AFC ENERGY PLC
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED
OCTOBER 31, 2018

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Chairman's report

My second year as Chairman of AFC Energy has seen substantial change and progress as the company begins marketing its fuel cell technology as well as identifying new addressable market sectors and applications of our technology outside our target markets. Despite these positive developments, certain potential commercial opportunities have developed slower than we had hoped and we, like many others, are being hindered with the current economic and political uncertainties, including Brexit that exist. However, I am pleased that AFC has secured a further £4m of funding to part finance our commercial strategy.

The transition from the development phase to the commercial phase is always a challenging one for technology companies. In the case of AFC Energy this has necessitated a product re-engineering over a three-year period. Our technology in 2015 was functional and delivered the proof of concept. However, as we have stated before, the technology was not ready for commercial manufacture, with both component longevity and cost issues hampering the potential commercial exploitation.

ENGINEERING FOCUS

Through a successful three-year re- engineering programme, AFC Energy has significantly reduced the bill-of-material costs while increasing the lifetime of electrode components to acceptable commercial levels. Under the direction of the board, the past 12 months have seen the scientists and engineers at AFC Energy work diligently in the finalisation of product design in preparation for manufacturing. We now believe that we have a product that is manufacturing ready and our engineering team is currently designing a containerised solution to enable rapid cost-effective deployment for off grid applications. We also have the partners to see us into volume manufacture.

COMMERCIAL STRATEGY

We have identified several target off-grid diesel replacement markets to complement our existing target to supply the grid using vented hydrogen from chlor-alkali plants and other industrial processes. Our focus on the year ahead is to monetise our technology through sharing joint development costs and technology licensing. We have already announced our negotiations with Southern Oil who are making major modifications to one of their re-refinery plants in Australia. We have delivered the engineering study contracted with the aim to negotiate the delivery of our fuel cell system to them once they have concluded the technical specifications of the plant.

Our commercial strategy will be conducted in three phases:

1. Joint development cost sharing and technology licensing to industrial manufacturing partners for global roll-out.
2. Commercial trial sites directly supported by AFC Energy across target sectors to mitigate risk and provide an engineering learning base.
3. Appoint regional distribution partners who know the markets and customers and have the financial capacity to fund deployment and sales coverage.

This approach will enable us to focus on the core R&D strength of AFC Energy while ensuring that our product manufacturing remains asset-light and partner-driven.

Traditionally, the principal target application for our fuel cells has been in the generation of electricity for grid systems. We envisaged that these will typically be located at either chlor-alkali plants or oil refineries, where hydrogen is a by-product of other processes. According to the Fuel Cell & Hydrogen Energy Association, the waste or by-product hydrogen represents over 100,000 MW of power that could be used to generate electricity through fuel cells.

We announced in 2018 that we would also be targeting the market for static auxiliary power and seeking to displace the current generation of polluting diesel gensets. This is a market that is worth in excess of $20bn today with very strong growth forecast, yet the emissions from diesel gensets cause serious illnesses and premature deaths. In the UK alone, the Government estimates that 23,500 people die prematurely each year through air pollution related illnesses. In the city of Gurugram in India for example, where diesel gensets are extensively used, 30% of the diesel particulate is from diesel gensets, according to the Centre for Science and Education report from June 2018. It is our belief that growing awareness of the scale of the pollutant problem from diesel gensets will lead to their rejection by developed and developing countries alike and replacement with clean efficient hydrogen fuel cells. AFC Energy is in the vanguard of this movement.

In 2018 we defined a new market for AFC Energy; the fuel cell powered Electric Vehicle (EV) charging station. Developed in house by our own engineering team, the AFC Energy CH2ARGE is the world's first integrated EV charging station. A proof of concept system has been built at our facility in Dunsfold, Surrey, and this was demonstrated in January this year. It also opens a substantial new market opportunity for us as the global numbers of EVs on the road is expected to mushroom to hundreds of millions over the next decade. The growth in EVs alone will exceed the ability of most national grids to support the recharging demands, and supplementary auxiliary power will be required in high density locations. Given that this supplementary power must be both clean and dependable, fuel cells would be the ideal solution to this challenge.

MANAGEMENT

We are pleased that the role of CFO (non-board) has now been taken by Graeme Lewis, who replaces Richard Dunkley and who brings significant relevant experience from senior finance roles in the distribution of diesel combustion products globally.

At the board, we have bid farewell to Eugene Tenenbaum as well as Richard Tuffill as they stepped down during 2018 and I would like to personally thank them for their service and contribution to AFC Energy. We welcome to the board Percy Hayball who has been appointed as a non-executive director and is a representative of Ervington Investments Limited, which originally invested in AFC Energy in 2012 and has supported it since then.

FUNDING

The financial markets are extremely risk averse in this period of Brexit uncertainty and, as a pre-revenue company, like many of our peers, we have witnessed this uncertainty first-hand. To counter-balance the macro political and economic uncertainties, we have focused on building long term relationships with industrial partners which will demonstrate their belief in the commercial future of our technology. Going forward, through these relationships we expect to share product development and distribution costs lowering funding requirements. To conclude these actions, we have arranged a convertible loan facility for up to £4 million and an equity placement of £ 0.8 million to finance working capital and pursue our strategy to commercialise our fuel cell technology.

FUTURE

This has been another challenging year for our employees and on behalf of the Board I thank them for their dedication and commitment to serving the scientific and commercial needs of our company. They have and will be the driving force for the future success of our business.

The role of the management team and the board of directors is to lead and commercialise what is now a proven and fit for manufacture product and execute on a sales and marketing strategy to bring this product to world. After 10 years of painstaking diligence, and sometimes frustrating R&D the technology work and the markets are calling for our product.

Today we can state that we have engineered the right product to take to market, we have the right people on board to make this happen and we have identified the right market opportunities to build a successful and profitable company.

JOHN RENNOCKS

Chairman
12 April 2019

Chief executive officers report

The three key criteria for the commercial success of AFC Energy are our ability to have the:

- Right product
- At the right price
- For the right markets

In 2018 we saw strong progress on all these fronts.

The commercialisation of the fuel cell has required a multi-year re-engineering approach to deliver a product that can both provide the efficiency in operation demanded by customers and the reduction in build costs to make the CAPEX affordable. Very significant progress was made in 2018 on the engineering front and the year culminated with the construction of a prototype commercial pilot recharging station for electric vehicles.

AFC Energy has also progressed its commercial relationships with the announcement of negotiations to deploy in Australia, the development of plans for a diesel displacement pilot and the identification of other opportunities to monetise our intellectual property and know how.

Commercial and engineering progress has been matched by the development of the market during 2018; alongside the existing markets to sell electricity to the grid and the use of fuel cells to reduce emissions by replacing diesel gensets, we saw the evolution of EV charging as a new and sizeable premium priced application of fuel cells.

ENGINEERING PROGRESS

The first half of 2018 saw completion of the detailed engineering work on the individual flow plates and finalisation of stack design specifications. The new stack design operates a single multi-dimensional plate that is better positioned to optimise fuel cell operation and lowers cost to manufacture and assemble. The engineering of the new plates and stack necessitated the extensive testing of small stacks with a variety of alternative plate designs.

A specification for the mass manufacture of the plates was issued to three companies in October 2018 and in March 2019, and a preferred manufacturer was identified, Advanced Plastics. AFC Energy has successfully, with Advanced Plastics, conducted prototype manufacturing and plastic welding of the plates, removing a lot of the risks to commercial operation and are now finalising quality assurance and control procedures. Upon successful completion of this phase a contract with Advanced Plastics as preferred mass manufacturer will be agreed.

The re-engineering of the flow plates also required redesign of the cartridge and specifically the gas inlet and outlet ports. This work was completed in early March. Adjustments to manifolds, tie bars and location of fluid nozzles were also considered necessary and have now been completed. Throughout 2018 the engineering and design work has necessitated an iterative process through the stages of concept, prototypes and final manufacturing specifications. This work is now completed.

DE NORA

The relationship with De Nora continues to evolve ahead of the commencement of manufacturing and AFC Energy now has a reliable source of electrodes that have both longevity and economy.

The result of the joint development work has seen progress in both the longevity and cost-efficiency of electrodes. Electrode pairs that were proven for a two-year lifecycle at the end of 2017 have now been engineered as large-scale electrodes with a tested two-year lifecycle and our target is to achieve four-year lifecycle electrodes in the short term. Solid progress has been made towards this target in 2018 through further electrode optimisation activities conducted between De Nora and AFC Energy.

De Nora has proven to be a highly reliable and contributory partner to the engineering success of AFC Energy. Following the successful trials in 2017 and 2018, AFC Energy is looking to move ahead with an Electrode Manufacturing Agreement with De Nora for the volume supply of the optimised electrodes. Looking towards the future, discussions have begun on new joint research objectives for the next generation of electrodes.

CUSTOMER DEMAND

In July 2018 we announced an engineering study to scope the customer needs in order to deliver our first commercially operating fuel cell in Australia. The plant will use an AFC Energy fuel cell system to convert surplus hydrogen from the refinery into electricity for use at the Southern Oil Refinery in Queensland. Given that world-wide hydrogen waste is calculated by the Fuel Cell & Hydrogen Energy Association to be in excess of 100,000 MW – or enough to power the UK twice over – this project demonstrates how surplus hydrogen from an industrial process can commercially deliver electricity to the grid. AFC Energy expects to agree final terms and deliver a fuel cell system to Southern Oil's Gladstone refinery once they have finished the design of their plant modifications and confirmed the volume of hydrogen available for the fuel cell system.

The Middle East showed renewed interest in alkaline fuel cells during the year. AFC Energy's technology has enabled us to be shortlisted for a series of potential deployments in the region.

The use of fuel cells to displace diesel gensets has turned from a potential market to an addressable opportunity. A static auxiliary power market that is forecast to be worth $20bn by 2021 is under pressure to change as regulators take steps against diesel emissions. AFC Energy is well-placed to enter this market and is working with our partners to use fuel cells in place of diesel gensets for a major construction project in Surrey.

NEW MARKET OPPORTUNITY

The primary target markets for AFC Energy's products – sell electricity to the grid using vented hydrogen and static power systems to displace diesel gensets – were joined during 2018 by a new market opportunity; the charging of electric vehicles. The EVs, as they are known, are about to spiral in numbers from the two to three million in the world today, to 100 million by 2030 and over 400 million in 2040, according to forecasts by Bloomberg New Energy Finance. Charging these vehicles will require the building of significant new power station infrastructure.

The confluence of massive energy demand and under-provision of grid supply provides fuel cells in general, provides AFC Energy the opportunity to develop hydrogen powered recharging systems. These will operate to provide supplementary power to the grid or directly where demand is concentrated, such as refuelling at supermarkets or sports stadiums.

AFC Energy has taken the initiative in this new market and has developed a prototype hydrogen powered EV charging system.

HIGH POWER DENSITY ALKALINE FUEL CELL

In response to growing customer and partner interest in a higher power density iteration of AFC Energy's alkaline fuel cell,research time has been invested over the past 18 months in the design and development of a solid membrane fuel cell which exhibits all the benefits of the incumbent alkaline system, whilst reflecting a materially higher power density as exhibited by other membrane fuel cells in the market today.

The new technology has potential use in applications where space and weight of power generation are important considerations and dictate choice of power generation technology. To this end, the new system is entirely complementary to the existing liquid electrolyte system.

The new alkaline fuel cell platform will enable quicker response times, far greater power density facilitating reduced system weight, smaller volume and footprint whilst still maintaining high efficiency all whilst being able to accept lower grade hydrogen fuel sources as compared with alternative membrane technologies on the market today.

This fuel cell system will open up new markets for AFC Energy where high-power density and reduced weight, volume and footprint is beneficial to customers' needs. The technology will also be able to integrate into AFC Energy's Electric Vehicle recharging and e-mobility solutions as well as supporting smaller scale off-grid power generation and system backup.

AFC Energy has developed a large portfolio of know how around the new system, much of which has the potential to be transferable to other applications such as alkaline water electrolysis. Initial testing has been completed using the anion exchange membrane in non-core fields and discussions are underway with potential partners to jointly commercialise elements of the technology in applications unrelated to fuel cells.

HYDROGEN ECONOMY

A major and enduring challenge to the success of fuel cells has been in the availability and cost of hydrogen. The economics of fuel cells can make sense for premium priced off-grid applications with today's costs and where the concept of the Hydrogen economy is supported by government policy and markets. With downward legislative pressure on emissions at point of use from conventional technologies and an increasing need for energy storage it is likely that the applicability of fuel cells will broaden. As the use of intermittent renewables increases and the drive to de-carbonise the public electricity supply matures, it is expected that new sources of hydrogen such as electrolysis will gather pace, fulfilling hydrogen on demand functionality and driving development of innovative storage solutions. Together, the emerging Hydrogen economy model coupled with environmental drivers is likely to widen the demand for fuel cells in the near future.

OUTLOOK

We believe, confirmed by the regulatory support provided by many governments, that hydrogen fuel cells will become an important and growing part of the energy infrastructure of the world. Three forces are aligned to accelerate this inevitability:

- The growing lobby to eliminate diesel from auxiliary power systems
- The emergence of new markets such as EV charging and datacentre backup power that demand clean energy sources
- The innovation in hydrogen energy storage and distribution

Already countries such as Australia, South Korea and Japan have committed to a strong hydrogen programme. Major companies such as Hitachi, Shell, Mitsubishi, Bosch, BMW and Toyota see hydrogen as a key component of their futures. But perhaps most important is the cohort of hugely innovative technology companies that are turning to hydrogen as the fuel of the future.

In August 2018, AFC Energy became a supporting member of the Hydrogen Council, the global initiative of leading energy, transport and industry companies that fosters the energy transition to clean hydrogen energy. AFC Energy is now in discussions with several members of the Hydrogen Council about potential strategic partnering with particular interest coming from Japanese industrials due to the low cost and scalability of AFC Energy's fuel cell solutions.

FINANCIAL OVERVIEW

AFC Energy's EU grant-funded projects have completed.

Overall expenditure on research and development qualifying for R & D tax credits was £1.5 million (2017: £1.6 million), demonstrating our continued commitment to develop the fuel cell system. An operating loss to 31 October 2018 of £5.0 million (2017: £5.5 million) has been recorded.

Cash balances at 31 October 2018, excluding restricted cash, were £2.6 million (2017: £6.7 million). Continued tight control on spend has reduced cash outlays on operating activities to £4.6 million from £4.7 million with the main saving being in wages and salaries without compromising ongoing product development projects. Cash outflows were further reduced by £0.6 million through the receipt of EU grant funding which had not been collected at 31 October 2017 and a further £0.6 million has been collected after 31 October 2018 for the R and D tax credits due at the year end. Expenditure on fixed assets includes £92,000 spent to protect our intellectual property and a further £97,000 principally on equipment supporting the flow plate productivity improvements and test benches to demonstrate product reliability.

On 11 April 2019 a three-year £4 million convertible loan facility was concluded with an institutional investor and the following day an equity placement raised £ 0.8 million which are described in more detail in note 24 Post balance sheet events. Based on internal cash forecasts management believe that this provides sufficient time to conclude certain commercial negotiations and pursue our strategy of commercialising our fuel cell.

ADAM BOND

Chief Executive Officer
12 April 2019

Chairman's Statement on Corporate Governance

Our governance principles are:

- **Equitable treatment of shareholders** – We respect the rights of shareholders and help shareholders to exercise those rights by openly and effectively communicating information.
- **Responsibility to other stakeholders** – We recognize that we have legal, contractual and social obligations to non-shareholder stakeholders, including employees, suppliers, local communities and policymakers.
- **Role and responsibilities of the board** – We ensure that the Board has appropriate levels of independence and sufficient skills and understanding to review and challenge management.
- **Integrity and ethical behaviour** – Integrity is a fundamental requirement in choosing Executive and Non-Executive Directors.
- **Disclosure and transparency** – Material matters concerning the Company are disclosed in a timely manner to ensure that all investors have access to clear, factual information.

It is the responsibility of the Chairman to oversee the Company's adoption, delivery and communication of appropriate corporate governance arrangements and to check that those arrangements are effective and efficient through regular review. Prior to 2018, as an AIM-listed company, AFC Energy was not required to comply with any specific corporate governance code. The AIM Rules changed in 2018 and the Directors subsequently elected to adopt the principles of the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Sized Companies (the "QCA Code") to the extent that the Directors consider it appropriate, and having regard to the Company's size, board structure, stage of development and resources. The QCA Code, sets out ten principles to be followed for companies to deliver growth in long term shareholder value, encompassing an efficient, effective and dynamic management framework accompanied by good communication to promote confidence and trust in the ten principles of the QCA Code and the relevant section in this Annual Report that explains the Company's application of these principles are shown below:

A STRATEGY AND BUSINESS MODEL WHICH PROMOTES LONG-TERM VALUE CREATION FOR SHAREHOLDERS.

The objective of AFC Energy is to install, own, operate and maintain stationary alkaline fuel cell systems that generate durable power at the highest levels of fuel efficiency for the future. AFC Energy seeks to be a world-class energy company that deploys low cost, high performance alkaline fuel cell technology to the global market.

AFC Energy is primarily targeting large-scale industrial applications for the fuel cell system but is also considering distributed and related applications (such as water treatment), which has tremendous potential to serve communities. AFC Energy also highly values the relationships it has with those parties with common interests in our project locations and seeks to maintain a positive dialogue and transparency with its local communities and neighbours. Ultimately, the creation of sustained long-term shareholder value will be driven by the pace and scale of AFC Energy's technology deployment and by maintaining a broad-based competitive advantage over substitute or near substitute offerings. Further detail of AFC Energy's business model is set out at: https://www.afcenergy.com/about-us/strategy/

The strategy, objectives and business model of AFC Energy are developed by the executive directors and the senior management team, and then approved by the Board. The management team, led by the Chief Executive Officer, is responsible for implementing the strategy and managing the business at an operational level.

AFC Energy has a substantial and diverse portfolio of pipeline project opportunities for its alkaline fuel cell technology. However, the Company continuously looks for new partners and potential revenue streams to help grow and diversify the business and deliver sustainable growth in value for shareholders.

UNDERSTAND AND MEET SHAREHOLDER NEEDS AND EXPECTATIONS.

AFC Energy seeks to maintain a regular dialogue with both existing and potential shareholders in order to communicate its strategy and progress and to understand the needs and expectations of shareholders.

Beyond the Annual General Meeting, the Chief Executive Officer, Chief Operating Officer and, where appropriate, other members of the senior management team meet regularly with investors and analysts to provide them with updates on the business and to obtain feedback regarding the market's expectations of AFC Energy.

AFC Energy's investor relations activities encompass dialogue with both institutional and private investors. The Board also endeavors to maintain a dialogue and keep shareholders informed through its public announcements and Company website. AFC Energy's website provides not only information specifically relevant to investors (such as the Company's annual report and accounts, investor presentations, regulatory announcements and share price information) but also regarding the nature of the business itself, the technology, key projects and background to AFC Energy's target markets and non-regulatory press releases.

The Annual General Meeting of the Company, normally attended by all Directors, provides the Directors the opportunity to report to shareholders on current and proposed operations and developments, and enables shareholders to express their views of AFC Energy's business activities. Shareholders are encouraged to attend and are invited to ask questions during the meeting and to meet with the Directors after the formal proceedings have ended.

The Board intends to announce the detailed results of shareholder voting in its announcements to the market.

CONSIDER WIDER STAKEHOLDER NEEDS AND SOCIAL RESPONSIBILITIES AND THEIR IMPLICATIONS FOR LONG-TERM SUCCESS.

Due to the very nature of AFC Energy's technologies and the potential solutions these provide, not least in respect of decarbonisation, these benefits will potentially extend beyond the client to the wider society and our environment.

In terms of the global fuel cell market, there are three key areas to consider: (1) international co-operation; (2) national government policies; and (3) global industry.

International Co-operation

Governments are increasingly globally co-ordinated in tackling climate change (e.g. the Paris Agreement) through the adoption of decarbonisation policy agendas – this is evidenced by the targeting of large-scale, efficient energy integration. Hydrogen storage solutions, when combined with electrolysis and AFC technology can potentially provide a significant hydrogen battery solution for integration with intermittent renewable energy sources.

National Government Policies

Governments are utilising fiscal incentive structures to prioritise the improved utilisation of limited resources. By-product hydrogen, vented as a waste product, is gaining increased scrutiny. For example, there is recognition of the need to significantly reduce oil-fired power generation in Saudi Arabia, with the utilisation of hydrogen from the petrochemical industry, with AFCs offering one such solution. Japan, Korea and the United States are also firm advocates with fiscal incentives seeking to improve hydrogen utilisation.

Global Industry

Energy intensive sectors are increasingly exposed to government carbon policy and rising power prices. Many international industrial groups now seek cleaner, off grid and long-term affordable energy solutions. The use of by-product vented hydrogen through the adoption of fuel cells will enable industry to mitigate the risk of rising power prices and Government policy.

AFC Energy's aim is to install, own, operate and maintain stationary alkaline fuel cell systems that generate durable power at the highest levels of fuel efficiency for the future. AFC Energy seeks to be a world-class energy company that deploys low cost, high performance alkaline fuel cell technology to the global market.

AFC Energy is primarily targeting large-scale industrial applications for the fuel cell system but is also developing distributed and related applications (such as water treatment), which has tremendous potential to serve communities. AFC Energy also highly values the relationships it has with those parties with common interests in our project locations and seeks to maintain a positive dialogue and transparency with its local communities and neighbours.

The Board is aware of its corporate social responsibilities and the need to maintain effective working relationships across a range of stakeholder groups. These include AFC Energy's employees, clients, suppliers and shareholders. The Company's operations and working methodologies take account of the need to balance the needs of all these stakeholder groups while maintaining focus on the Board's primary responsibility to promote the success of AFC Energy for the benefit of its members. AFC Energy endeavours to take account of feedback received from stakeholders, making amendments to working arrangements and operational plans where appropriate and where such amendments are is consistent with the Company's longer-term strategy.

The Company takes due account of any impact that its activities may have on the environment and seeks to minimise this impact wherever possible. Through the various procedures and systems, it operates, AFC Energy ensures full compliance with health and safety and environmental legislation relevant to its activities and is currently undergoing a programme to become ISO 9001, 14001 & 45001 certified.

EMBEDDED AND EFFECTIVE RISK MANAGEMENT CONSIDERING BOTH OPPORTUNITIES AND THREATS, THROUGHOUT THE ORGANISATION.

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

A summary of the principal risks and uncertainties facing AFC Energy, as well as mitigating actions, are set out in the Risk Management overview.

A comprehensive budgeting process is completed once a year and is reviewed and approved by the Board. This budget is maintained and updated where required throughout the year. Performance against the budget and forecasts is reviewed by the management team on a monthly basis and by the Board at each Board meeting.

The Company maintains appropriate insurance cover in respect of actions taken against the Directors because of their roles, as well as against material loss or claims against the Company. The insured values and type of cover are comprehensively reviewed on a periodic basis.
Further details of key risks facing the business are set out later in this Governance Report.

A WELL-FUNCTIONING AND BALANCED BOARD.

AFC Energy's Board currently comprises 2 Executive Directors and 4 Non-Executive Directors (2 of whom are not considered to be independent). The Board includes an independent Non-Executive Chairman who is responsible for leadership by the Board and ensuring all aspects of its role.

All the Directors are subject to election by shareholders at the first Annual General Meeting after their appointment to the Board and will continue to seek re-election at least once every three years.

The Board is responsible to the shareholders for the proper management of the Company and meets at least six times a year to set the overall direction and strategy of the Company and to review operational and financial performance. All key operational and investment decisions are subject to Board approval.

The Board considers itself to be sufficiently independent and adheres to the QCA Code recommendation that a board should have at least two independent Non-Executive Directors. Two of the four Non-Executive Directors who currently sit on the Board are not regarded as independent.

BOARD EXPERIENCE, SKILLS AND CAPABILITIES.

The Board considers that all the Non-Executive Directors are of sufficient competence and calibre to add strength and objectivity to its activities, and bring considerable experience in scientific, operational and financial development of clean technology products and companies.

The Board regularly reviews the composition of the Board to ensure that it has the necessary breadth and depth of skills to support the ongoing development of the Company.

The Chairman, in conjunction with the Company Secretary, ensures that the Directors' knowledge is kept up to date on key issues and developments pertaining to the Company, its operational environment and to the Directors' responsibilities as members of the Board. During the year, Directors received updates from the Company Secretary and various external advisers on a number of corporate governance matters.

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

PERFORMANCE OF THE BOARD AND CONTINUOUS IMPROVEMENT.

The Company's Directors are evaluated each year by way of peer appraisal. The appraisal seeks to determine the effectiveness and performance of each member with regards to their specific roles as well as their role as a Board member in general.

The appraisal system seeks to identify areas of concern and make recommendations for any training or development to enable the Board member to meet their objectives which will be set for the following year. The appraisal process will also review the progress made against prior year targets to ensure any identified skill gaps are addressed.

Whilst the Board considers this evaluation process is currently best carried out internally, the Board will keep this under review and may consider independent external evaluation reviews in the future.

As well as the appraisal process, the Board monitor the Non-Executive Directors' status as independent to ensure a suitable balance of independent Non-Executive and Executive Directors remains in place.

The Board may utilise the results of the evaluation process when considering the adequacy of the composition of the Board and for succession planning. Succession planning is formally considered by the Board on an annual basis, in conjunction with the appraisal process.

CORPORATE CULTURE BASED ON ETHICAL VALUES AND BEHAVIORS.

The Board seeks to maintain the highest standards of integrity and probity in the conduct of the Company's operations. These values are enshrined in the written policies and working practices adopted by all employees in the Company. An open culture is encouraged within the Company, with regular communications to staff regarding progress and staff feedback regularly sought. Senior management regularly monitors the Company's cultural environment and seeks to address any concerns than may arise, escalating these to Board level as necessary.

AFC Energy is committed to providing a safe environment for its staff and all other parties for which the Company has a legal or moral responsibility in this area. The Company has a Health and Safety policy which is enforced rigorously.

EFFECTIVE GOVERNANCE STRUCTURES WHICH SUPPORT GOOD DECISION MAKING.

The Board has overall responsibility for promoting the success of the Company. The Executive Directors have day-to-day responsibility for the operational management of the Company's activities. The Non-Executive Directors are responsible for bringing independent and objective judgment to Board decisions.

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

The Board has established an Audit Committee and a Remuneration Committee with formally delegated duties and responsibilities. Joe Mangion chairs the Audit Committee and Lisa Jordan chairs the Remuneration Committee. The Board has also established a nominations committee chaired by John Rennocks.

The Audit Committee meets formally twice a year and at other times if necessary and has responsibility for, amongst other things, planning and reviewing the annual report and accounts and interim statements involving, where appropriate, the external auditors. The Committee also approves external auditors' fees and ensures the auditors' independence as well as focusing on compliance with legal requirements and accounting standards. It is also responsible for ensuring that an effective system of internal control is maintained. The ultimate responsibility for reviewing and approving the annual financial statements and interim statements remains with the Board. The Company's external auditors are invited to attend meetings of the Committee on a regular basis.

The Remuneration Committee, which meets as required, but at least once a year, has responsibility for making recommendations to the Board on the compensation of senior executives and determining, within agreed terms of reference, the specific remuneration packages for each of the Executive Directors. It also makes recommendations to the Board concerning employee incentive schemes including setting performance conditions for share options granted under the schemes.

Further details on Board remuneration is set out in the Directors Remuneration section of this Annual Report.

COMMUNICATION OF COMPANY GOVERNANCE AND PERFORMANCE.

The Board places a high priority on regular communications with its various stakeholder groups and aims to ensure that all communications concerning the Company's activities are clear, fair and accurate. AFC Energy's website is regularly updated, and announcements or details of presentations and events are posted onto the website.

AFC Energy's financial reports can be found on our website.

The results of voting on all resolutions in future general meetings will be posted to AFC Energy's website, including any actions to be taken as a result of resolutions for which votes against have been received from at least 20 per cent of independent shareholders.

THE ROLE OF THE BOARD

The Board is collectively responsible for the long-term success of the Company and is ultimately responsible for its strategy, management, direction and performance. The Board sets the strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives, reviews progress towards the achievement of objectives and reviews the performance of management.

The Board establishes the values, culture, ethics and standards of the Company and sets the framework for prudent and effective controls which enable risks to be assessed and managed.

The Company does not comply with the UK Corporate Governance Code (the "Code") and has adopted the QCA Corporate Governance Code instead.

The Board has delegated authority to its Committees to carry out the tasks defined in the Committees' terms of reference. The Committees are: the Audit Committee; the Remuneration Committee; and the Nominations Committee. The Board has delegated the day-to-day management to the Chief Executive Officer.

The table below shows the number of Board and Committee meetings of the Company held during the year, and the attendance of the individual Directors. It should be emphasized that this information does not fully reflect the contribution made to the Company's business by many of the Directors, who have also attended other meetings and events relating to the Company's business and activities during the year.

Chairman	Board meeting attendance John Rennocks	Audit committee attendance Joe Mangion	Remuneration committee attendance Lisa Jordan	Nominations committee attendance John Rennocks
John Rennocks	10/10	2/2	1/1	1/1
Adam Bond	10/10			
Jim Gibson	7/7			
Joe Mangion	9/10	1/1		
Lisa Jordan	9/10		1/1	1/1
Percy Hayball	5/5	1/1		
Eugene Tenenbaum	0/5	1/1		
Richard Tuffill	3/3	2/2	1/1	
Tim Yeo	1/1			

It should be emphasised that this information does not fully reflect the contribution made to the Company's business by many of the Directors, who have also attended other meetings and events relating to the Company's business and activities during the year.

AUDIT COMMITTEE

The Audit Committee's principal responsibilities are:

- To monitor the integrity of the financial statements of the Company
- To review the annual and interim financial statements to ensure that they present a balanced assessment of the Company's position
- To review accounting policies and their application within the Company's financial statements
- To review with the executive management and the Company's external Auditor the effectiveness of internal controls
- To review with the Company's external Auditor the scope and results of their audit; and
- To oversee the relationship with the external Auditor.

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

The Audit Committee meets at least twice a year, on dates linked to the Company's financial calendar, and at any other time when it has been appropriate to discuss audit, accounting or control issues.

REMUNERATION COMMITTEE

The Remuneration Committee's role is to determine and recommend to the Board the scale and structure of the remuneration of the Executive Directors 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 employee incentive schemes and award of shares or share options.

No Directors participate in discussions or decisions concerning their own remuneration. Other Non- Executive Directors attend as and when appropriate.

NOMINATIONS COMMITTEE

The Nominations Committee is 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 Nominations Committee meets as appropriate.

EMPLOYEES

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

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

RELATIONS WITH SHAREHOLDERS

The Board considers effective communication with shareholders to be very important and encourages regular dialogue with investors. Shareholders will be given at least 21 days' notice of the Annual general Meeting, at which they will have the opportunity to discuss the Company's development and performance.

The Company's website www.afcenergy.com contains full details of the Company's activities, press releases, Regulatory News service announcements, share price details and other information.

MAINTENANCE OF A SOUND SYSTEM OF INTERNAL CONTROL

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

Such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives; any system can provide only reasonable, and not absolute, assurance against material misstatement or loss. The process in place for reviewing AFC Energy's system of internal control includes procedures designed to identify and evaluate failings and weaknesses, and to ensure that necessary action is taken to remedy the failings. The Board has considered its policies regarding internal controls, as set out in the Code, and undertakes assessments of the major areas of the business and methods used to monitor and control them. In addition to financial risk, the review covers operational, commercial, regulatory and health and safety risks. The risk review is an ongoing process with reviews being undertaken on a regular basis. The key procedures designed to provide an effective system of internal controls that are operating up to the date of sign-off of this report are set out below.

CONTROL ENVIRONMENT

There is an organizational structure with clearly defined lines of responsibility and delegation of accountability and authority.

RISK MANAGEMENT

The Company employs Directors and senior personnel with the appropriate knowledge and experience for a business engaged in activities in its field of operations and undertakes regular risk assessments and reviews of its activities. Details of risks to the business which the Board considers to be potentially material are

Risk	Mitigation	Change during the year	Risk owner
Access to finance The risk the Company has insufficient capital to fund technology and early project development – this may require additional equity funding to achieve commercialisation.	The Company adopts a budgeted technology development plan, supported by prudent budgetary controls that can be measured and monitored to provide a robust means of mitigating risk of insufficient working capital. The Company is targeting meeting its financing needs from a mix of grant funding, tax credits, borrowing and equity funding, which may be sought from institutional, retail or strategic sources. Once it reaches project deployment, additional sources of equity or debt funding, such as project finance, will also be considered.	Increased	CFO
Intellectual property The Company's competitive advantage is at risk from a loss or breach of its intellectual property rights.	The Company benefits from external advice provided by qualified patent attorneys. The integrity of the Company's IP management and the manner in which all contractual negotiations with third parties take place to ensure IP protection and compliance, are of critical importance to maintaining shareholder value. IP registers are reviewed regularly both in terms of existing patents, and in terms of future and unregistered protection.	Unchanged	COO
Key personnel The risk that key technical personnel, who possess critical design know-how, depart the Company.	Key technical staff possess significant know-how regarding the ongoing development of the Company's technology. Loss of these staff members may adversely affect the ability of the Company to progress its research and development in a manner which is likely to achieve commercialisation. The Company actively monitors remuneration levels to ensure that staff are incentivised to remain with the Company. The Company requires current and former employees and directors to comply with stringent confidentiality obligations.	Unchanged	CEO
Technology The risk is that we will not be able to successfully develop and apply the Company's Alkaline Fuel Cell technology to potential products at the right cost or performance. The risk that technology is successfully developed but slower than anticipated. The risk that technical failure at product trials could affect ability to provide a product to customers.	The Company has implemented a robust control of technological progress against a budgeted plan, adopting principles of "technology readiness levels." External partners have also been identified and where relevant, engaged to support the development plan with transparent KPIs and roadmaps to develop a product that meets commercial product metrics, relating to power, longevity, availability, cost and efficiency.	Unchanged	COO
Competition and market opportunity The risk that the advantages of our technology are eroded by competitors which impacts the Company's future profitability and growth opportunities.	The Company is targeting different regional markets and we are broadening the application of our product in order to minimise the risk of failure in a single market or product. We continuously monitor market developments, and competitor activity.	Reduced	CEO
Design and quality The risk of design and quality issues with our Alkaline Fuel Cell technology.	The strategy for transition from technology development to commercial deployment focuses on long-term partnerships and collaboration with industry leading companies. Our partners and specialist external advisers are identified 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 be employed over the short to medium term by the Company. As the Company progresses towards product commercialisation, design defects and poor-quality management within the manufacturing processes, could have a direct impact on the	Reduced	COO

	Company's market reputation, with consequential loss of value. The Company adopts a high standard of manufacturing process and quality control to mitigate to a large extent the risk of product quality issues and failure.		
Health and safety The risk of health and safety incidents or breaches.	Robust health and safety management, and continuous improvement and reinforcement of a safety-first culture in all workplace environments, is paramount for the Company and enforced at all levels. Adherence to codes and standards surrounding health and safety provides a transparent framework to minimise the risk of incidents and ensures the integrity of AFC Energy's health and safety remains intact for the sake of our employees, partners, contractors and shareholders.	Unchanged	CEO
Operational There is a risk that the Company has insufficient operational capability and capacity to deliver project contracts in compliance with contractual commitments.	The strategy for transition from technology development to commercial deployment focuses on long-term partnerships and collaboration with industry leading companies. Our partners and specialist external advisors are identified 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 be employed over the short to medium term by the Company.	Unchanged	COO
Regulatory and compliance The risk that the Company or its staff breach applicable regulations.	The Company is publicly listed on the AIM market, which results in significant disclosure and reporting obligations to the regulator, investors and other stakeholders. The Board and management, in consultation with its nomad and legal advisors, seek to ensure that applicable legislation is complied with.	Unchanged	CFO

FINANCIAL INFORMATION

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

MANAGEMENT OF LIQUID RESOURCES

The Board is risk averse when investing the Company's surplus cash. The Company's treasury management policy is reviewed periodically and sets out strict procedures and limits on how surplus funds are invested.

REVIEW OF CORPORATE GOVERNANCE

The Board strives to comply with the key principles of the Code given the size of the Company and the nature of the operations. These have not been formally reviewed by the Company's auditors. The auditors' responsibility extends only to reading this report as part of the Annual Report and Accounts and considering whether it is consistent with the audited financial statements.

Board of directors

JOHN RENNOCKS
Non-Executive Chairman Year appointed – 2017

Relevant skills and experience
A wealth of public markets and energy market experience
Broad experience in conventional and renewable electricity generation and biotechnology, support services and manufacturing
Fellow of the Institute of Chartered Accountants of England and Wales.

Previous appointments
Finance Director of three FTSE 100 companies: Smith and Nephew plc, PowerGen plc, British Steel/ Corus plc
Non-Executive Director or Chairman: Inmarsat plc, Babcock International Group plc, Diploma plc.

Other current appointments
Non-Executive Director and Chairman: Bluefield Solar Income Fund Ltd and Utilico Emerging Markets Ltd.

ADAM BOND
Chief Executive Officer Year appointed – 2014

Relevant skills and experience
Over 19 years' experience operating within the international energy sector both in executive management positions for listed energy companies, and in advisory capacities to both governments and the private sector
Adam is well networked internationally across the conventional and unconventional energy sectors and has a strong understanding of energy markets and deal making within that sector
Qualified with Bachelors' degrees in Commerce and Law and a Master in Laws (Taxation).

Previous appointments
Director of JS Yerostigaz (Uzbekistan)
Previously Non-Executive Director of AFC Energy plc from 2012.

JIM GIBSON
Chief Operating Officer Year appointed – 2017

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

Previous appointments
Twenty-three years at Foster Wheeler working in operational, business and commercial roles
Two years at ThyssenKrupp working in process technology/business development.

LISA JORDAN
Non-Executive Director Year appointed – 2017

Relevant skills and experience
Over twenty years' experience of business development in the industrial gases and renewable energy space.

Previous appointments
Director of Air Products Renewable Energy Limited (part of Air Products and Chemicals Inc), a global industrial gases business providing atmospheric and process gases where she led the development of its European energy from waste business which was focused on the use of advanced gasification technology to produce electricity and renewable hydrogen.

Other current appointments
Business Development Director at MHC (Services) Ltd responsible for managing a portfolio of energy related investments
Representative of Ervington Investments Ltd which originally invested in AFC Energy plc in 2012.

PERCY HAYBALL

Non-Executive Director Year appointed – 2018

Relevant skills and experience

Percy brings to the Board a wealth of legal experience, currently being Legal Counsel at MHC (Services) Limited and a representative of Ervington Investments Limited, a long-standing investor in the Company.

He is also a member of the board of directors of Medical Excellence International LLC, a New York based health- management company.

Prior to joining MHC, Percy worked at the London offices of the law firm Skadden, Arps, Slate, Meagher & Flom, where he specialized in advising companies and ultra-high net worth individuals involved in high-value international commercial arbitration and cross-border litigation. He has advised clients in some of the world's largest and most complex disputes, including a number of "bet the company" litigations and arbitrations involving claims in excess of US$1 billion

Percy is qualified as a solicitor in England and Wales and has a first-class degree from the University of Cambridge (Queens' College).

JOE MANGION

Non-Executive Director Year appointed – 2017

Relevant skills and experience

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

Previous appointments

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

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

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

Other current appointments

He is Chairman of Labrador Ltd.

Directors' Interests and their Remuneration

INTRODUCTION

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

DIRECTORS AND THEIR INTERESTS

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

John Rennocks	Non-Executive Chairman (appointed 8 June 2017)
Adam Bond	Chief Executive Officer
Jim Gibson	Chief Operating Officer
Mitchell Field	Non-Executive (resigned 5 December 2017)
Percy Hayball	Non-Executive (appointed 2 May 2018)
Lisa Jordan	Non-Executive
Joe Mangion	Non-Executive
Eugene Tenenbaum	Non-Executive (resigned 2 May 2018)
Richard Tuffill	Chief Financial Officer (resigned 23 March 2018)
Tim Yeo	Non-Executive (resigned 5 December 2017)

In accordance with the Company's Articles of Association, a Director appointed during or after the year must stand for re-appointment at the first Annual General Meeting after such appointment. Consequently, Percy Hayball offers himself for re-election. Further, any Director who was not elected or re-elected at either of the two preceding Annual General Meetings must stand for re-appointment at the Annual General Meeting. Adam Bond was not elected or re-elected at either of the two preceding Annual General Meetings and therefore offers himself for re-election are not required to stand for re-appointment.

On 31 October 2018 the beneficial interests of Directors and their families in the equity share capital of the Company were:

	Number of Ordinary shares of 0.1p 2018	Number of Ordinary shares of 0.1p 2017
Adam Bond	**3,000,000**	3,000,000
Jim Gibson	**90,000**	90,000

On 31 October 2018 the Directors' interests over share capital of the Company were:

	1 November 2017	Options/ Warrants granted in year	Options/ Warrants exercised/ lapsed in year	**31 October 2018**	Exercise price	Date from which exercisable[1]	Expiry date	Type
Adam Bond	6,000,000	–	–	**6,000,000**	£0.510	17/07/2015	17/07/2025	Unapproved Option
Jim Gibson	-	-	-	**2,500,000**	£0.088	14/08/2019	14/08/2028	

Note:

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

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

DIRECTORS' REMUNERATION

The remuneration policy has been designed to ensure that Executive Directors receive appropriate incentive and reward given their performance, responsibility and experience. When assessing this, the Remuneration Committee seeks to ensure that the policy aligns the interests of the Executive Directors with those of shareholders. The Company's remuneration policy for Executive Directors is to:

- Consider the individual's experience and the nature, complexity and responsibilities of their work to set a competitive salary that attracts and retains management of the highest quality
- Link individual remuneration packages to the Company's long-term performance through long-term share-based plans
- Provide post-retirement benefits through payment into defined contribution pension schemes
- Provide employment-related benefits including company car and medical insurance.

The remuneration of the Non-Executive Directors is determined by the Executive members of the Board in consultation with the Chairman, based on a review of current practices in other equivalent companies. The Non-Executive Directors do not receive any pension payments, nor do they participate in any of the bonus schemes. Remuneration is based on a fixed fee, plus a separate fee for any additional consulting services.

Name	Salary £	Share-based Payment Expense £	Other Compensation £	Company pension contributions £	**Total 2018 £**	Total 2017 £
John Rennocks	50,000	–	–	–	**50,000**	37,186
Adam Bond	300,000	202,101	56,313	–	**558,414**	994,634
Jim Gibson	11,730	947	293,750	–	**306,427**	199,917
Joe Mangion	22,660				**22,660**	-
Richard Tuffill	57,346	–	-	1,625	**58,971**	55,637
Mitchell Field	4,167	–	–	–	**4,167**	25,000
Lisa Jordan	20,000	–	–	–	**20,000**	7,975
Eugene Shvidler	–	–	–	–	**–**	6,792
Eugene Tenenbaum	10,000	–	–	–	**10,000**	12,667
Tim Yeo	3,333	–	–	–	**3,333**	47,253
Percy Hayball	9,923	-	-	-	**9,923**	-

DIRECTORS' SERVICE CONTRACTS

John Rennocks' services as Chairman and Non-Executive Director are provided under a service agreement with the Company dated 7 June 2017 for an indefinite term, subject to a minimum of three months' notice. Under this agreement, John is entitled to a director's fee of £50,000 per annum.

Adam Bond's services as Chief Executive Officer and Director are provided under a service agreement with the Company dated 1 January 2016. Under this agreement, Adam is entitled to a salary of £300,000 per annum plus payment or receipt of other benefits including a housing allowance, private medical insurance and a company car. Adam's share-based payment charge relates to 6,000,000 options granted in 2015. These options have performance conditions attached to them; 3,000,000 of these options will only vest if specific operational targets for energy output are met. The remaining options vest in equal portions if the share price achieves and sustains market quotation of £ 1.00, £ 1.50 and £ 2.00. The vesting conditions for the options have not been reached and cannot be exercised.

Jim Gibson's services as Chief Operating Officer and Director was provided under an agreement between the Company and iProcess Engineering & Consulting Ltd. Under this agreement Jim was paid a daily fee for his services. On 15 October 2018 2,500,000 share options with an exercise price of 8.8 pence of which 900,000 vests on 14 August 2019 and the remaining options vest in equal portions on 14 August 2020 and 14 August 2021

Richard Tuffill's services as Chief Financial Officer and Director were provided under a service contract with the Company dated 1 June 2017 for an indefinite term, subject to a minimum of three months' notice. Under this agreement, Richard was entitled to a salary of £130,000 per annum plus payment of other benefits including private medical insurance and a car allowance.

Mitchell Field's services as a Non-Executive Director were 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. Under this agreement, Mitchell was entitled to a director's fee of £13,600 per annum. Additional consultancy services were provided under an agreement between the Company and Richards & Appleby Ltd dated 17 October 2013.

Lisa Jordan's services as a Non-Executive Director are provided under a service agreement with the Company dated 7 June 2017 for an indefinite term, subject to a minimum of three months' notice. Under this agreement, Lisa is entitled to a director's fee of £20,000 per annum.

Percy Hayball's services as a Non-Executive Director are provided under a service agreement with the Company dated 2 May 2018 for an indefinite term, subject to a minimum of three months' notice. Under this agreement, Percy is entitled to a director's fee of £ 20,000 per annum.

Eugene Shvidler's services as a Non-Executive Director were 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. Under this agreement, Eugene was entitled to a director's fee of £11,200 per annum. Additional consultancy services were provided under an agreement between the Company and Eugene dated 17 October 2013. During the year to 31 October 2017 Eugene did not charge the Company for any consultancy services.

Up until 30 August 2017, Eugene Tenenbaum's services as a Non-Executive Director were 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 were provided under an agreement between the Company and Eugene dated 17 October 2013. During the year to 31 October 2017 Eugene did not charge the Company for any consultancy services. From 1 September 2017, Eugene's services as a Non-Executive Director are provided under a service agreement with the Company dated 1 September 2017 for an indefinite term, subject to a minimum of three months' notice, which replaced all previous agreements. Under this agreement, Eugene is entitled to a director's fee of £20,000 per annum.

Up until 30 August 2017, Tim Yeo's services as Chairman (prior to his resignation as Chairman on 8 June 2017) and Non-Executive Director were 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 were provided under an agreement between the Company and Locana Corporation (London) Ltd dated 1 January 2012. From 1 September 2017, Tim's services as a Non-Executive Director were provided under a service agreement with the Company dated 1 September 2017 for an indefinite term, subject to a minimum of one months' notice, which replaced all previous agreements. Under this agreement, Tim is entitled to a director's fee of £20,000 per annum.

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 October 2018. The comparative period was from 1 November 2016 to 31 October 2017. 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.

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

BOARD CHANGES

Details of changes to the membership of the Board are disclosed within the "Directors' Interests and their Remuneration.

CAPITAL STRUCTURE

Details of the Company's share capital are disclosed in note 17 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 8 April 2019, 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	10.11%
Schroder Investment Management Limited	33,000,000	8.42%
Interactive Investor Services Nominees <SMKTNOMS>	27,178,282	6.93%
Barclays Direct Investing Nominees <CLIENT1>	25,345,250	6.47%
Hargreaves Lansdown (Nominees) Limited (15942)	23,028,431	5.87%
Interactive Investor Services Nominees Ltd <SMKTISAS>	18,695,045	4.77%
Hargreaves Lansdown (Nominees) Limited (VRA)	17,725,704	4.52%
Mr. Eugene Shvidler	14,432,737	3.79%
Hargreaves Lansdown (Nominees) Limited (HLNOM)	14,655,151	3.74%
HSDL Nominees Limited	13,276,827	3.39%
HSBC Client Holding Nominee Ltd <731504>	12,084,232	3.08%

FINANCIAL INSTRUMENTS

Financial instruments are disclosed in note 22.

POLITICAL AND CHARITABLE DONATIONS

Charitable donations in the year amounted to £nil (2017: £nil).

INFORMATION DISCLOSED IN THE STRATEGIC REPORT

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: the key performance indicators and the principal risks.

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 2018 represented 31 days (2017: 26 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 2018, relevant qualifying expenditure was £ 1,5 million (2017: £1,6 million).

GOING CONCERN

The Company had unrestricted cash of £ 2,6 million at 31 October 2018 (2017: £6.7 million).

The Directors have prepared a cash flow forecast for the period ending 30 April 2019 (the "forecast"). During this period, the Company will focus on concluding commercial negotiations with industrial partners. A 36-month £ 4 million convertible loan facility has been arranged to provide working capital through the period. Drawdowns from the facility are limited to £ 500,000 in any sixty-day period and require the consent of the lender either if

1. the share price falls below 2 pence, or
2. the number of shares available to issue is less than 125% of the number that would be converted at the prevailing market price when the drawdown is notified.

Subject to maintaining the share price above the floor and receiving shareholder approval to allot share the Forecast indicates that there are sufficient cash resources to meet the financial obligations as they fall due for a period of at least twelve months from the date of approval of these financial statements.

A future fundraising, not included in the Forecast described above, will be necessary to fund future commercial growth.

POST-BALANCE SHEET EVENTS

On 11 April 2019, a £ 4 million convertible loan facility was signed for a period of 36 months from the signing date with a further six-month period, post the expiry date of the facility, to repay any outstanding amounts. The facility can be drawn down in £ 25,000 principal increments at the Company's discretion provided that,

1. the total amount drawn down in any one 60-day period does not exceed £ 500,000,
2. the total amount repayable does not exceed £ 4 Million,
3. the volume weighted average price of the three previous trading days is greater than 2 pence, and
4. the headroom to allot non pre-emptive shares is 125% of the number of shares that would be required to convert at the time of the drawdown.

The draw down will be 90% of the principal amount and outside these parameters draw down will be by mutual consent.

The principal amount is convertible at the lender's discretion at the lower of market price at draw down and the volume weighted average price of the three previous trading days at the time of conversion.

Early redemption can be made at the request of the Company at 105% of the principal amount. In the case of a change in control or default then the draw down amounts are redeemed at 105% and 120% of the principal amount respectively.

An acceptance fee of £ 200,000 was settled by the issue of shares in the Company and a further fee of 5% is payable on draw downs.

On 12 April 2019 the Company issued 27,108,334 shares and raised £ 0.8 million.

AUDITOR

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

This report was approved by the Board on 12 April 2019 and signed on its behalf by

ADAM BOND

Chief Executive Officer

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

OPINION

OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

We have audited the financial statements of AFC Energy plc (the 'company') for the year ended 31 October 2018 which comprise Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.
In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 October 2018 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2 to the financial statements, which indicates that the company incurred a net loss of £4.3m and net cash outflow from operations of £4m during the year ended 31 October 2018. As stated in note 2, these events or conditions, along with the other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

OVERVIEW OF OUR AUDIT APPROACH

Grant Thornton

- Overall materiality: £245,000, which represents 5% of the company's loss before taxation
- The key audit matter was identified as going concern.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.
In addition to the matter described in the 'Material uncertainty related to going concern' section, we have not determined any other key audit matters to be communicated in our report.

OUR APPLICATION OF MATERIALITY

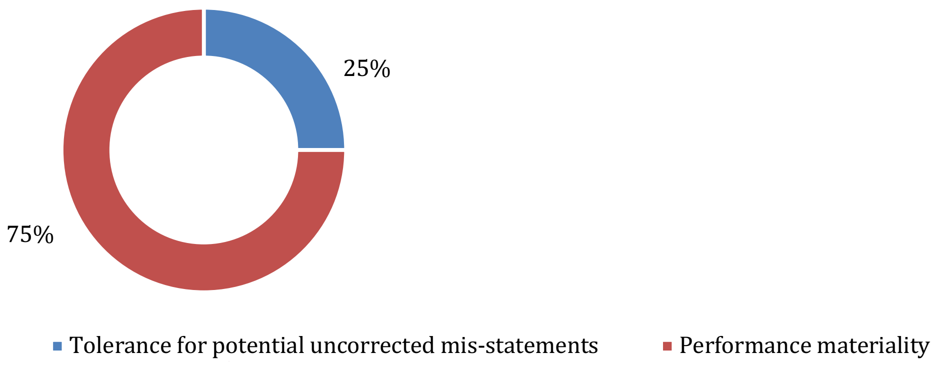
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.
Materiality was determined as follows:

Materiality measure	Company
Financial statements as a whole	£245,000 which is 5% of loss before tax. This benchmark is considered the most appropriate because the company is in the development stage of its product and expense all related costs.

Materiality measure	Company
	Materiality for the current year is at a higher level than that we determined for the year ended 31 October 2017. This reflects the increase in the company's expenditure in the current financial year.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.
Specific materiality	We have determined a lower level of specific materiality of £1 for related party transactions based on the transactions being material in nature.
Communication of misstatements to the audit committee	£12,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

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

Overall materiality – Company



AN OVERVIEW OF THE SCOPE OF OUR AUDIT

- Our audit approach was a risk-based approach founded on a thorough understanding of the company's business, its environment and risk profile and in particular included:
- Planning meetings with management to gain an update on the business during the year, as well as leveraging our knowledge of the business from past audits;
- After planning discussions with management, undertaking specific procedures to enable us to evaluate management's use of the going concern assumption.

OTHER INFORMATION

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

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

We have nothing to report in this regard.

OUR OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006 IS UNMODIFIED

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT UNDER THE COMPANIES ACT 2006

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

USE OF OUR REPORT

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

Christopher Smith
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
12 April 2019

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 OCTOBER 2018

	Note	**Year ended 31 October 2018 £**	Year ended 31 October 2017 £
EU Grant income		**387**	230,610
Cost of sales		**(28,988)**	(397,113)
Gross loss		**(28,601)**	(166,503)
Other income		**21,516**	51,947
Administrative expenses		**(4,953,042)**	(5,395,552)
Operating loss	5	**(4,960,127)**	(5,510,108)
Finance cost	8	**672**	(853)
Loss before tax		**(4,959,455)**	(5,510,961)
Taxation	9	**634,438**	585,902
Loss for the financial year and total comprehensive loss attributable to owners of the Company		**(4,325,017)**	(4,925,059)
Basic loss per share	10	**(1.10)p**	(1.36)p
Diluted loss per share	10	**(1.10)p**	(1.36)p

All amounts relate to continuing operations.

The notes on pages 30 to 42 form part of these financial statements.

Statement of Financial Position

AS AT 31 OCTOBER 2018

	Note	31 October 2018 £	31 October 2017 £
Assets			
Non-current assets			
Intangible assets	11	**442,686**	382,202
Property and equipment	12	**292,996**	315,244
Investment	13	**–**	–
		735,682	697,446
Current assets			
Inventory	14	**163,720**	162,993
Other receivables	15	**1,544,588**	1,608,466
Cash and cash equivalents	16	**2,552,068**	6,676,775
Restricted cash	16	**265,774**	109,582
		4,526,151	8,557,816
Total assets		**5,261,833**	9,255,262
Capital and reserves attributable to owners of the Company			
Share capital	17	**391,698**	391,298
Share premium	17	**45,506,524**	45,494,404
Other reserve		**2,908,021**	3,084,204
Retained deficit		**(44,487,129)**	(40,559,556)
Total equity attributable to Shareholders		**4,319,114**	8,410,350
Current liabilities			
Trade and other payables	19	**641,547**	536,166
		641,547	536,166
Non-current liabilities			
Trade and other payables	19	**–**	7,574
Provisions	20	**301,172**	301,172
		301,172	308,746
Total equity and liabilities		**5,261,833**	9,255,262

The notes on pages 30 to 42 form part of these financial statements.

These financial statements were approved and authorised for issue by the Board on 11 April 2019.

JOHN RENNOCKS
Chairman

ADAM BOND
Chief Executive Officer

AFC Energy plc
Registered number: 05668788

Statement of Changes in Equity

FOR THE YEAR ENDED 31 OCTOBER 2018

	Note	Share Capital £	Share Premium £	Other Reserve £	Retained Deficit £	Total Equity £
Balance at 31 October 2016		310,014	37,843,613	3,234,492	(36,486,151)	4,901,968
Comprehensive loss for the year		–	–	–	(4,925,059)	(4,925,059)
Issue of equity shares		81,284	7,650,791	–	–	7,732,075
Equity-settled share-based payments		–	–	(150,288)	851,654	701,366
Transactions with owners		81,284	7,650,791	(150,288)	851,654	8,433,441
Balance at 31 October 2017		391,298	45,494,404	3,084,204	(40,559,556)	8,410,350
Comprehensive loss for the year		**–**	**–**	**–**	**(4,325,017)**	**(4,325,017)**
Issue of equity shares	17	**400**	**12,120**	**–**	**–**	**12,520**
Equity-settled share-based payments	18	**–**	**–**	**(176,183)**	**397,444**	**221,261**
Transactions with owners		**400**	**12,120**	**(176,183)**	**397,444**	**221,261**
Balance at 31 October 2018		**391,698**	**45,506,524**	**2,908,021**	**(44,487,129)**	**4,319,114**

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

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

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

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

The notes on pages 30 to 42 form part of these financial statements.

Cash Flow Statement

FOR THE YEAR ENDED 31 OCTOBER 2018

	Note	31 October 2018 £	31 October 2017 £
Cash flows from operating activities			
Loss before tax for the year		**(4,959,455)**	(5,510,961)
Adjustments for:			
Amortisation of intangible assets	11	**31,117**	27,215
Depreciation of property and equipment	12	**87,536**	53,858
Depreciation of decommissioning asset	12	**31,365**	139,121
Impairment of intangible asset investment		**-**	7,104
Loss/(Profit) on disposal of tangible assets		**–**	2,214
Equity-settled share-based payment expenses	18	**221,262**	701,367
Payment of shares in lieu of cash		**–**	75,983
Interest received	8	**(8,952)**	(2,578)
R&D tax credits receivable		**–**	(173,832)
Cash flows from operating activities before changes in working capital and provisions		**(4,597,127)**	(4,680,510)
R&D tax credits received		**-**	759,732
Decrease/(Increase) in restricted cash		**(156,193)**	2,496
(Increase)/Decrease in inventory		**(726)**	(12,061)
Decrease in other receivables		**698,315**	987,497
Decrease in trade and other payables		**97,806**	(757,967)
Cash absorbed by operating activities		**(3,957,925)**	(3,700,813)
Cash flows from investing activities			
Purchase of plant and equipment	12	**(96,653)**	(120,111)
Additions to intangible assets	11	**(91,601)**	(72,064)
Proceeds of disposal of tangible assets		**–**	231
Interest received	8	**8,952**	2,578
Net cash absorbed by investing activities		**(179,302)**	(189,366)
Cash flows from financing activities			
Proceeds from the issue of share capital		**12,520**	8,079,381
Costs of issue of share capital		**–**	(423,289)
Net cash from financing activities		**12,520**	7,656,092
Net (decrease)/increase in cash and cash equivalents		**(4,124,707)**	3,765,913
Cash and cash equivalents at start of year		**6,676,775**	2,910,862
Cash and cash equivalents at end of year	16	**2,552,068**	6,676,775

The notes on pages 30 to 42 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 Unit 71.4 Dunsfold Park, Stovolds Hill, Cranleigh, Surrey GU6 8TB.

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

The Company currently consumes cash resources and will continue to do so until sales revenues are sufficiently high to generate net cash inflows. Management have engaged external consultants to evaluate the price competitiveness of their technology compared to existing solutions and identify the resources required and the routes to market to commercialise their fuel cells. Based upon these recommendations' management have prepared and reviewed five-year financial projections aligned with ongoing technological, operational and commercial strategies. During the initial period of commercialisation there will be negative cash flows dependent upon the speed at which revenue grows. Therefore, the Company continues to be dependent upon securing additional funding, either through the injection of capital from share issues, the sale of licenses to commercially exploit the intellectual property in defined markets, appointment of well-funded channel partners to finance commissioning, project finance for build and operate plants, and trade finance. During the current year day to day financing requirements have been met through the cash reserves brought forward from the previous period.

At 31 October 2018 unrestricted cash resources were £ 2.6 million and on 11 December 2018 £ 0.6 million was received in respect of the research and development tax credit claimed for the financial year ending on 31 October 2017. A £ 4 million convertible loan facility with an institutional investor was concluded on 11 April 2019 to fund working capital and a further £ 0.8 million was raised by an issue of 27,108,334 shares on April 12 which are described in more detail in note 24 Post balance sheet events. In addition, the Directors anticipate receiving commitments for further funding from new and existing shareholders. The Directors have reasonable expectation that sufficient funding exists to meet payment obligations as and when they fall due although there can be no certainty that shareholders approve sufficient non pre-emptive share allotment authority to the Directors nor that certain stock market conditions are maintained.

The directors have made due and careful enquiries considering all uncertainties including receiving

1. shareholder approval to allot shares to satisfy the conversion obligations of the convertible loan, and
2. lender approval to draw down the convertible loan if the share price falls below 2 pence

The directors have considered the above two uncertainties related to the unconditional draw down of the convertible loan facility and note that they are events outside of the control of the Company. These events indicate a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

The directors' expect that taking into account current cash resources and financial forecasts including measures that can be taken to continue to reduce expenditure and the funds raised from the convertible loan facility, the Company has adequate resources to continue in operational existence for the foreseeable future (being a period of at least twelve months from the date of this report). Thus, the Directors believe that it is reasonable to continue to adopt the going concern basis in preparing the annual report and financial statements. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

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. 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 16 in future periods.

b. 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.

c. Grants

The Company participates in two projects, ALKAMMONIA and POWER-UP, which receive funding from the European Union ("EU"). 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 the 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 EU, are recognised in the statement of comprehensive income in the same period as the expenditure to which the grant relates.

d. Other Income

Other income represents sales by the Company of waste materials.

e. 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 alkaline fuel cell system installed at Stade in Germany under the EU funded POWER-UP project has been considered to be development expenditure to date, as the module is the first of its kind that has been produced.

f. Foreign Currency

The financial statements of the Company are presented in the currency of the primary economic environment in which it operates (the functional currency) which is pounds sterling. In accordance with IAS 21, transactions entered into by the Company in a currency other than the functional currency are recorded at the rates ruling when the transactions occur. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date.

g. Inventory

Inventory is recorded at the lower of cost and net realisable value. Cost comprises purchase cost plus production overheads.

h. Other Receivables

Other receivables arise principally through the provision by the Company of activities associated with grant-funded projects. They also include other types of contractual monetary assets. These assets are initially recognised at fair value and are subsequently measured at amortised cost less any provision for impairment.

i. Loans and Other Receivables

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

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

j. Property and Equipment

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

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

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

- Leasehold improvements — 1 to 3 years
- Fixtures, fittings and equipment — 1 to 3 years
- Vehicles — 3 to 4 years
- Decommissioning asset — life of the lease

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

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

k. Intangible Assets

Expenditure on research activities is recognised in the statement of comprehensive income 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 statement of comprehensive income.

l. Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits with major banking institutions realisable within three months. Restricted cash is €300,000 held in escrow to support a bank guarantee in favour of Air Products GmbH relating to contractual obligations by the Company in relation to the Stade site in Germany.

m. Other Financial Liabilities

The Company classifies its financial liabilities as:

Trade and Other Payables

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

Deferred Income

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

n. Leases

Finance Leases

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property. Capitalised leased assets are depreciated over the estimated useful life of the asset. 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 the statement of comprehensive income.

Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

o. Financial Assets

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

p. Financial Instruments

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

- Cash and cash equivalents comprise cash held at bank and short-term deposits
- Receivables are recognised initially at fair value and subsequently held at amortised cost less an allowance for any uncollectable amounts when the full amount is no longer considered receivable
- Trade payables are not interest bearing and are stated at their nominal value
- Equity instruments issued by the Company are recorded at the proceeds received except where those proceeds appear to be less than the fair value of the equity instruments issued, in which case the equity instruments are recorded at fair value. The difference between the proceeds received and the fair value is reflected in the share-based payments reserve.

q. Share-Based Payment Transactions

The fair value of options and warrants granted is recognised as an employee expense with a corresponding increase in Other Reserve. The fair value of the expense is estimated at grant date using the Black-Scholes option valuation model considering the terms and conditions upon which they were granted and a Log normal Monte Carlo stochastic model for market conditions. The expense accrues from the grant date until the options and warrants have unconditionally vested. Where vesting is dependent upon market or non-market performance criteria the vesting period is estimated at the grant date and, in the case of non-market performance criteria, is revised annually. When an option or warrant is exercised the balance is transferred to share capital with excess value going to the premium account whereas those that lapse are transferred to retained earnings. Where options or warrants are amended by the introduction of new schemes and the absorption of earlier schemes by agreement between the Company and the beneficiary the net difference in valuation is charged to earnings in the appropriate period.

r. Provisions

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

s. Taxation

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

Current tax is the expected tax payable or recoverable on the taxable income for the year, using tax rates enacted or substantively enacted at the 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.

t. R&D Tax Credits

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

u. 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.

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

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

Significant management judgements:

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

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 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 that, until the Company's fuel cell system is proven to be commercially deployable, it would not be appropriate to capitalise development expenditure. Consequently, all development expenditure has been charged to the statement of comprehensive income during the year ended 31 October 2018.

Estimates uncertainty:

Information about estimates and assumptions that may have the most significant effect on recognition and measurement on assets, liabilities and expenses is provided below.

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 the Black-Scholes valuation model and a Log-normal Monte Carlo stochastic model for market conditions. Both are appropriate considering the effects of the vesting conditions, expected exercise period and the dividend policy of the Company.

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

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 which vest in two years. Certain options granted to Directors are also subject to performance conditions described in note 18.

Decommissioning Provision

The Company has set-up a decommissioning provision for the removal of the plant and equipment installed at the Stade site in Germany, the cost of which is based on estimates. Various scenarios have been considered which estimate the range of costs to be from £ 35,000 to £ 301,000 dependent upon agreements reached with lessor.

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 2018, 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 2018 £	Year ended 31 October 2017 £
Amortisation/Impairment of intangible assets	**31,117**	34,319
Depreciation of property and equipment	**87,536**	53,858
Depreciation of decommissioning asset	**31,365**	139,121
R&D expenditure eligible under the Government's R&D tax credit scheme	**1,479,209**	1,634,019
Equity-settled share-based payment expense	**221,261**	701,367
Foreign exchange differences	**(14,933)**	54,543
Auditor's remuneration – audit	**37,900**	34,900
Auditor's remuneration – corporation tax services	**6,700**	5,000
Auditor's remuneration – R&D tax credit services	**25,000**	19,500

6. STAFF NUMBERS AND COSTS, INCLUDING DIRECTORS

The average numbers of employees in the year were:

	Year ended 31 October 2018 Number	Year ended 31 October 2017 Number
Support, operations and technical	**26**	28
Administration	**6**	6
	32	34

The aggregate payroll costs for these persons were:

	£	£
Wages and salaries (including Directors' emoluments)	**1,625,140**	1,814,778
Social security	**208,665**	186,337
Employer's pension contributions	**30,858**	34,087
Equity-settled share-based payment expense	**220,953**	701,367
	2,085,616	2,736,569

7. DIRECTORS' REMUNERATION

	Year ended 31 October 2018 £	Year ended 31 October 2017 £
Wages and salaries	**489,160**	446,210
Social security	**80,019**	69,566
Equity-settled share-based payment expense	**203,048**	599,062
Other compensation	**350,063**	341,138
Company pension contributions	**1,625**	650
	1,123,915	1,456,626
The emoluments of the Chairman	**50,000**	37,186
The emoluments of the highest-paid Director	**558,414**	977,326
Company pension contributions of highest-paid Director	**-**	–

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

8. FINANCE COST

	Year ended	Year ended

	31 October 2018	31 October 2017
	£	£
Interest on finance lease	2,547	3,541
Bank charges	5,733	(110)
Bank interest receivable	(8,952)	(2,578)
	(672)	853

9. TAXATION

Recognised in the statement of comprehensive income	Year ended 31 October 2018 £	Year ended 31 October 2017 £
R&D tax credit – current year	(493,316)	(499,389)
R&D tax credit – prior year	(141,122)	(86,513)
Total tax credit	(634,438)	(585,902)

Reconciliation of effective tax rates

Loss before tax	(4,959,455)	(5,510,961)
Tax using the domestic rate of corporation tax of 19% (2017: 19.41%)	(942,296)	(1,069,678)
Effect of:		
R&D tax credit – prior year	(141,122)	(86,513)
Expenses not deductible for tax purposes	72,918	153,958
R&D allowance	(365,365)	(365,435)
Tax credit on losses surrendered	(493,316)	(482,896)
Depreciation in excess of capital allowances		10,886
Losses surrendered for research and development	646,414	646,538
Unutilised losses carried forward	588,329	607,238
Fixed asset differences		–
Total tax credit	(634,438)	(585,902)

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 £4,325,017 (2017: loss of £4,925,059) and a weighted average number of shares in issue for the year.

	Year ended 31 October 2018	Year ended 31 October 2017
Basic loss per share (pence)	(1.10)p	(1.36)p
Diluted loss per share (pence)	(1.10)p	(1.36)p
Loss attributable to equity Shareholders	£4,325,017	£4,925,059

		Number
Weighted average number of shares in issue	391,464,872	362,584,646

Diluted earnings per share

As set out in note 18, there are share options and warrants outstanding as at 31 October 2018 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

	2018 Patents £	2017 Patents £
Cost		
Balance at 1 November	588,512	516,448
Retirements	–	–
Additions	91,601	72,064
Balance at 31 October	680,113	588,512
Amortisation		
Balance at 1 November	206,310	171,991
Retirements	–	–
Charge for the year	31,117	27,215
Impairment		7,104
Balance at 31 October	237,427	206,310
Net book value	442,686	382,202

12. PROPERTY AND EQUIPMENT

	Leasehold improvements £	Decommissioning Asset £	Fixtures, fittings and equipment £	Motor vehicles £	Total £
Cost					
At 31 October 2016	337,462	–	1,163,905	17,994	1,519,361
Additions	–	301,172	120,111	–	421,283
Disposals	–	–	(82,927)	–	(82,927)
At 31 October 2017	337,462	301,172	1,201,089	17,994	1,857,717
Additions	**–**	**–**	**96,653**	**–**	**96,653**
Disposals	**–**	**–**	**–**	**–**	**–**
At 31 October 2018	**337,462**	**301,172**	**1,297,742**	**17,994**	**1,954,370**
Depreciation					
At 31 October 2016	337,462	–	1,083,019	9,496	1,429,977
Charge for the year	–	139,121	47,860	5,998	192,979
Disposals	–	–	(80,483)	–	(80,483)
At 31 October 2017	337,462	139,121	1,050,396	15,494	1,542,473
Charge for the year	**–**	**31,365**	**85,036**	**2,500**	**118,901**
Disposals	**–**	**–**	**–**	**–**	**–**
At 31 October 2018	**337,462**	**170,486**	**1,135,432**	**17,994**	**1,661,374**
Net Book Value					
At 31 October 2018	**–**	**130,696**	**162,310**	**–**	**292,996**
At 31 October 2017	–	162,051	150,693	2,500	315,244

The Company has set-up a decommissioning asset for the removal of the plant and equipment installed at the Stade site in Germany and for dilapidations associated with the leasehold premises at Dunsfold in the UK, the cost of which is based on estimates.

13. INVESTMENT

As at 31 October 2018 the Company held 340,500 shares representing 24.0% (2017: 340,500 shares representing 24.0%) of the share capital of Waste2Tricity Ltd (a company registered in England & Wales). The Company has no representation on the Board of Directors nor is involved in the day to day operation of Waste2Tricity Ltd and so does not exercise significant influence over their activities. In the view of the Directors, this investment has no value currently and has been recognised at cost less impairment as outlined in the accounting policy. No revenue was recognised in the period under the licence agreements with Waste2Tricity Limited and Waste2Tricity International (Thailand) Limited.

	Year ended 31 October 2018 £	Year ended 31 October 2017 £
Investment in Waste2Tricity Ltd	**–**	–

14. INVENTORY

	Year ended 31 October 2018 £	Year ended 31 October 2017 £
Inventory	**163,720**	162,993

15. OTHER RECEIVABLES

	Year ended 31 October 2018 £	Year ended 31 October 2017 £
Current:		
R&D tax credits receivable	**1,133,827**	499,389
EU grants receivable	**106,642**	724,815
Other receivables	**153,525**	247,662
Prepayments	**150,595**	128,120
	1,544,588	1,599,986
Non-current:		
Other receivables	**–**	8,480
	–	8,480
	1,544,588	1,608,466

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

16. CASH AND CASH EQUIVALENTS

	Year ended 31 October 2018 £	Year ended 31 October 2017 £
Cash at bank	**1,357,328**	984,588
Bank deposits	**1,460,861**	5,692,187
	2,552,068	6,676,775

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 €300,000 held in escrow to support a bank guarantee in favour of Air Products GmbH relating to contractual obligations by the Company in relation to the Stade site in Germany.

17. ISSUED SHARE CAPITAL

	Number	Ordinary shares £	Share premium £	Total £
At 31 October 2017	391,298,205	391,298	45,494,404	45,885,702
Issue of shares on 24 May 2018	400,000	400	12,120	12,520
Equity based payments exercised			192,818	192,818
At 31 October 2018	**391,698,205**	**391,698**	**45,699,342**	**46,091,040**

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 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.

18. SHARE OPTIONS, WARRANTS AND SAYE

18a. SHARE OPTIONS

	Number of options	Exercise price	Weighted average remaining contractual life
At 31 October 2016	11,905,000	3.13-51p	7.1 yrs
Options granted in the year	-	-	
Options exercised in the year	-	-	
Options lapsed in the year	(1,840,000)	17.5-35.75p	
At 31 October 2017	10,065,000	3.13-51p	6.3 yrs
Options granted in the year	4,455,000	8 – 8.8p	
Options exercised in the year			
Options lapsed in the year	(1,190,000)	24 – 41p	
At 31 October 2018	**13,330,000**	**3.13 – 51p**	**5.5 yrs**

18b. WARRANTS

	Number of warrants	Exercise price	Weighted average remaining contractual life
At 31 October 2016	6,947,800	3.13-24p	3.1 yrs
Warrants exercised in the year	(350,000)	3.13p	
Warrants lapsed in the year	(1,954,000)	24p	
At 31 October 2017	4,643,800	3.13-24p	2.1 yrs
Warrants exercised in the year	(400,000)	3.13p	
Warrants lapsed in the year			
At 31 October 2018	**4,243,800**	**3.13 – 24p**	**1.1 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 2016	1,318,082	12-22p	1.3 yrs
SAYE issued during the year	-	-	
SAYE lapsed/cancelled during the year	(726,148)	18.6-22p	
SAYE exercised during the year	-	-	
At 31 October 2017	591,934	12-22p	0.6 yrs
SAYE issued during the year			
SAYE lapsed/cancelled during the year	(384,198)	12 – 22p	
SAYE exercised during the year			
At 31 October 2018	**207,736**	**12p**	**0.5 yrs**

18d. EQUITY-SETTLED SHARE-BASED PAYMENTS CHARGE

Share Options

Option price	Average grant date share price	Average expected volatility	Average risk-free interest rate	Average dividend yield	Average implied option life	Average fair value per option	Amount expensed in the 2018 accounts
(p)	(p)	(p.a.)	(p.a.)	(p.a.)	(years)	(p)	£
3.13	3.13	113.8%	4.4%	0%	1.0	2	–
8.8	6.58	81.2%	0.8%	0%	2.0	2.2	7,974
10	10	46%	4.4%	0%	1.5	2.5	–
17	17	80%	1.5%	0%	1.5	9.48	–
17.5	18.75	188%	4.4%	0%	1.5	14.07	–
24	23.75	188%	4.4%	0%	1.5	17.80	–
20.75	20	214.8%	4.4%	0%	1.0	15	–
32	31.75	243%	4.4%	0%	1.5	24	–
34	34	80%	1.5%	0%	1.5	18.96	–
35.75	35.75	124.7%	1.5%	0%	1.5	21.8	–
39.25	39.25	80%	1.5%	0%	1.5	21.89	–
41	41	80%	1.5%	0%	1.5	22.86	–
51	58	75%	2.1%	0%	1.5	32.00	202,101
Total charge for the year (2017: £686,431)							**210,075**

Warrants

Warrant price	Average grant date share price	Average expected volatility	Average risk-free interest rate	Average dividend yield	Average implied option life	Average fair value per option	Amount Expensed in the 2018 Accounts
(p)	(p)	(p.a.)	(p.a.)	(p.a.)	(years)	(p)	£
3.13	3.13	113.8%	4.4%	0%	1.0	2	–
24	23.75	188%	4.4%	0%	1.5	17.8	–
Total charge for the year (2017: £nil)							–

SAYE

SAYE price	Average grant date share price	Average expected volatility	Average risk-free interest rate	Average dividend yield	Average implied option life	Average fair value per option	Amount Expensed in the 2018 Accounts
(p)	(p)	(p.a.)	(p.a.)	(p.a.)	(years)	(p)	£
22	27.50	124.7%	1.5%	0%	1.5	21.69	–
18.6	23.25	137.5%	1.5%	0%	1.5	19.24	
12	15.00	78.6%	0.7%	0%	1.0	8.4	
Total charge for the year (2017: £14,936)							11,187
Total equity-settled share-based payment charge for the year (2017: £701,367)							**221,262**

19. TRADE AND OTHER PAYABLES

	Year ended 31 October 2018 £	Year ended 31 October 2017 £
Current liabilities:		
Trade payables	**232,349**	199,604
Related parties	**3,240**	1,039
Deferred income	**28,187**	–
Finance lease liability	**7,574**	10,844
Other payables	**229,837**	173,996
Accruals	**140,360**	150,683
	641,547	536,166
Non-current liabilities:		
Finance lease liability	**–**	7,574
	–	7,574

20. PROVISIONS

	2018 Decommissioning provision £	2017 Decommissioning provision £
Non-current liabilities:		
Balance at 1 November	**301,172**	–
Addition	**–**	301,172
Utilisation	**–**	–
Balance at 31 October	**301,172**	301,172

The Company has set-up a decommissioning provision associated with a commitment to remove the plant and equipment installed at the Stade site in Germany at a future date.

21. OPERATING LEASE COMMITMENTS

	Year ended 31 October 2018 £	Year ended 31 October 2017 £
Non-cancellable operating leases are as follows:		
Within one year	**144,979**	74,470
Between one and five years	**403,778**	–
Greater than five years	**–**	–
	548,756	74,470

The lease commitments relate to accommodation and a vehicle.

22. FINANCIAL INSTRUMENTS

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

Principal Financial Instruments

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

	Year ended 31 October 2018 £	Year ended 31 October 2017 £
Loans and receivables:		
Cash and cash equivalents	**2,707,103**	6,676,775
Other receivables	**1,544,588**	1,608,466
Total financial assets	**4,251,691**	8,285,241
Other payables	**641,547**	543,740
Total financial liabilities held at amortised cost	**641,547**	543,740

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

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

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 below.

Credit Risk

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

	Year ended 31 October 2018 £	Year ended 31 October 2017 £
Other receivables	**1,544,588**	1,608,466
Cash and cash equivalents	**2,707,103**	6,676,775

The Company's principal other receivables arose from: a) VAT receivable from UK and German tax authorities b) an R&D tax credit c) grant funding receivable from the EU. Credit risk with cash and cash equivalents is reduced by placing funds with banks with acceptable credit ratings and government support where applicable and on term deposits with a range of maturity dates. At the year end, most cash was temporarily held on short-term deposit.

Liquidity Risk

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

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

Interest Rate Risk

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

Fair Value of Financial Liabilities

	Year ended 31 October 2018 £	Year ended 31 October 2017 £
Trade and other payables	**641,547**	543,740

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

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

23. CAPITAL COMMITMENTS

The Company had no capital commitments outstanding at 31 October 2018 (2017: £nil).

24. POST-BALANCE SHEET EVENTS

On 11 April 2019, a £4 million convertible loan facility was signed for a period of 36 months from the signing date with a further six-month period, post the expiry date of the facility, to repay any outstanding amounts. The facility can be drawn down in £25,000 principal increments at the Company's discretion provided that,

1. the total amount drawn down in any one 60-day period does not exceed £500,000,
2. the total amount repayable does not exceed £4 million,
3. the volume weighted average price of the three previous trading days is greater than 2 pence, and
4. the headroom to allot non pre-emptive shares is 125% of the number of shares that would be required to convert at the time of the drawdown.

The draw down will be 90% of the principal amount and outside these parameters draw down will be by mutual consent.

The principal amount is convertible at the lender's discretion at the lower of market price at draw down and the volume weighted average price of the three previous trading days at the time of conversion.

Early redemption can be made at the request of the Company at 105% of the principal amount. In the case of a change in control or default then the draw down amounts are redeemed at 105% and 120% of the principal amount respectively.

An acceptance fee of £200,000 was settled by issue of shares and a further fee of 5% is payable on draw downs.

On 12 April 2019 the Company issued 27,108,334 shares and raised £ 0.8 million.

25. ULTIMATE CONTROLLING PARTY

There is no ultimate controlling party.

26. RELATED PARTY TRANSACTIONS

During the year ended 31 October 2018:

£293,750 was invoiced by iProcess Engineering & Consulting Ltd (a company registered in England & Wales) for consultancy services in respect of the services of Jim Gibson as a Director of AFC Energy plc (2017: £191,917). Mr. Gibson is also a Director and Shareholder of iProcess Engineering & Consulting Ltd. At 31 October 2018, the sum owing to iProcess Engineering & Consulting Ltd was £nil (2017: £25,500) and an amount payable of £ 972 (2017: £ nil).

At 31 October 2018, the amount receivable from Adam Bond was £nil (2017: £103,639) and an amount payable of £ 2,268 (2017: £100,000). Adam has repaid to the Company all outstanding taxation remitted by the Company in previous years to HMRC on Adam's behalf in relation to different tax jurisdictions between the UK and Australia and, following Board approval, as a result of meeting certain performance conditions, the Company has paid Adam a £100,000 bonus that had been accrued.

COMPANY INFORMATION

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