ability of the Company to raise additional funds through the market, or at the project level as deemed appropriate at the time.

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

This report was approved by the Board on 23 March 2016 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
- 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 2015 which comprise the statement of financial position, the statement of comprehensive income, 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 AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 25, 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 Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 October 2015 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 MATTER 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 matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Grant Thornton UK LLP

CHRISTOPHER SMITH
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
23 March 2016

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 OCTOBER 2015

	Note	Year ended 31 October 2015 £	Year ended 31 October 2014 restated £
EU Grant income		2,262,506	782,236
Cost of sales		(4,846,933)	(1,029,460)
Gross (loss)/profit		(2,584,427)	(247,224)
Other income		51,080	13,899
Administrative expenses		(6,112,856)	(5,037,309)
Operating loss	5	(8,646,203)	(5,270,634)
Financial income/(loss)	8	3,294,272	(587,663)
Loss before tax		(5,351,931)	(5,858,297)
Taxation	9	569,706	421,280
Loss for the financial year and total comprehensive loss attributable to owners of the Company		(4,782,225)	(5,437,017)
Basic loss per share	10	(1.66)p	(2.42)p
Diluted loss per share	10	(1.66)p	(2.42)p

All amounts relate to continuing operations.

The notes on pages 31 to 47 form part of these financial statements.

Statement of Financial Position

AS AT 31 OCTOBER 2015

	Note	31 October 2015 £	31 October 2014 restated £	31 October 2013 £
Assets				
Non-current assets				
Intangible assets	11	338,176	279,073	180,733
Property and equipment	12	116,328	609,441	858,806
Investment	13	–	52,500	52,500
Derivative financial instrument	15	–	479,761	–
		454,504	1,420,775	1,092,039
Current assets				
Inventory and work in progress	14	219,421	157,048	174,469
Derivative financial instrument	21	1,308,859	753,909	–
Trade and other receivables	15	3,458,340	3,502,892	1,717,808
Cash and cash equivalents	16	1,756,445	4,858,203	6,961,338
Restricted cash	16	91,105	–	–
		6,834,170	9,272,052	8,853,615
Total assets		7,288,674	10,692,827	9,945,654
Capital and reserves attributable to owners of the Company				
Share capital	17	289,904	285,684	223,325
Share premium	17	33,947,857	33,332,478	27,566,408
Other reserve		2,207,441	3,032,472	2,792,504
Retained deficit		(30,830,087)	(27,089,095)	(21,652,078)
Total equity attributable to Shareholders		5,615,115	9,561,539	8,930,159
Current liabilities				
Trade and other payables	19	1,673,559	1,131,288	1,015,495
		1,673,559	1,131,288	1,015,495
Total equity and liabilities		7,288,674	10,692,827	9,945,654

The notes on pages 31 to 47 form part of these financial statements.

These financial statements were approved and authorised for issue by the Board on 23 March 2016.

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 2015

	Share Capital £	Share Premium £	Other Reserve £	Retained Loss £	Total Equity £
Balance at 1 November 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)
Comprehensive income 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
Transactions with owners	62,359	5,766,070	239,968	–	6,068,397
Balance at 31 October 2014	285,684	33,332,478	3,032,472	(27,089,095)	9,561,539
Loss after tax for the year	–	–	–	(4,782,225)	(4,782,225)
Comprehensive income for the year	–	–	–	(4,782,225)	(4,782,225)
Issue of equity shares	4,220	615,379	–	–	619,599
Equity-settled share-based payments	–	–	(825,031)	1,041,233	216,202
Transactions with owners	4,220	615,379	(825,031)	1,041,233	835,801
Balance at 31 October 2015	289,904	33,947,857	2,207,441	(30,830,087)	5,615,115

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 31 to 47 form part of these financial statements.

Cash Flow Statement

FOR THE YEAR ENDED 31 OCTOBER 2015

	Note	31 October 2015 £	31 October 2014 restated £
Cash flows from operating activities			
Loss before tax for the year		(5,351,931)	(5,858,297)
Adjustments for:			
Depreciation and amortisation	11,12	278,291	312,487
Impairment of intangible asset investment		52,500	–
Loss on disposal of tangible assets		286,743	–
Equity-settled share-based payment expenses	18d	216,202	239,968
Payment of shares in lieu of cash		331,000	–
Finance income		(5,775)	(48,667)
R&D tax credits receivable		(174,937)	–
(Gain)/Loss on derivative financial investment		(3,288,497)	636,330
Cash flows from operating activities before changes in working capital and provisions		(7,656,404)	(4,718,179)
R&D tax credits received		813,696	361,174
(Increase) in restricted cash		(91,105)	–
(Increase)/Decrease in Inventory and Work in Progress		(62,373)	17,421
(Increase) in trade and other receivables		(24,500)	(1,724,978)
Increase in trade and other payables		542,271	115,793
Cash absorbed by operating activities		(6,478,415)	(5,948,769)
Cash flows from investing activities			
Purchase of plant and equipment	12	(36,845)	(51,247)
Additions to intangible assets	11	(98,980)	(110,215)
Proceeds of disposal of tangible assets		4,800	–
Interest received	8	5,775	48,667
Net cash absorbed by investing activities		(125,250)	(112,795)
Cash flows from financing activities			
Proceeds from the issue of share capital		288,599	6,232,428
Costs of issue of share capital		–	(403,999)
Derivative financial asset	21	3,213,308	(1,870,000)
Net cash from financing activities		3,501,907	3,958,429
Net (decrease) in cash and cash equivalents		(3,101,758)	(2,103,135)
Cash and cash equivalents at start of year		4,858,203	6,961,338
Cash and cash equivalents at end of year	16	1,756,445	4,858,203

The notes on pages 31 to 47 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 with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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. In December 2015 and January 2016 the Company successfully raised £3.6 million before expenses in a placing and an offer for subscription that was oversubscribed by a factor of 3.8 times. The Directors therefore remain confident that they will continue to be able to raise money to fund the Company's continuing activities as required.

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 2014. 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 2014. 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 2014. 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.
- Amendments to IAS 27 Separate Financial Statements is effective from 1 January 2014. It 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.
- Amendments to IAS 28 Investments in Associates and Joint Ventures is effective from 1 January 2014. 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.
- Amendments to 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.
- Amendments to 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).

b. Standards, Amendments and Interpretations to Published Standards not yet effective

At the date of authorisation of these 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 financial statements:

- IFRS 9 Financial Instruments is effective from 1 January 2015. This standard includes requirements for recognition and measurement, derecognition and hedge accounting.
- IFRS 15 Revenue from contracts with customers. The new standard will replace IAS 18 Revenue and IAS 11 Construction contracts. It will become effective for accounting periods on or after 1 January 2018 at the earliest.
- IFRS 16 Leases is effective from 1 January 2019. Management has not yet analysed the input to the Financial Statements upon adoption.

The Company expects no impact from the adoption of IFRS 9. As the Company is not currently revenue generating, there would be no impact relating to the adoption of IFRS 15 on the current financial position. The Company will determine the effects of the adoption of IFRS 15 in future periods.

Notes Forming Part of the Financial Statements

CONTINUED

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES CONTINUED

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.

e. Grants

The Company participates in three projects, LASERCELL, ALKAMMONIA and POWER-UP, which receive funding from the European Union. These grants are based on periodic claims for qualifying expenditure incurred by all the entities participating in each project consortium. The Company acts as coordinator for all three projects and submits claims and receives funding on behalf of the other participants in each project consortium. Grant funds of other participants are paid over to them as soon as they are received and only the grant funding relating specifically to the Company's activities is reflected in the statement of comprehensive income. The qualifying expenditure is shown in the statement of comprehensive income as cost of sales. Grants, including grants from the European Union, are recognised in the statement of comprehensive income in the same period as the expenditure to which the grant relates.

F. Development Costs

Development expenditure does not meet the strict criteria for capitalisation under IAS 38 and has been recognised as an expense. Expenditure on and relating to the Company's KORE fuel cell module installed at Stade in Germany under the EU funded POWER-UP project is considered to be development expenditure to date, as the KORE module is the first of its kind that has been produced and has not yet operated at full power output for an extended period.

g. 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.

h. 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.

i. 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.

j. 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.

k. 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.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES CONTINUED

k. 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.

l. 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.

m. Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits with major banking institutions realisable within 3 months. Restricted cash is €125,000 held in escrow to support a bank guarantee relating to the Stade site.

n. 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.

o. 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.

p. 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.

Notes Forming Part of the Financial Statements

CONTINUED

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES CONTINUED

q. 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.

r. Valuation of Derivative Financial Instrument

The Company has placed shares with Lanstead Capital L.P. and at the same time entered into an equity swap agreement 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 and gains and losses arising on monthly settlements are reflected in the income statement in administrative expenses. At each period end the financial instrument is valued at fair value based on the share price of the Company at that date. The instrument is accounted for as fair value through profit and loss; any change in the fair value of the derivative financial instrument is reflected in the statement of comprehensive income in administrative expenses.

s. 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 the Black-Scholes 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.

t. 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.

u. 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.

v. R&D Tax Credits

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

w. Pension Contributions

The Company operates a defined contribution pension scheme which is open to all employees and makes monthly employer contributions to the scheme in respect of employees who join the scheme. These employer contributions are currently capped at 3% of the employee's salary and are reflected in the statement of comprehensive income in the period for which they are made.

x. Restatement of Comparatives

Certain balances have been restated from 2014; this relates to the derivative financial instrument which had been included with trade and other receivables on the face of the statement of financial position and is now shown separately. The amounts received and receivable under EU grants have been reclassified from Revenue to EU Grant Income.

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

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

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 2015 (2014: £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, management has concluded that no impairment has arisen with respect to intangible assets during the year and subsequent to 31 October 2015 (2014: £nil).

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 2015.

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.

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.

4. SEGMENTAL ANALYSIS

Operating segments are determined by the chief operating decision maker based on information used to allocate the Company's resources. The information as presented to internal management is consistent with the Statement of Comprehensive Income. It has been determined that there is one operating segment, the development of fuel cells. In the year to 31 October 2015, the Company operated mainly in the United Kingdom and in Germany.
All non current assets are located in the United Kingdom.

5. OPERATING LOSS

This has been stated after:

	Year ended 31 October 2015 £	Year ended 31 October 2014 £
Government grants received and receivable	(2,262,506)	(591,269)
R&D tax credit receivable	(174,937)	–
Depreciation/Impairment of property and equipment	198,769	300,612
Research and Development expenditure	3,475,657	1,284,044
Amortisation/Impairment of intangible assets	79,522	11,875
Write off of Waste2Tricity investment and receivable	558,983	–
Equity-settled share-based payment expense	216,202	239,968
Foreign exchange differences	42,975	44,211
Auditor's remuneration – audit	30,000	20,000
Auditor's remuneration – tax	9,500	2,500
Auditor's remuneration – other services	–	14,360

6. STAFF NUMBERS AND COSTS, INCLUDING DIRECTORS

The average numbers of employees in the year were:

	Year ended 31 October 2015 Number	Year ended 31 October 2014 Number
Support, operations and technical	39	37
Administration	5	12
	44	49

The aggregate payroll costs for these persons were:

	£	£
Wages and salaries (including Directors' emoluments)	2,660,709	2,214,039
Social security	317,242	247,339
Employer's pension contributions	35,095	31,443
Equity-settled share-based payment expense	216,202	239,968
	3,229,248	2,732,789

7. DIRECTORS' REMUNERATION

	Year ended 31 October 2015 £	Year ended 31 October 2014 £
Wages and salaries	978,656	667,078
Social security	131,225	80,535
Equity-settled share-based payment expense	170,001	83,829
Other compensation (see note 25)	48,149	82,923
Company pension contributions	1,844	12,569
	1,329,875	926,934
The emoluments of the Chairman	57,346	58,325
The emoluments of the highest-paid Director	661,932	370,613
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 20 and 21.

8. FINANCIAL INCOME

	Year ended 31 October 2015 £	Year ended 31 October 2014 £
Gain/(Loss) on derivative financial instrument	3,288,497	(636,330)
Bank interest receivable	5,775	48,667
Total interest receivable	3,294,272	(587,663)

9. TAXATION

Recognised in the income statement	Year ended 31 October 2015 £	Year ended 31 October 2014 £
Research and development tax credit – current year	(569,706)	(421,280)
Total tax credit	(569,706)	(421,280)
Reconciliation of effective tax rates		
Loss before tax	(5,351,931)	(5,858,297)
Tax using the domestic rate of corporation tax of 20.42% (2014: 21.67%)	(1,092,864)	(1,269,298)
Effect of:		
Expenses not deductible for tax purposes	659,518	151,115
Above the line tax credit	185,396	19,643
Research and development allowance	(450,148)	(347,762)
Research and development tax credit	(569,706)	(421,280)
Depreciation in excess of capital allowances	47,737	65,133
Losses surrendered for research and development	232,349	625,971
Unutilised losses carried forward	418,012	755,198
Total tax credit for the year	(569,706)	(421,280)

Notes Forming Part of the Financial Statements

CONTINUED

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 £4,782,225 (2014: loss of £5,437,017) and a weighted average number of shares in issue for the year.

	Year ended 31 October 2015	Year ended 31 October 2014
Basic loss per share (pence)	(1.66)p	(2.42)p
Diluted loss per share (pence)	(1.66)p	(2.42)p
Loss attributable to equity Shareholders	(4,782,225)	(5,437,017)

	Number	Number
Weighted average number of shares in issue	288,431,626	224,533,287

Diluted earnings per share

As set out in note 18, there are share options and warrants outstanding as at 31 October 2015 which, if exercised, would increase the number of shares in issue. However, 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

	2015 Patents £	2014 Patents £
Cost		
Balance at 1 November	748,113	637,898
Retirements	(401,166)	–
Additions	98,980	110,215
Balance at 31 October	445,927	748,113
Amortisation		
Balance at 1 November	469,040	457,165
Retirements	(401,166)	–
Charge for the year	39,877	11,875
Balance at 31 October	107,751	469,040
Net book value	338,176	279,073

12. PROPERTY AND EQUIPMENT

	Leasehold improvements £	Fixtures, fittings and equipment £	Motor Vehicles £	Total £
Cost				
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
Transfers	45,852	(45,852)	–	–
Additions	18,851	–	17,994	36,845
Disposals	–	(1,326,821)	(10,495)	(1,337,316)
At 31 October 2015	337,462	1,321,278	17,994	1,676,734
Depreciation				
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
Transfers	9,783	(9,783)	–	–
Charge for the year	39,645	194,882	3,887	238,414
Disposals	–	(1,035,277)	(10,495)	(1,045,772)
At 31 October 2015	289,532	1,267,279	3,595	1,560,406
Net Book Value				
At 31 October 2015	47,930	53,999	14,399	116,328
At 31 October 2014	32,655	576,494	292	609,441

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 2015 the Company held 230,000 shares representing 23% (2014: 230,000 representing 23%) of the share capital of W2T. In the view of the Directors this investment has no value currently and has been recognised at cost less impairment. No revenue was recognised in the period under the licence agreements with Waste2Tricity Limited and Waste2Tricity International (Thailand) Limited and accrued licence fees receivable as at 31 October 2014 of £506,483 has also been written off.

	Year ended 31 October 2015 £	Year ended 31 October 2014 £
Investment in W2T	–	52,500

Notes Forming Part of the Financial Statements

CONTINUED

14. INVENTORY AND WORK IN PROGRESS

	Year ended 31 October 2015 £	Year ended 31 October 2014 £
Inventory	219,421	88,304
Work in progress	–	68,744
	219,421	157,048

15. TRADE AND OTHER RECEIVABLES

	Year ended 31 October 2015 £	Year ended 31 October 2014 £
Current:		
R&D tax credits receivable	718,023	787,075
EU grants receivable	2,513,395	419,183
Other receivables	226,922	2,296,634
	3,458,340	3,502,892

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.

16. CASH AND CASH EQUIVALENTS

	Year ended 31 October 2015 £	Year ended 31 October 2014 £
Cash at bank	675,603	2,956,871
Bank deposits	1,080,842	1,901,332
	1,756,445	4,858,203

Cash at bank and bank deposits consist of cash. There is no material foreign exchange movement in respect of cash and cash equivalents. Restricted cash, not included in cash and cash equivalents, is €125,000 held in an escrow account to support a bank guarantee relating to the Stade site.

17. ISSUED SHARE CAPITAL

	Number	Ordinary shares £	Share premium £	Total £
At 31 October 2014	285,683,534	285,684	33,332,478	33,618,162
Issue of shares on 3 December 2014	1,000,000	1,000	99,000	100,000
Issue of shares on 5 December 2014	150,000	150	9,450	9,600
Issue of shares on 6 March 2015	1,000,000	1,000	85,000	86,000
Issue of shares on 20 March 2015	770,000	770	57,090	57,860
Issue of shares on 2 April 2015	100,000	100	3,030	3,130
Issue of shares on 20 April 2015	308,409	308	54,042	54,350
Issue of shares on 28 May 2015	530,000	530	110,420	110,950
Issue of shares on 17 June 2015	100,000	100	45,650	45,750
Issue of shares on 17 July 2015	262,000	262	151,698	151,960
At 31 October 2015	289,903,943	289,904	33,947,858	34,237,762

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.

Notes Forming Part of the Financial Statements

CONTINUED

18a. SHARE OPTIONS

	Number of options	Exercise price	Weighted average remaining contractual life
At 31 October 2013	6,865,000	3.13-35.75p	6.58 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	6.27 yrs
Options granted in the year	7,615,000	17-51p	
Options exercised in the year	(1,150,000)	3.13-24p	
Options lapsed in the year	(590,000)	32-41p	
At 31 October 2015	13,855,000	3.13-35.75p	7.69 yrs

18b. WARRANTS

	Number of warrants	Exercise price	Weighted average remaining contractual life
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
Warrants exercised in the year	100,000	3.13p	
Warrants lapsed in the year	–	–	
At 31 October 2015	6,947,800	3.13-24p	4.13 yrs

18c. SAYE

During the year the Company operated a share save scheme.

	Number of SAYE	Exercise price	Weighted average remaining contractual life
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)	22p	
At 31 October 2014	1,065,259	18.6-22p	2.2 yrs
SAYE issued during the year	–	–	
SAYE lapsed/cancelled during the year	(485,503)	18.6-22p	
SAYE exercised during the year	(8,409)	22p	
At 31 October 2015	571,347	18.6–22p	1.3 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 2015 accounts £
10	10	46%	4.4%	0%	3.5	2.5	–
17	17	80%	1.5%	0%	3.5	9.48	(11,322)
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	(984)
34	34p	80%	1.5%	0%	3.5	18.96	(100,568)
35.75	35.75	124.7%	1.5%	0%	3.5	21.8	(58,897)
39.25	39.25	80%	1.5%	0%	3.5	21.89	(2,110)
41	41	80%	1.5%	0%	3.5	22.86	(30,842)
51	51	80%	1.5%	0%	3.5	28.44	(138,860)
Adjustments for leavers							129,804
Total charge for the year (2014: £224,802)							210,779

Notes Forming Part of the Financial Statements

CONTINUED

18d. EQUITY-SETTLED SHARE-BASED PAYMENTS CHARGE CONTINUED

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 2015 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 (2014: £nil)							–

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 2015 accounts £
22	27.5	124.7%	1.5%	0%	3.5	21.69	6,767
18.6	23.25	137.5%	1.5%	0%	3.5	19.24	945
Adjustments for leavers							2,289
Total charge for the year (2014: £2,565)							5,423
Total equity-settled share-based payment charge (2014: £383,415)							216,202

Expected volatility has been based on the 3.5 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.

19. TRADE AND OTHER PAYABLES

	Year ended 31 October 2015 £	Year ended 31 October 2014 £
Trade payables	1,066,600	543,878
Deferred income	115,698	68,744
Other payables	319,483	311,378
Accruals	171,778	207,288
	1,673,559	1,131,288

20. OPERATING LEASE COMMITMENTS

	Year ended 31 October 2015 £	Year ended 31 October 2014 £
Non-cancellable operating leases are as follows:		
Within one year	146,496	49,190
Between one and five years	69,260	61,954
Greater than five years	–	–
	215,756	111,144

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 2015 £	Year ended 31 October 2014 £
Loans and receivables		
Cash and cash equivalents	1,756,445	4,858,203
Trade and other receivables	3,458,340	3,502,892
Fair value through through profit and loss		
Level 3 derivative financial instrument	1,308,859	1,233,670
Total financial assets	6,523,644	9,594,765
Trade and other payables	1,673,559	1,131,288
Total financial liabilities	1,673,559	1,131,288

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

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets and liabilities;

Level 2 fair value measurements are those derived from inputs, other than quoted prices included within Level 1, that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

21. FINANCIAL INSTRUMENTS CONTINUED

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The derivative financial instrument above, which is classified as a Level 3 derivative financial instrument, is the fair value of the equity swap with Lanstead Capital L.P. ("Lanstead") in the amount of £1,308,859. In October 2014 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 ending in April 2016. 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) was invested by the Company in the equity swap. Investment in the equity swap was a condition of the placing with Lanstead.

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, where it is included in administrative expenses. The fair value is determined by using the share price at the measurement date and a historical volatility calculated based on the remaining life of the swap. Historical volatility, the unobservable input in the fair value measurement, was 69.61% at 31 October 2015 (2014: 58.31%). A reasonably possible change in the volatility used would not lead to a significant change in the fair value of the instrument.

	£
Value in 2014	1,233,670
Gains recognised in profit and loss	3,288,497
Settlements received	(3,213,308)
Value in 2015	1,308,859

No financial instruments have been transferred between Levels during the year.

General Objectives, Policies and Processes

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

The overall objective of the Board is to set policies that seek to reduce ongoing risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out 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 2015 £	Year ended 31 October 2014 £
Trade and other receivables	3,458,340	3,502,892
Cash and cash equivalents	1,756,445	4,858,203

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) grant funding receivable from the European Union. 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.

21. FINANCIAL INSTRUMENTS CONTINUED

Liquidity Risk

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

The principal liabilities of the Company are trade and other payables in respect of the ongoing product development programme. Trade 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.

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 2015 £	Year ended 31 October 2014 £
Trade and other payables	1,673,559	1,131,288

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

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 2015 the Company held no monetary assets or liabilities in currencies other than the functional currency of the operating units involved (2014: nil).

22. CAPITAL COMMITMENTS

The Company had no capital commitments outstanding at 31 October 2015 (2014: £51,780).

23. BOARD CHANGES AND POST-BALANCE SHEET EVENTS

Board changes during the year are reported under "Directors and their interests". The Company also undertook a firm placing and shareholder offer, raising £3.6 million before expenses.

24. ULTIMATE CONTROLLING PARTY

There is no ultimate controlling party.

25. RELATED PARTY TRANSACTIONS

During the year ended 31 October 2015:

£2,280 (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 (2014: £11,400). Mr Field is also a Director and Shareholder of Richards and Appleby Ltd. At 31 October 2015, the sum owing to Richards and Appleby Ltd was £4,780 (2014: nil).

£212,438 was invoiced by Linc Energy Ltd (a company registered in Australia) for the services of Adam Bond as Director of AFC Energy plc (2014: £25,567). Linc Energy Ltd was, until 30 September 2015, a major Shareholder in the Company. At 31 October 2015 the amount owing to Linc Energy Ltd was £42,761 (2014: £1,667).

£37,640 (plus VAT) was invoiced by Locana Corporation (London) Ltd (a company registered in England & Wales) for consultancy services (2014: £40,050). Mr Yeo is also a Director and Shareholder of Locana Corporation (London) Ltd. At 31 October 2015, the sum owing to Locana was £3,350 (2014: £1,675).

£nil 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 (2014: £8,000). Sir John Sunderland is also a Director and Shareholder of John Sunderland Associates Ltd. At 31 October 2015, the sum owing to John Sunderland Associates Ltd was nil (2014: nil).

Company Information

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Adam Bond
Christopher Tawney (Company Secretary)
Mitchell Field
Eugene Shvidler
Eugene Tenenbaum

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