Report & Accounts

for the year ended 31 October 2008

Developer of alkaline fuel cells

Report & Accounts for the year ended 31 October 2008

AFC Energy develops low-cost alkaline fuel cells that use hydrogen to produce clean electricity.

AFC Energy's fuel cells have been developed with commercial viability as the key driver. This means that AFC Energy's fuel cells have the following unique selling points:

- **high efficiency levels** with an approximate conversion rate of 60%. This compares to less than 30% for standard electricity generation technologies;
- **non-precious metal content.** This significantly reduces the cost of manufacture of the electrodes;
- **low temperature and low pressure operation.** This reduces costs further by enabling the fuel cell to be manufactured from plastic mouldings; and
- **simple design.** With only three moving parts, and plastic construction, operation of the fuel cell is simple, and maintenance is quick with minimal downtime.

AFC Energy has significantly reduced the cost of its technologies. This will make our fuel cells a commercially compelling product in the hydrogen economy.

Contents

About AFC Energy PLC

Target markets

- AFC Energy targets companies and applications that produce hydrogen as a by-product from their operations. Target markets include:
  - the global chlor-alkali industry with more than 250,000 tonnes per annum of waste hydrogen;
  - the energy-from-waste market which turns household waste into electricity; and
  - manufacturing industries such as steel, sodium chlorate and ammonia production.

Commercialisation

- AFC Energy is looking to broaden its commercial base by engaging in specific commercial arrangements for different sectors.
- These commercial arrangements will range from direct sales of fuel cells through to energy management contracts.
- We will look to penetrate global markets and global applications using a mix of commercial arrangements to maximise revenue.

Technical progress

- AFC tested its fuel cell system in the financial year and it successfully converted hydrogen into electricity at the first attempt.
- The achievement from concept to operation in two years was a major success.
- Work continues to further improve the fuel cell system's operation with the full co-operation and support of Akzo Nobel.
- The technical programme is now mapped out in detail for the remainder of 2009 and beyond.

Chairman's Statement

The Company remains focused on its goal of developing fuel cells for industrial companies to generate electricity from the hydrogen that they produce as a by-product.

Introduction

It is a pleasure to report the Company's second full-year results since our shares were admitted to AIM in April 2007. During the year to 31 October 2008 the Company has continued to work closely with Akzo Nobel ('Akzo'), our first commercial customer, to complete the technical development of our fuel cell system. A successful share placing was completed in May 2008 which raised £4.4m before expenses. In addition there have been a number of Board and management changes.

Strategy

The Company remains focused on its goal of developing fuel cells for industrial companies to generate electricity from the hydrogen that they produce as a by-product. We believe that the need for this type of low-carbon electricity generation is even greater and more urgent than when the Company was formed and that the commercial rewards for success in this field will be considerable.

In pursuit of this objective, significant technical progress was made during the year and the fuel cell was successfully operated. The decision was made in August not to proceed immediately with the planned delivery of the fuel cell system to Akzo. Our approach continues to enjoy the support of Akzo and more details are contained in the Operating and Financial Review.

In addition to meeting our contractual commitments to Akzo, the Company is actively seeking additional customers from within the chlorine and chlorate industries and has strengthened the management resources available for this purpose. Since the end of the financial year the Company has also announced an association with Waste2Tricity, a newly-formed company which is developing methods of generating electricity from waste. The Company has agreed in principle to sell a licence to Waste2Tricity which will allow the latter to use AFC Energy fuel cell technology to exploit any surplus hydrogen created by the waste-to-energy process.

Finance

The Company's cash requirement has continued in line with expectations. Strenuous efforts are made to keep this to the minimum level consistent with maintaining technical development at a pace which will achieve our goal of delivering a working fuel cell system to Akzo during 2009.

The Company was pleased to welcome a number of new institutional and private investors at the time of the share placing. Though the performance of the share price since then has obviously been disappointing, part of the fall has been a reflection of wider market movements and the current perception of the fuel cell sector with many investors. We remain grateful for the continued support of our shareholders.

Management and Board

I am pleased to welcome Ian Balchin, who joined the Company (but not the Board) as Managing Director in October 2008, and Terry Walsh, who joined the Company in September 2008 and was subsequently appointed Commercial Director. Both Ian and Terry bring extensive relevant industry experience to AFC and their appointments have significantly strengthened the Company's management.

The Company's Board was also strengthened by the appointment of Mitchell Field in April 2008 as a Non-Executive Director. I am grateful to Mitchell and the other Directors for their considerable contributions.

Since I last reported, Gerard Sauer and Otto Carlisle left AFC to pursue other interests and Brian Wilson stepped down as a Non-Executive Director. I am grateful to all three for their work on behalf of AFC Energy in the early stages of its development.

In addition, Dr Gene Lewis, who has considerable experience of the fuel cell industry, joined the Company in November 2008 and is a valuable addition to our senior technical team.

I am grateful to all the Company's employees for their continued efforts on behalf of shareholders and customers alike.

Tim Yeo
Chairman
16 March 2009

Operating and Financial Review

Our principal objective is to optimise profitability and market share by developing an alkaline fuel cell system at a significantly lower cost than any other fuel cell system.

Introduction

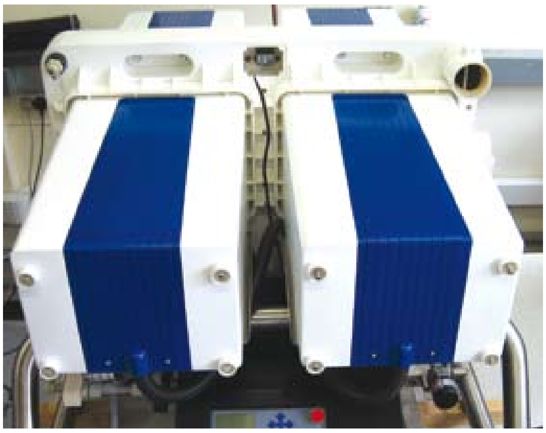
AFC Energy is engaged in the design and development of alkaline fuel cells, a proven technology developed to generate clean electricity from hydrogen.

Our principal objective is to optimise profitability and market share by developing an alkaline fuel cell system at a significantly lower cost than any other fuel cell system. To do this we have been developing improved processes, simplifying the design and reducing the number of components required for their manufacture.

Applications for fuel cells that generate electricity in situ offer the prospect of consistent 24-hour running without the need for inefficient, expensive and technically difficult hydrogen storage or transportation.

Technical progress

During the year, we tested our fuel cell system under operating conditions in the laboratory and it successfully converted hydrogen into electricity on its first attempt. Developing this system from concept to operation in a little under two years has been a major achievement.



The AFC Energy 3.5kW fuel cell system that was tested under operating conditions. The cost-effective, multiple cartridge assembly generated electricity from hydrogen at the first attempt

In October 2008, shortly before I joined, the Company decided, in consultation with Akzo Nobel ('Akzo'), not to proceed, at that stage, with the delivery of its first fuel cell.

It was agreed between Akzo and AFC Energy that the electrical output and durability could be improved further to reach design targets.

In November the Company commenced a detailed nine-week technical review which identified several areas to further improve system performance. These included:

- optimising electrode materials and fluid flow;
- further automation of the manufacturing processes used to fabricate the cells; and
- revised specifications for some of the components in the system.

I am pleased to report that since the year end, considerable progress has been made in each of these areas.

The technical development programme is now being managed by Dr Gene Lewis who joined the Company in November as Chief Technology Officer. Gene was previously with Ceres Power, where he was instrumental in the development of their solid oxide fuel cell technology.

Gene's leadership skills, as well as his background in fuel cell material science and engineering, will significantly strengthen the technical team. He and Terry Walsh – the latter recently appointed to the Board as Commercial Director – are actively developing a closer working relationship with Akzo.

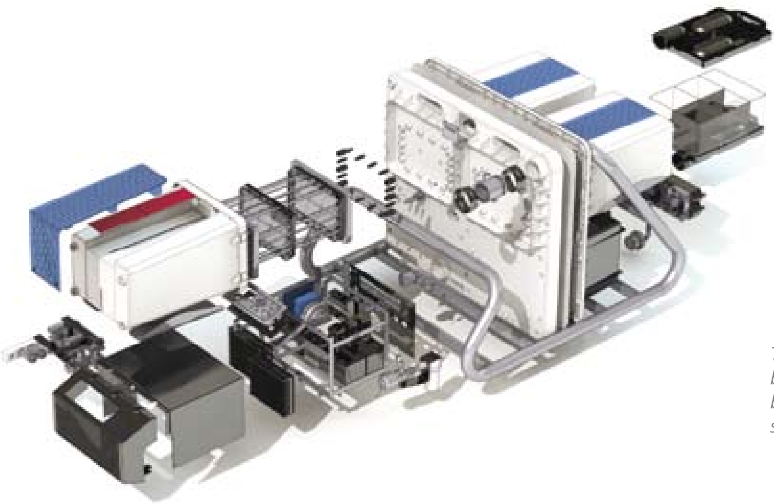
Akzo continues to support the plan for us to deliver and install a fuel cell system to its Bitterfeld plant and to demonstrate the operation of the fuel cell with Akzo's industrially produced hydrogen. We have made significant progress since the year end towards delivery of this system.

Following installation at Bitterfeld, work will continue both at our headquarters and at Bitterfeld to ensure progressive improvements to system performance so as to achieve full target design. Akzo is active in R&D in a wide variety of areas and recognises the challenges inherent in AFC Energy's approach and is hugely supportive in seeing this project through to fruition.

Operating and Financial Review continued

During the year, we tested our fuel cell system under operating conditions in the laboratory and it successfully converted hydrogen into electricity on its first attempt.

In December an independent assessment of the fuel cell system was commissioned from the government-backed Centre for Process Innovation (CPI). The report noted our current stage of development and as part of its conclusions stated that "...[AFC Energy] has not only developed a fuel cell stack, it has developed a unique, low-cost balance of plant that allows those stacks to be assembled into robust, practical systems. The parallel development of the stack and system technology has ensured that the Company is in a good position to deliver systems that meet the needs of its customers and that make maximum utilisation of its stack technology. It is clear that the Company is putting the required investment into its technology in terms of people and equipment."



The AFC Energy fuel cell system has a low-cost balance of plant with a simple design. It has been praised by CPI as a "robust, practical system......that meets the needs of its customers".

AFC's electrodes. There are 44 electrodes in each cartridge and four cartridges to a system.

Operating and Financial Review continued

Financial highlights

The Company was admitted to AIM in April 2007 raising £3 million before expenses, and in May 2008 raised a further £4.4 million before expenses.

We incurred direct and administrative costs of approximately £2.8 million in the year to 31 October 2008. Net assets at 31 October 2008 were £4.7 million and cash balances were £3.6 million.

Since the year end, all aspects of the Company's operations have been reviewed and significant progress has been made to improve operational efficiency and reduce costs without adversely impacting the technical development programme.

Intellectual property

The Company continues to seek patent protection for its technology. Currently the Company is reviewing several novel catalyst developments that look like they can be patented.

Health and safety

Health and safety of our employees and those we work with is taken very seriously by the Company and regularly reviewed by the Board.

Commercial outlook

Our approach is leading towards development of a robust fuel cell system that is low-cost through its value-engineered design and is easy to maintain through its cartridge system of electrodes.

We are heading towards delivery of the first system for testing on site at Akzo. Following this we are planning to deliver a series of upgrades until commercial targets for electrical output and durability are achieved.

Our second commercial customer will be Waste2Tricity Limited ('W2T'), a company focused on the efficient conversion of municipal solid waste into electricity.

Within the next six months, W2T hopes to fund and commence the construction of a plant with a capacity of 50,000 tonnes or more and to begin generating electricity in three years' time. The first stage will use internal combustion engines to generate electricity whilst the second stage should generate sufficient hydrogen to use up to 12MW of AFC's fuel cells, depending upon successful demonstration.

Key terms of the agreement are:

- AFC Energy will receive a £1 million licence fee in return for granting W2T exclusivity for its fuel cells in the UK waste-to-energy market. This payment will be conditional on W2T successfully raising initial capital for its pilot plant;
- once AFC Energy's fuel cells are integrated in W2T's gasification system, AFC Energy will also receive follow-on royalty payments;
- AFC Energy will make a short-term, interest-bearing loan to W2T of up to £150,000 which is fully repayable by December 2010; and
- AFC Energy has the option to acquire 25% of the equity of W2T.

We are in discussions with a number of other potential customers and are targeting others to broaden the commercial base.

As AFC Energy develops its technology it remains capable of:

- manufacture using low-cost techniques;
- low-cost operation; and
- efficient electricity generation.

We look forward to reporting our continued progress.

I am grateful to all those working hard within the business and in support of it to meet the Company's objectives.

Ian Balchin

Managing Director
16 March 2009

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 October 2008. The comparative period was from 1 November 2006 to 31 October 2007.

Principal activity and review of business developments

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

Reviews of operations, business developments and current projects are included in the Chairman's Statement and the Operating and Financial Review.

Results and dividend

The results for the year are set out in the income statement on page 12.

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

Principal risks and uncertainties

The major risk faced by the business relates to the technical progress in development of the fuel cell and the fulfilment of contractual obligations with Akzo Nobel. The Company's approach to the management of these risks is described in the Operating and Financial Review.

Key performance indicators

Given the nature of the business and that the Company is in the development phase of its products, the Directors are of the opinion that analysis using financial KPIs is not appropriate for an understanding of the development, performance or position of the business at this time. However, the Directors constantly review overall expenditure compared to budget and the Company's cash position.

	2008 £	2007 £
Cash and cash equivalents at the year end	3,610,204	2,128,350

Directors and their interests

The Directors who served during the year were:

Tim Yeo	Chairman
Gerard Sauer	Chief Executive Officer (resigned 13 October 2008)
Simon Walters	Finance Director
Otto Carlisle	Technical Director (resigned 30 January 2009)
Brian Wilson	Non-Executive (resigned 31 October 2008)
Dr Michael Mangan	Non-Executive
Harry Epstein	Non-Executive
Mitchell Field	Non-Executive (appointed 10 April 2008)

Directors' Report continued

On 31 October 2008 the Directors' interests in the equity share capital of the Company were:

	Number of Ordinary shares of 0.1p 2008	Number of Ordinary shares of 0.1p 2007	Number of options and warrants over Ordinary shares of 0.1p 2008	Number of options and warrants over Ordinary shares of 0.1p 2007
Tim Yeo MP	227,272	–	1,117,490	1,117,490
Simon Walters	45,455	–	–	–
Otto Carlisle	1,600,000	1,600,000	560,000	560,000
Dr Michael Mangan	–	–	350,000	350,000
Harry Epstein	7,000,000	7,000,000	–	–
Mitchell Field	1,345,000	–	–	–

In accordance with the Company's Articles of Association, at least one third of the Directors must retire by rotation at each Annual General Meeting, and they may stand for re-appointment at the Meeting. Accordingly the Directors retiring by rotation are Tim Yeo and Simon Walters. Both, being eligible, offer themselves for re-appointment. Additionally, a Director appointed during or after the year must stand for re-appointment at the first Annual General Meeting after such appointment. Accordingly, Terry Walsh offers himself for re-appointment.

Directors' remuneration

Name	Salary £	Share-based payment expense £	Other compensation £	Total 2008 £	Total 2007 £
Tim Yeo MP	36,250	19,748	–	55,998	58,514
Gerard Sauer	115,000	89,430	102,147 [1]	306,577	124,383
Simon Walters (see note 22)	–	–	63,863	63,863	26,794
Otto Carlisle	85,000	4,695	505	90,200	26,504
Brian Wilson	20,000	10,724	–	30,724	33,701
Dr Michael Mangan	20,000	10,724	–	30,724	33,701
Harry Epstein	20,000	–	–	20,000	10,389
Mitchell Field	–	–	–	–	–

[1] Includes compensation for loss of office. See Note 21

Directors' service contracts

Tim Yeo was appointed as Chairman and Non-Executive Director under the terms of a Non-Executive letter dated 20 February 2007 for an indefinite term, subject to a minimum of six months' notice.

Simon Walters entered into a consultancy agreement with the Company on 19 February 2007, subject to two months' notice by either party (see also note 22).

Otto Carlisle's service contract with the Company commenced on 23 July 2007 for an indefinite term, subject to six months' notice by either party.

Directors' Report continued

Dr Michael Mangan's services as a Non-Executive Director are provided under the terms of a Non-Executive letter of appointment dated 14 December 2006 for an indefinite term, subject to a minimum of six months' notice.

Harry Epstein's services as a Non-Executive Director are provided under the terms of a Non-Executive letter of appointment dated 14 February 2007 for an indefinite term, subject to a minimum of six months' notice.

Mitchell Field was elected as a Non-Executive Director at the Company's AGM on 10 April 2008.

Board changes

Details of changes to the membership of the Board are disclosed in note 21 to the financial statements.

Capital structure

Details of the Company's share capital are disclosed in notes 15 and 16 of the financial statements.

On 10 March 2009, the Company was aware of the following holdings of three per cent or more in the Company's issued share capital:

	Number of shares	Approximate percentage of the Company's issued share capital
Age of Reason Foundation	22,602,420	17.70
Eturab Trade Corporation	8,000,000	6.27
Harry Epstein	7,000,000	5.48
Chase Nominees Ltd	5,806,000	4.55
BNY (OCS) Nominees Ltd	5,435,296	4.26
Giltspur Nominees Ltd	4,631,996	3.62
HSBC Global Custody Nominee (UK) Ltd	4,500,000	3.52
J M Finn Nominees Ltd	4,463,000	3.50
Pershing Nominees Ltd	4,392,092	3.44
R C Greig Nominees Ltd	3,909,449	3.06

Political and charitable donations

Charitable donations in the year amounted to £300.

Corporate governance

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

Audit Committee

The Company's Audit Committee comprises Tim Yeo, Michael Mangan and Mitchell Field. The Committee meets at least twice a year and at any other time when it is appropriate to discuss audit, accounting or control issues. The Committee will meet the external Auditors, without executive Board members being present, to review accounting and internal control matters.

The Committee's principal objectives are to review annual and interim financial statements; to review accounting policies; to review with management and the Company's external Auditors the effectiveness of internal controls; to oversee the publication of reserve and resource statements to ensure compliance with best practice under the new AIM rules; and to review with the Company's external Auditors the scope and results of their audit. Tim Yeo chairs the Audit Committee.

Directors' Report continued

Remuneration Committee

The Remuneration Committee's members are Tim Yeo, Michael Mangan and Mitchell Field who review the performance of the Executive Directors and set the scale and structure of their remuneration and the basis of their service agreements. In determining remuneration, the Committee seeks to enable the Company to attract and retain executives of the highest calibre. The Committee also makes recommendations to the Board concerning allocation of share options to employees. No Directors participate in discussions or decisions concerning their own remuneration. This Committee is also responsible for nominating candidates, for the approval of the Board, to fill either executive or Non-Executive vacancies or additional appointments to the Board.

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

AIM Rules Compliance Committee

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

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 2008 represented 50 days (2007: 56 days) of annual purchases.

Liability insurance for company officers

The Company has in place a Directors' and Officers' insurance policy.

Financial risk management objectives

These are detailed in note 19 to the financial statements.

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 2008, relevant expenditure totalled £1,288,107 (2007: £647,057).

Going concern

Based on a review of the Company's budgets and cash flow plans, the Directors are satisfied that the Company has sufficient resources to continue its operations and to meet its commitments for the foreseeable future.

Post-balance sheet events

Details of post-balance sheet events are provided in note 21 to the financial statements.

Relations with shareholders

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

Auditors

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

This report was approved by the Board of Directors on 16 March 2009.

Roger Powley

Company Secretary

Statement of Directors' Responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper 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 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure to auditor

So far as the Directors are aware, there is no relevant audit information of which the Company's Auditors are unaware, and each Director has taken all the steps that he ought to have taken as Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

Independent Auditors' Report to the shareholders of AFC Energy plc

We have audited the Company financial statements (the 'financial statements') of AFC Energy plc for the year ended 31 October 2008 which comprise the Company Income Statement, the Company Balance Sheet, the Company Cash Flow Statement, the Company Statement of Changes in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 Auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes the specific information presented in the Chairman's Statement and Operating and Financial Review that is cross-referenced from the principal activity and review of business developments section of the Directors' Report. In addition we report to you if, in our opinion, the Company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read other information contained in the report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, Operating and Financial Review and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 October 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Jeffreys Henry LLP

Chartered Accountants & Registered Auditors
Finsgate, 5-7 Cranwood Street, London, EC1V 9EE
16 March 2009

Income Statement

	Note	Year ended 31 October 2008 £	Year ended 31 October 2007 £
Revenue		–	–
Direct expenses		(303,035)	(116,228)
Gross loss		(303,035)	(116,228)
Administrative expenses		(2,807,480)	(1,840,802)
Analysed as:			
Administrative expenses		(2,560,142)	(1,562,298)
Equity-settled share-based payments	16c	(247,338)	(278,504)
Operating loss	5	(3,110,515)	(1,957,030)
Financial income	8	150,320	90,158
Loss before tax		(2,960,195)	(1,866,872)
Taxation	9	308,427	155,294
Loss for the year attributable to equity holders		(2,651,768)	(1,711,578)
Basic loss per share	10	(2.51)p	(2.14)p
Diluted loss per share	10	(2.51)p	(2.14)p

All amounts relate to continuing operations.

Balance Sheet

	Note	31 October 2008 £	31 October 2007 £
Assets			
Non-current assets			
Intangible assets	11	307,852	298,874
Property and equipment	12	504,458	472,601
		812,310	771,475
Current assets			
Work in progress		123,740	-
Trade and other receivables	13	592,055	461,567
Cash and cash equivalents	14	3,610,204	2,128,350
		4,325,999	2,589,917
Total assets		5,138,309	3,361,392
Equity and liabilities			
Equity attributable to ordinary shareholders			
Share capital	15	127,683	87,683
Share premium		8,940,379	4,825,189
Other reserve		537,388	290,050
Retained loss		(4,905,839)	(2,254,071)
Total equity		4,699,611	2,948,851
Current liabilities			
Trade and other payables	17	438,698	412,541
		438,698	412,541
Total equity and liabilities		5,138,309	3,361,392

These financial statements were approved and authorised for issue by the Board on 16 March 2009

Tim Yeo
Chairman

Simon Walters
Finance Director

Cash Flow Statement

	Note	31 October 2008 £	31 October 2007 £
Cash flows from operating activities			
Loss before tax for the year		(2,651,768)	(1,866,872)
Adjustments for:			
Depreciation and amortisation		293,473	145,275
Equity-settled share-based payment expenses	16c	247,338	278,504
Finance income		(150,320)	(90,158)
Cash flows from operating activities before changes in working capital and provisions		(2,261,277)	(1,533,251)
Decrease/(increase) in trade and other receivables		(254,229)	(191,538)
(Decrease) increase in trade and other payables		26,157	336,315
Cash absorbed by operating activities		(2,489,349)	(1,388,474)
Cash flows from investing activities			
Investment in plant and equipment	12	(308,829)	(452,592)
Acquisition of patents	11	(25,478)	(24,923)
Net cash absorbed by investing activities		(334,307)	(477,515)
Cash flows from financing activities			
Proceeds from the issue of share capital		4,400,000	4,033,414
Costs of issue of share capital		(244,810)	(525,477)
Interest received		150,320	90,158
Net cash from financing activities		4,305,510	3,598,095
Net increase in cash and cash equivalents		1,481,854	1,732,106
Cash and cash equivalents at start of year		2,128,350	396,244
Cash and cash equivalents at 31 October	14	3,610,204	2,128,350

Statement of Changes in Equity

For the year ended 31 October 2008

	Share Capital £	Share Premium £	Other Reserve £	Retained Loss £	Total Equity £
Balance at 1 November 2006	70,000	1,334,935	11,546	(542,493)	873,988
Loss after tax for the year	–	–	–	(1,711,578)	(1,711,578)
Total recognised in income and expense for the year	–	–	–	(1,711,578)	(1,711,578)
Issue of equity shares	17,683	4,015,731	–	–	4,033,414
Share issue expenses	–	(525,477)	–	–	(525,477)
Equity-settled share-based payments	–	–	278,504	–	278,504
Balance at 31 October 2007	87,683	4,825,189	290,050	(2,254,071)	2,948,851
Balance at 1 November 2007	87,683	4,825,189	290,050	(2,254,071)	2,948,851
Loss after tax for the year	–	–	–	(2,651,768)	(2,651,768)
Total recognised in income and expense for the year	–	–	–	(2,651,768)	(2,651,768)
Issue of equity shares	40,000	4,360,000	–	–	4,400,000
Share issue expenses	–	(244,810)	–	–	(244,810)
Equity-settled share-based payments	–	–	247,338	–	247,338
Balance at 31 October 2008	127,683	8,940,379	537,388	(4,905,839)	4,699,611

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

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

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

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

Notes forming part of the Financial Statements

1. Corporate information

AFC Energy plc ('the Company') is a public limited company incorporated in England & Wales and quoted on the Alternative Investment Market of the London stock exchange.

The address of its registered office is Finsgate, 5-7 Cranwood Street, London, EC1V 9EE.

2. Basis of preparation and accounting policies

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and related interpretations, as adopted for use within the European Union and also in accordance with the Companies Act 1985.

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 existing standards which are mandatory for the first time for the year ended 31 October 2008

- IFRS 7, 'Financial instruments: Disclosures' and the complementary amendment to IAS 1, 'Presentation of financial statements', 'Capital disclosures' (both effective for annual periods beginning on or after 1 January 2007) introduce new disclosures relating to financial instruments. The significant changes in disclosures are those regarding risk and are set out in this note below.

- IFRIC 8, 'Scope of IFRS 2', Transactions involving equity instruments (effective for annual periods beginning on or after 1 May 2006). This interpretation has not had any impact on the recognition of share-based payments in the Company.

- IFRIC 10, 'Interim Financial Reporting and Impairment' (effective for annual periods beginning on or after 1 November 2006). This interpretation has not had a material impact on the financial results of the Company.

b. Standards, amendments and interpretations to existing standards which are mandatory for the first time for the year ended 31 October 2008 but are not relevant to the Company

- IFRIC 9, 'Reassessment of embedded derivatives' (effective for annual periods beginning on or after 1 June 2006). This interpretation is not relevant to the Company's operations as the Company did not hold any derivatives as at 31 October 2008.

- IFRIC 11, 'Group and treasury share transactions' (effective for annual periods beginning on or after 1 March 2007). This interpretation is not relevant to the Company's operations as the Company did not have any relevant transactions in the year to 31 October 2008.

c. Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

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:

- IAS 1: Presentation of Financial Statements (Revised 2007) (effective as of 1 January 2009).

- IAS 23: Borrowing Costs (Revised 2007) (effective as of 1 January 2009).

Notes forming part of the Financial Statements continued

- IAS 27: Consolidated and Separate Financial Statements (Amended) (effective as of 1 July 2009).
- IFRS 2: Share-Based Payments: Vesting conditions and Cancellations (Amended) (effective as of 1 January 2009).
- IFRS 3: Business Combinations (Revised) (effective as of 1 July 2009) includes an amendment to the treatment of minority interests (renamed non-controlling interests), amendments to the calculation of goodwill, a change to the method of accounting for acquisitions in stages, amendment to the accounting for contingent consideration and changes to the recognition and measurement of certain assets and liabilities.
- IFRS 8: Operating Segments (effective as of 1 January 2009).
- IFRIC Interpretation 12: Service Concession Arrangements (effective as of 1 January 2008 – not yet endorsed by the EU).
- IFRIC Interpretation 13: Customer Loyalty Programmes (effective as of 1 July 2008 – not yet endorsed by the EU).
- IFRIC Interpretation 14: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective as of 1 July 2008 – not yet endorsed by the EU).
- IFRIC Interpretation 15: Agreements for the Construction of Real Estate (effective as of 1 January 2009 – not yet endorsed by the EU).
- IFRIC Interpretation 16: Hedges of a Net Investment in a Foreign Operation (effective as of 1 October 2008 – not yet endorsed by the EU).
- IFRIC Interpretation 17: Distributions of Non-cash Assets to Owners (effective as of 1 July 2009 – not yet endorsed by the EU).
- Amendments to IAS32 Financial Instruments: Presentation and IAS1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for beginning on or after 1 January 2009). This amendment is still to be endorsed by the EU.
- Amendments to IFRS1 and IAS27 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective for accounting periods beginning on or after 1 January 2009). These amendments are still to be endorsed by the EU.
- Eligible Hedged Items (Amendment to IAS 39 Financial Instruments: Recognition and Measurement). Entities shall apply the amendment retrospectively for annual periods beginning on or after 1 July 2009. This amendment is still to be endorsed by the EU.

The Directors anticipate that the adoption of these standards and interpretations will not have a material impact on the Company's financial statements in the period of initial adoption.

d. 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 balance sheet. The Company adheres to the capital maintenance requirements as set out in the Companies Act.

e. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. Revenue arising from the provision of services is recognised when and to the extent that the Company obtains the right to consideration in exchange for the performance of its contractual obligations.

Notes forming part of the Financial Statements continued

f. Development costs

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

g. Foreign currency

The financial statements of the Company are presented in the currency of the primary economic environment in which it operates (the functional currency) which is pounds sterling. In accordance with IAS21, transactions entered into by the Company in a currency other than the functional currency are recorded at the rates ruling when the transactions occur. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date.

h. Work in Progress

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

i. Trade and other receivables

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

j. Loans and other receivables

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

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

k. Property and equipment

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

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

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

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

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

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.

Notes forming part of the Financial Statements continued

The carrying value of tangible fixed assets is assessed annually and any impairment is charged to the income statement.

l. Intangible assets

Expenditure on research activities is recognised in the income statement as an expense as incurred.

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 stright-line method to administrative expenses over the following period:

Patents	20 years

m. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with major banking institutions realisable within 90 days.

n. Other financial liabilities

The Company classifies its financial liabilities as:

Trade and other payables

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

Deferred income

This is the carrying value of income received from a customer in respect of the order for five 3.5kW systems which has not been recognised in the Income Statement pending delivery to the customer. The carrying value is fair value.

o. Leases

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

p. Financial assets

All of the Company's financial assets are loans and receivables. 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.

q. Share-based payment transactions

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

Notes forming part of the Financial Statements continued

r. Taxation

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

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

Deferred tax assets are not recognised due to the uncertainty of the period over which they will be recovered.

3. Accounting estimates and judgments

Carrying values of property and equipment.

The Company monitors internal and external indicators of impairment relating to its property and equipment. Management has considered whether any indicators of impairment have arisen over certain assets relating to these assets. After assessing these, management has concluded that no impairment has arisen in respect of these assets during the year and subsequent to 31 October 2008.

Useful lives of intangible assets, and property and equipment

Intangible assets, and property and equipment are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness.

Income taxes and withholding taxes

The Company believes that its receivables for tax recoverable are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments 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 IAS38 to determine whether development expenditure should be capitalised. After assessing these, management has concluded it would not be appropriate to capitalise development expenditure incurred during the year ended 31 October 2008.

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 by an external valuer using an appropriate pricing model.

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

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied. Where the terms of an equity-settled award are modified,

Notes forming part of the Financial Statements continued

the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

4. Segmental analysis

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

5. Operating loss (2007: loss)

This has been stated after charging:	Year ended 31 October 2008 £	Year ended 31 October 2007 £
Depreciation of property and equipment	276,972	132,175
Research and Development expenditure	1,288,107	647,057
Amortisation of intangible assets	16,500	13,100
Equity-settled share-based payment expense	247,338	278,504
Auditors' remuneration - audit	18,000	20,000
Auditors' remuneration - other services	3,965	52,286

6. Staff numbers and costs, including Directors

The average number of employees in the year were:	Year ended 31 October 2008 Number	Year ended 31 October 2007 Number
Support, operations and technical	22	11
Administration	4	5
	26	16

The aggregate payroll costs for these persons were:	£	£
Wages and salaries (including Directors' emoluments)	1,137,699	555,609
Social security	103,703	58,710
Share-based payment expense	247,338	278,504
	1,488,740	892,823

Notes forming part of the Financial Statements continued

7. Directors' remuneration

	Year ended 31 October 2008 £	Year ended 31 October 2007 £
Wages and salaries	296,250	178,812
Social security	28,067	13,209
Equity-settled share-based payment expense	135,321	147,168
Other compensation (see note 21 & 22)	166,516	26,794
	626,154	365,983
The emoluments of the Chairman were:	55,998	58,414
The emoluments of the highest-paid Director were:	306,577	124,383

The remuneration, details of share options and interests in the Company's shares of each Director is shown in the Directors' Report on page 7

8. Financial income

	Year ended 31 October 2008 £	Year ended 31 October 2007 £
Bank interest receivable	150,320	90,158

9. Taxation

Recognised in the income statement	Year ended 31 October 2008 £	Year ended 31 October 2007 £
Research and development tax credit – current year	301,942	155,294
Research and development tax credit – additional receipt	6,485	–
Total tax credit	308,427	155,294
Reconciliation of effective tax rates		
Loss before tax	(2,960,195)	(1,866,872)
Tax using the domestic rate of corporation tax of 30%	888,058	560,062
Effect of:		
Expenses not deductible for tax purposes	76,295	89,561
Research and development allowance	(217,214)	(97,058)
Research and development tax credit	301,942	155,294
Depreciation in excess of capital allowances	23,174	(24,536)
Losses surrendered for research and development	592,164	291,176
Other adjustments	4,060	–
Unutilised losses carried forward	409,579	300,919
Total tax credit for the year	301,942	155,294

Notes forming part of the Financial Statements continued

10. Loss per share

The calculation of the basic loss per share is based upon the net loss after tax attributable to ordinary shareholders of £2,651,768 (2007: loss of £1,711,578) and a weighted average number of shares in issue for the year of 105,545,868 (2007: 80,067,752).

	Year ended 31 October 2008	Year ended 31 October 2007
Basic loss per share (pence)	(2.51)p	(2.14)p
Loss attributable to equity shareholders	(2,651,768)	(1,711,578)

	Number	Number
Weighted average number of shares in issue	105,545,868	80,067,752

Diluted earnings per share

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

11. Intangible assets

	2008 Patents £	2007 Patents £
Cost		
Balance at 1 November 2007	**324,105**	299,182
Additions	**25,478**	24,923
Balance at 31 October 2008	**349,583**	324,105
Amortisation		
Balance at 1 November 2007	**25,231**	12,131
Charge for the year	**16,500**	13,100
Balance at 31 October 2008	**41,731**	25,231
Net book value	**307,852**	298,874

Notes forming part of the Financial Statements continued

12. Property and equipment

	Leasehold improvements £	Fixtures, fittings and equipment £	Total £
Cost			
At 1 November 2006	62,208	121,999	**184,207**
Additions	64,384	388,208	**452,592**
At 1 November 2007	126,592	510,207	**636,799**
Additions	20,400	288,429	**308,829**
Disposals	-	(61,000)	**(61,000)**
At 31 October 2008	146,992	737,636	**884,628**
Depreciation			
At 1 November 2006	9,090	22,933	**32,023**
Charge for the year	41,085	91,090	**132,175**
At 1 November 2007	50,175	114,023	**164,198**
Charge for the year	43,970	233,002	**276,972**
Disposals	-	(61,000)	**(61,000)**
At 31 October 2008	94,145	286,025	**380,170**
Net book value			
At 31 October 2008	52,847	451,611	**504,458**
At 31 October 2007	76,417	396,184	**472,601**

There are no assets held under finance leases. No assets have been revalued.

13. Trade and other receivables

	2008 £	2007 £
Trade receivables	–	20,289
Other receivables	**524,917**	267,185
Prepayments	**67,138**	174,093
	592,055	461,567

14. Cash and cash equivalents

	2008 £	2007 £
Cash at bank	–	86,226
Bank deposits	**3,610,204**	2,042,124
	3,610,204	2,128,350

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

Notes forming part of the Financial Statements continued

15a. Authorised share capital

	2008 Number	2007 Number	2008 £	2007 £
Ordinary Shares of 0.1p	**700,000,000**	700,000,000	**700,000**	700,000

15b. Issued share capital

	Number	£
At 1 November 2006	**7,000,000**	70,000
Issue of shares on 13 February 2007[1]	**449,982**	4,500
At 23 March 2007	**7,449,982**	74,500
Converted to ordinary shares of 0.1p on 23 March 2007	**74,499,820**	74,500
Issue of shares on 24 April 2007[2]	**13,183,034**	13,183
At 31 October 2007	**87,682,854**	87,683
At 1 November 2007	**87,682,854**	87,683
Issue of shares on 21 May 2008[3]	**40,000,000**	40,000
At 31 October 2008	**127,682,854**	127,683

[1] 449,982 ordinary shares with a par value of 1p per share were issued at £2.23p per ordinary share by way of a sale to private investors. Gross proceeds from the issue amounted to £1,003,460.

[2]13,183,034 ordinary shares with a par value of 0.1p per share were issued at 23p per ordinary share in connection with the Company's admission to the Alternative Investment Market. Gross proceeds from the issue amounted to £3,029,954.

[3]40,000,000 ordinary shares with a par value of 0.1p per share were issued at 11p per ordinary share by way of a placing to UK investors. Gross proceeds from the issue amounted to £4,400,000.

16a. Share options

	Number of options	Exercise price (p)
At 1 November 2007	7,379,660	10-23
Options granted in the year	144,000	23
At 31 October 2008	7,523,660	

16b. Warrants

	Number of warrants	Exercise price (p)
At 1 November 2007 and 31 October 2008	4,039,980	10-22

Notes forming part of the Financial Statements continued

16c. Equity-settled share-based payments charge

Share options

Option price (p)	Average grant date share price (p)	Average expected volatility (pa)	Average risk-free interest rate (pa)	Average dividend yield (pa)	Average implied option life (years)	Average fair value per option (p)	Amount expensed in the 2008 accounts £
10	9	46%	4.4%	0.0%	3.5	25	35,213
22	20	46%	4.4%	0.0%	3.5	6	111,418
23	21	46%	4.4%	0.0%	3.5	6	7,715
23	14	46%	4.4%	0.0%	3.5	2	1,973
Adjustment for changes in assumptions in respect of vesting conditions							–
Total charge for the year (2007: £80,635)							156,319

Warrants

Warrant price (p)	Average grant date share price (p)	Average expected volatility (pa)	Average risk-free interest rate (pa)	Average dividend yield (pa)	Average implied warrant life (years)	Average fair value per warrant (p)	Amount expensed in the 2008 accounts £
10	20	46%	4.4%	0.0%	3.5	10	46,259
22	20	46%	4.4%	0.0%	3.5	6	44,760
Adjustment for changes in assumptions in respect of vesting conditions							–
Total charge for the year (2007: £197,869)							91,019
Total equity-settled share-based payment charge (2007: £278,504)							247,338

Expected volatility has been based on the historical volatility of share price returns over one year to the date of grant of the options and warrants. Vesting requirements are one year and three years for the exercise of warrants and options respectively. The weighted average contracted life is 3.5 years both for share options and warrants.

17. Trade and other payables

	2008 £	2007 £
Trade payables	**151,511**	207,615
Deferred income	**123,740**	111,219
Other payables	**38,461**	27,613
Accruals	**124,986**	66,094
	438,698	412,541

Notes forming part of the Financial Statements continued

18. Operating lease commitments

	2008 £	2007 £
Non-cancellable operating leases are as follows:		
Within one year	42,846	–
Between one and two years	–	49,134
	42,846	49,134

19. Risk and sensitivity analysis

The Company is exposed through its operations to one or more of the following financial risks:

Liquidity risk

The liquidity risk of the Company is managed centrally. New borrowings are taken on where additional funds are required. Surplus funds not allocated to future investment and working capital requirements are used to repay existing loans and borrowings or are held on deposit. The Company intends to maintain a balance of funding designed to reduce liquidity risks whilst also seeking to minimise the costs of borrowing. Where appropriate the Board will seek additional funds from the issue of share capital and warrants.

Market operational risks

The value of the Company is dependent on successful commercialisation of its alkaline fuel cell technology. There is no guarantee this objective will be achieved. This could be due to unforeseen issues with the technical programme, or problems arising from scaling up the manufacture process. In addition, new technology, changing commercial circumstances and new entrants to the market in which the Company operates may adversely affect the Company's value.

Credit risk

The Company's principal financial assets are cash. All financial assets are held with recognised financial institutions.

20. Capital commitments

The Company had no capital commitments outstanding at 31 October 2008.

21. Board changes and post-balance sheet events

On 10 April 2008, Mitchell Field was appointed as a Non-Executive Director. On 13 October 2008 Gerard Sauer resigned as Chief Executive Officer and after the year end was paid £79,595 in full and final settlement of all contractual entitlements. On 31 October 2008 Brian Wilson resigned as a Non-Executive Director. On 30 January 2009, Terry Walsh was appointed as Commercial Director. On the same day, Otto Carlisle left the Company and ceased to be a Director.

22. Related-party transactions

During the year ended 31 October 2008, £86,160 (plus VAT) was invoiced by FD Solutions, the trading name of DFM Limited (a company registered in England & Wales) for services including Simon Walters as a Director of AFC Energy plc (2007: £26,794). Mr Walters is also a Director and shareholder of DFM Limited. At 31 October 2008, the sum owing to DFM Limited was £14,432 (2007: £7,356).

During the year ended 31 October 2008, £11,368 was invoiced by Ben Sauer, son of Gerard Sauer, for website design and maintenance services (2007: £7,340). The sums were billed at arms-length commercial rates. At 31 October 2008, the sum owing to Mr Sauer was nil (2007: £60).

Directors, Company Secretary and Advisers

Directors
Tim Yeo MP
Simon Walters
Dr Michael Mangan
Harry Epstein
Mitchell Field
Terry Walsh

Secretary
Roger Powley

Registered office
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Registrars
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AFC ENERGY plc

Notice of Annual General Meeting

Registered in England and Wales No. 05668788

Notice is hereby given to all members that the ANNUAL GENERAL MEETING of the above-named Company will be held at Finsgate, 5-7 Cranwood Street, London, EC1V 9EE on Thursday 16 April 2009 at 2pm for the following reasons:

ORDINARY BUSINESS

To consider and if thought fit, adopt the following resolutions as ordinary resolutions:

1. To receive and approve the financial statements for the year ended 31 October 2008 with the reports of the Directors and Auditors thereon.

2. To re-appoint Jeffreys Henry LLP as Auditors to hold office from the conclusion of the meeting to the conclusion of the next meeting at which Financial Statements are laid before the Company at a remuneration to be determined by the Directors.

3. To re-elect Tim Yeo as a Director.

4. To re-elect Simon Walters as a Director.

5. To re-elect Terry Walsh as a Director.

SPECIAL BUSINESS

To consider and if thought fit, adopt the following resolution as an ordinary resolution:

6. That, subject to and in accordance with Article 16 of the Company's Articles of Association, in substitution for all existing authorities, to the extent unused, the Directors shall have general and unconditional authority for the purpose of section 80 of the Companies Act 1985 (as amended) (the Act) to exercise all powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) of the Company up to a maximum nominal amount of £50,000 provided that such authorities shall expire on 16 April 2010 unless previously renewed, varied or revoked by the Company in General Meeting and the Directors shall be entitled under the authority hereby conferred or under any renewal thereof to make at any time prior to the expiry of such authority any offer or agreement, which would or might require securities as a foresaid to be allotted after the expiry of such authority.

To consider and if thought fit, adopt the following resolution as a special resolution:

7. That subject to and conditional upon the passing of resolution 6 and in accordance with Article 17 of the Companies Articles of Association, the Directors shall be and are hereby empowered pursuant to section 95 of the Companies Act 1985 (the Act) to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority given in accordance with section 80 of the act by Resolution 6 and/or allot equity securities were such allotment constitutes an allotment of securities by virtue of section 94(3A) of the Act as if section 89(1) of the Act did not apply thereto provided that this authority shall be limited to allotments of equity securities and the sale of treasury shares:

    i) in connection with or pursuant to an offer by way of rights, open offer or other pre-emptive offer to the holder of shares in the Company and other persons entitled to participate therein in proportion (as nearly as practicable) to their respective holdings, subject to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of any territory or the regulations or requirements of any regulatory authority or any stock exchange in any territory;

Notice of Annual General Meeting continued

ii) otherwise than pursuant to sub-paragraph (i) above, up to an aggregate nominal amount of £50,000, and such powers shall expire on the conclusion of the Annual General Meeting of the Company to be held in 2010 or on 16 April 2010, whichever is earlier, but so that the Company may before such expiry make an offer of agreement which would or might require equity securities to be allotted or treasury shares to be sold after such expiry, and the Directors may allot equity securities or sell treasury shares in pursuance of such offer or agreement as if the power conferred by this resolution had not expired.

By Order of the Board

Roger Powley

16 March 2009

AFC ENERGY plc – FORM OF PROXY

Registered in England and Wales No. 05668788

For use at the Annual General Meeting to be held on 16 April 2009

(PLEASE PRINT YOUR NAME AND ADDRESS IN FULL IN BLOCK CAPITALS)

I/We

Of

Hereby appoint the Chairman of the meeting*

*If you wish to appoint someone other than the Chairman as your proxy, please delete these words and insert desired name.

To act as my/our proxy to vote on my/our behalf upon any matter proposed at the Annual General Meeting of the Company to be held on 16 April 2009 and at any adjournment thereof, in such manner as my/our proxy shall think proper, and if expedient to demand a poll. I/We request such proxy to vote on the following resolutions as indicated below:

☐ Please tick here if this proxy appointment is one of multiple proxies being made (and refer to note 5 below)

ANNUAL GENERAL MEETING		Against	For	Vote withheld
Resolution 1	To receive and approve the financial statements			
Resolution 2	To re-appoint the Auditors			
Resolution 3	To re-elect Tim Yeo as a Director			
Resolution 4	To re-elect Simon Walters as a Director			
Resolution 5	To re-elect Terry Walsh as a Director			
Resolution 6	To authorise the Directors to allot relevant securities to pursuant to section 80 of the Companies Act 1985 (as amended)			
Resolution 7	To approve the allotment of equity securities as if section 89(1) of the Companies Act 1985 (as amended) did not apply to such allotment			

Signature	Date	Number of shares (see notes)

NOTES:

1. To be valid, this form must be signed and received at the offices of the Registrars of the Company not less than 48 hours (excluding any part of the day which is a non-working day) before the time appointed for holding the meeting. In the case of joint holders, any one holder may sign. If both joint holders sign conflicting proxies, the wishes of the holder first named on the register will be accepted.
2. A proxy need not be a member of the Company.
3. If the form of proxy is signed on behalf of a shareholder, the copy of the relevant authority of the signatory to act should also be forwarded to the Registrars. In the case of a corporation, the form must be under seal or under hand of a duly authorised officer.
4. Completion and return of this form of proxy does not prevent a shareholder from attending the meeting and voting in person in which case any votes cast by the proxy will be excluded.
5. If any other proxy is preferred, delete the words the Chairman of the Meeting, insert the full name of the proxy or proxies you wish to appoint and initial the alteration. If you are appointing more than one proxy you must indicate the number of shares in respect of which you are making this appointment, you should include the number in the box provided for your first named proxy and either obtain (an) additional proxy form(s) from the registrars (0870 707 1302) or you may photocopy this form. Please return all the forms together and tick the box to indicate each form is one of multiple instructions being given. Please take care when completing the number of shares; if the total number of shares exceeds the total held by the member, all appointments may be invalid.
6. The vote withheld option is provided to enable you to abstain on any particular resolution. However, it should be noted that a vote withheld is not a vote in law and will not be counted in the calculation the proportion of votes For and Against a resolution.
7. Any alteration made in the form of proxy should be initialled.

Third Fold

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