



Financial statements Acal Energy Limited

For the year ended 31 March 2009

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Company No 5209861

Company information

Company registration number	5209861
Registered office	c/o Grant Thornton UK LLP Royal Liver Building Liverpool Merseyside L3 1PS
Directors	A M Creeth R Pettigrew J Wilkie D Fyfe SB Cha
Secretary	A Lyne
Solicitors	Pannone 123 Deansgate Manchester M3 2BU
Auditor	Grant Thornton UK LLP Chartered Accountants Registered Auditors Royal Liver Building Liverpool Merseyside L3 1PS

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Chairman's statement

2008 has seen ACAL Energy Limited (ACAL) make great strides in its core mission of developing and commercialising new electronic catalysts and mediators for the clean energy sector. During the year, FlowCath®, ACAL's propriety chemical and mechanical system for low cost Proton Exchange Membrane (PEM) fuel cells, continues to develop rapidly. We believe that FlowCath® technology will transform the PEM fuel cell market and enable it to become a major segment within the global energy generation market. Our strategy will ensure that ACAL will achieve a strong position in this new market and generate excellent returns for our investors.

With the completion of the latest fund raising in December 2008, the company has sufficient resource to develop the technology and introduce first fuel cell products as planned. This is even more of an achievement given the prevailing economic climate and is testament to the great potential of the technology and the business. Likewise, the company was delighted to secure grant funding from the Carbon Trust Innovation team and from the Technology Strategy Board (TSB) to accelerate commercialisation of the technology. Both grants were won on a competitive basis and confirm the company's commitment to leverage public funding resources to support investor's funds, in challenging times.

This past year has seen the FlowCath® technology rapidly mature from the early proof of concept stage to practical demonstration. We have established that the technology can match the performance of conventional PEM fuel cells but at a cost that will ultimately rival that of incumbent engine-based electrical generators. Underpinning this progress has been the leadership of the executive management team who has recruited key technical, commercial and administrative staff and built an organization to support the next stage of growth of the company.

Looking forward, ACAL will continue to execute its business strategy and take the necessary steps to introduce a first commercial product by the end of 2010, including building the associated commercial relationships necessary to complete its route to revenue and profitability as soon as possible.



Robert Pettigrew
Non Executive Chairman
14 May 2009

Report of the directors

The directors present their report and the financial statements of the company for the year ended 31 March 2009.

Principal activities and Chief Executive Officer's review

The company's principal activity in operating as a general commercial company is to engage in the research and development, and creation of the associated intellectual property of a novel cathode technology for membrane based fuel cells.

Business review

2008 has been a very important year for ACAL. The company has taken several important steps in developing and commercialising new electronic catalysts and mediators for the clean energy sector. FlowCath®, a chemical and mechanical system targeted to PEM fuel cells, promises to deliver substantial cost savings and reliability improvements to PEM fuel cells and enable fuel cells to compete directly against engine generators and penetrate the mainstream energy generation markets.

While 2008 saw some significant progress in PEM fuel cell system sales, particularly into small scale stationary power (1-10kW), applications where user benefits such as clean emissions, low noise and fuel efficiency can offset the overall high cost of the technology, the market for all fuel cell products remains at an early stage. Until costs fall and reliability improves to levels that match engine-based electricity generators, it is likely that the market for fuel cells will remain a small niche at best. For this reason, FlowCath® has a uniquely promising opportunity in the fuel cell market.

The company's prime focus in 2008 has been to deliver the technical developments necessary to shift from proof of concept to practical demonstration of the FlowCath® technology. A major milestone was delivered at the end of 2008 when a FlowCath® system produced, and subsequently exceeded, peak power at the key level of 600mW/cm². This shows that the ACAL technology can match or exceed conventional PEM performance but with the potential for massively lower cost and better long-term performance. The other major technical milestone delivered this year was the construction and demonstration of a fully integrated FlowCath® fuel cell unit capable of generating 60W power, which is well above its original design specification.

The year saw the company's headcount growing from 7 at the start to 21 employees at the end of the year. These recruits have enabled increased technical capability particularly in chemicals development. To accommodate the expanding team, new facilities were invested in and leased at The Heath, which provides dedicated chemistry and engineering research laboratories alongside an open plan office space.

It is worth highlighting the development of ACAL's Intellectual Property portfolio over the course of the year. The first patent grant was issued to ACAL in 2008 and at the financial year-end, ACAL had 11 patents in application and a further 30 invention disclosures awaiting filing. The innovative nature of the technology continues to provide ample opportunities for new patents and given the unique value created by intellectual property, filings will continue to be aggressively supported.

Finance report

In the year, ACAL raised new investment from existing institutional investors and new strategic investors. The proceeds of the investment allowed ACAL to make significant additions in fixed assets in the year, including investments in capital equipment and building infrastructure, which are essential to achieve future technical targets. It is anticipated that this investment in capital equipment will continue into the next year.

Finance report (continued)

The net loss for the year is £1.61m (2007/08 £1.04m). The increased loss over 2007/08 is a result of the significant growth in development activity during the year. At the year-end, the cash balance was £2.27M (2007/08 £0.4m) which was higher than forecast. Management recognizes that cash has been invested in ACAL to enable the company to meet technical and business milestones and any unused cash surpluses are invested prudently. At the year-end, cash deposits totaled £2.1M on short term cash deposit with several UK banks judged by the Board of Directors to be the most appropriate given the current high level of financial risk.

Future strategy

ACAL's FlowCath® technology is unique and no competing PEM fuel cell technology can currently offer the same level of cost reduction and reliability enhancement. The Company is building a very strong intellectual property position that will enable it to sustain this competitive advantage well into the future, not only for fuel cells but the broader clean energy sector.

To commercialize FlowCath®, ACAL is developing consumable chemicals and fuel cell modules for a range of uses including stationary, residential and automotive applications requiring larger than 1 kW of power. The short-term strategy for FlowCath® is to continue the rapid technical development of its core technology primarily by improving the chemical systems so that they will exceed the performance of conventional systems, to incorporate FlowCath® into a 1kW demonstration system, and continue the development of the commercial and administrative functions to support this activity. Longer term, ACAL will enter into manufacturing partnerships to produce both FlowCath® fuel cell modules and consumable chemicals and will supply these to system OEMs.

2009 will see the achievement of several important milestones as ACAL executes its business strategy.

Directors

The directors who served the company during the year were as follows:

A M Creeth
A Lyne
R Pettigrew
J Wilkie
D Fyfe
T Swainbank
SB Cha
D Dajie

A Lyne retired as a director on 19 November 2008.
T Swainbank retired as a director on 19 November 2008.
D Dajie retired as a director on 19 November 2008.

Share option scheme

Details of share options are shown at note 10. Options have been granted to the following directors:

Andrew Creeth	- 1,300 ordinary shares granted on 1 August 2008 at an exercise price of £6
David Fyfe	- 1,250 ordinary shares granted on 1 August 2007 at an exercise price of £6
SB Cha	- 12,100 ordinary shares granted on 1 August 2007 at an exercise price of £6
Robert Pettigrew	- 5,000 ordinary shares granted on 1 August 2007 at an exercise price of £6
James Wilkie	- 1,250 ordinary shares granted on 1 August 2007 at an exercise price of £6

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- 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 that 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.

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

A resolution to re-appoint Grant Thornton UK LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

Small company provisions

This report has been prepared in accordance with the special provisions for small companies under Part VII of the Companies Act 1985.

ON BEHALF OF THE BOARD



SB Cha
Chief Executive Officer - Director

14 May 2009



Report of the independent auditor to the members of Acal Energy Limited

We have audited the financial statements of Acal Energy Limited for the year ended 31 March 2009 which comprise the principal accounting policies, profit and loss account, balance sheet and notes 1 to 17. These financial statements have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007), 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. The information given in the Report of the Directors includes that specific information presented in the Chairman's statement that is cross referred from the Business Review section of the Report of the Directors.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement and the Report of the Directors. 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 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 judgements 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.

Report of the independent auditor to the members of Acal Energy Limited (continued)

Basis of opinion (continued)

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 United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities, of the state of the company's affairs as at 31 March 2009 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 Report of the Directors is consistent with the financial statements.

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
LIVERPOOL

14 March 2009

Principal accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007).

Basis of preparation - going concern

The directors have prepared cashflow forecasts for the period to March 2011, are confident the company has sufficient funds for its research activities for the foreseeable future and the going concern basis of preparation for these financial statements is appropriate.

Research and development

Research and development expenditure is written off in the year in which it is incurred, and shown in cost of sales.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Plant and machinery	-	20% straight line
Equipment (IT)	-	33% straight line

Assets under construction are not depreciated until they are put into use.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Financial instruments (continued)

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Deferred government grants

Government grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to the income statement by equal annual instalments over the expected useful lives of the relevant assets.

Government grants/assistance of a revenue nature are credited to the income statement in the same period as the related expenditure.

Certain grants are receivable based on the achievement of specific research milestones as determined by the grant-making body.

Profit and loss account

	Note	2009 £	2008 £
Turnover		–	–
Cost of sales		<u>1,223,345</u>	<u>793,084</u>
Gross loss		(1,223,345)	(793,084)
Other operating charges	1	441,286	269,755
Other operating income	2	(164,425)	–
Operating loss	3	<u>(1,500,206)</u>	<u>(1,062,839)</u>
Interest receivable		31,509	30,662
Interest payable and similar charges	5	(239,578)	(100,029)
Loss on ordinary activities before taxation		<u>(1,708,275)</u>	<u>(1,132,206)</u>
Tax on loss on ordinary activities		(100,013)	(90,916)
Loss for the financial year	16	<u>(1,608,262)</u>	<u>(1,041,290)</u>

The accompanying accounting policies and notes form part of these financial statements.

Balance sheet

	Note	2009 £	2008 £
Fixed assets			
Tangible assets	6	<u>174,186</u>	<u>86,762</u>
Current assets			
Debtors	7	343,186	163,160
Cash at bank		<u>2,278,851</u>	<u>402,140</u>
		2,622,037	565,300
Creditors: amounts falling due within one year	8	<u>323,005</u>	<u>172,472</u>
Net current assets		<u>2,299,032</u>	<u>392,828</u>
Total assets less current liabilities		<u>2,473,218</u>	<u>479,590</u>
Creditors: amounts falling due after more than one year	9	<u>328,223</u>	<u>107,656</u>
		<u>2,144,995</u>	<u>371,934</u>
Government grants	11	<u>1,502</u>	<u>-</u>
		<u>2,143,493</u>	<u>371,934</u>
Capital and reserves			
Called-up share capital	14	374,995	372,250
Share premium account	15	4,947,550	1,570,474
Profit and loss account	16	(3,179,052)	(1,570,790)
Shareholders' funds		<u>2,143,493</u>	<u>371,934</u>

These financial statements have been prepared in accordance with the special provisions for small companies under Part VII of the Companies Act 1985 and with the Financial Reporting Standard for Smaller Entities (effective January 2007).

These financial statements were approved by the directors and authorised for issue on 14 May 2009, and are signed on their behalf by:



R Pettigrew
Director

Notes to the financial statements

1 Other operating charges

	2009 £	2008 £
Administrative expenses	<u>441,286</u>	<u>269,755</u>

2 Other operating income

	2009 £	2008 £
Other operating income - grant income receivable	160,149	-
Other operating income	<u>4,276</u>	<u>-</u>
	<u>164,425</u>	<u>-</u>

3 Operating loss

Operating loss is stated after charging/(crediting):

	2009 £	2008 £
Staff pension contributions	13,315	8,995
Depreciation of owned fixed assets	34,409	16,986
Auditor's fees	6,730	5,745
Net profit on foreign currency translation	<u>(1,992)</u>	<u>(321)</u>

4 Directors

Remuneration in respect of directors was as follows:

	2009 £	2008 £
Emoluments	334,427	235,422
Value of company pension contributions to money purchase schemes	<u>10,918</u>	<u>8,695</u>
	<u>345,345</u>	<u>244,117</u>

5 Interest payable and similar charges

	2009 £	2008 £
Other interest and similar charges	<u>239,578</u>	<u>100,029</u>

6 Tangible fixed assets

	Plant and machinery £	IT equipment £	Assets under construction £	Total £
Cost				
At 1 April 2008	122,296	-	-	122,296
Additions	66,168	19,497	36,168	121,833
At 31 March 2009	<u>188,464</u>	<u>19,497</u>	<u>36,168</u>	<u>244,129</u>
Depreciation				
At 1 April 2008	35,535	(1)	-	35,534
Charge for the year	26,911	7,498	-	34,409
At 31 March 2009	<u>62,446</u>	<u>7,497</u>	<u>-</u>	<u>69,943</u>
Net book value				
At 31 March 2009	<u>126,018</u>	<u>12,000</u>	<u>36,168</u>	<u>174,186</u>
At 31 March 2008	<u>86,761</u>	<u>1</u>	<u>-</u>	<u>86,762</u>

7 Debtors

	2009 £	2008 £
Corporation tax repayable	101,098	123,410
Other debtors	242,088	39,750
	<u>343,186</u>	<u>163,160</u>

8 Creditors: amounts falling due within one year

	2009 £	2008 £
Operating creditors	208,747	100,608
Other taxation and social security	29,585	6,818
Other creditors	84,673	65,046
	<u>323,005</u>	<u>172,472</u>

9 Creditors: amounts falling due after more than one year

	2009	2008
	£	£
Dividends payable	<u>328,223</u>	<u>107,656</u>

The company has a cumulative liability of £235,655 included in other creditors, in respect of a fixed dividend payable to its "A" ordinary shareholders and £92,568 in respect of a fixed dividend payable to its "B" ordinary shareholders. The dividends are payable on the earlier of any Exit Event (sale of the company or listing), conversion of "A" and "B" ordinary shares in accordance with the Company's Memorandum of Association, or the fifth anniversary of the date of adoption of the company's Articles of Association, which was 19 November 2008.

The liability is summarised:

A ordinary shares	- 31 March 2008	£107,656
A ordinary shares	- 31 March 2009	£127,999
B ordinary shares	- 31 March 2009	£92,568

Provision has been made in these accounts for the dividend although it will not be payable as the company has no profits available for distribution and is thereby prohibited from paying dividends by the Companies Act.

10 Share-based payments

Equity-settled share-based payments

Expiry date	Exercise price	2009	2008
	£	No	No
Tenth anniversary	1.23	800	800
Fifth anniversary	12.00	2,000	2,000
Tenth anniversary	6.00	22,600	22,600
Undated	6.00	1,800	1,800
		<u>27,200</u>	<u>27,200</u>

11 Government grants

	2009	2008
	£	£
Received and receivable:		
Receivable during year	<u>1,502</u>	-
At 31 March 2009	<u>1,502</u>	-
Amortisation:		
At 31 March 2009	<u>-</u>	<u>-</u>
Net balance at 31 March 2009	<u>1,502</u>	-

12 Leasing commitments

At 31 March 2009 the company had aggregate annual commitments under non-cancellable operating leases as set out below.

	2009 £	2008 £
Operating leases which expire:		
Within 1 year	72,890	-
Within 2 to 5 years	1,424	-
	<u>74,314</u>	<u>-</u>

13 Contingent assets/ liabilities

The directors have confirmed that there were no contingent assets/liabilities that should be disclosed at either 31 March 2009 or 31 March 2008. The company receives grants which are subject to certain conditions, which if not complied with during the grant period may result in an amount repayable to the relevant grant making body.

14 Related party transactions

No transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standard 8.

15 Share capital

Authorised share capital:

	2009 £	2008 £
201,451 Ordinary shares of £0.01 each	2,015	1,193
133,332 A ordinary shares of £0.01 each	1,333	1,333
37,000,000 Deferred shares of £0.01 each	370,000	370,000
337,488 B Ordinary shares of £0.01 each	3,375	-
	<u>376,723</u>	<u>372,526</u>

Allotted, called up and fully paid:

	2009		2008	
	No	£	No	£
Ordinary shares of £0.01 each	91,665	917	91,665	917
A ordinary shares of £0.01 each	133,332	1,333	133,332	1,333
Deferred shares of £0.01 each	37,000,000	370,000	37,000,000	370,000
B Ordinary shares of £0.01 each	274,559	2,745	-	-
	<u>37,499,556</u>	<u>374,995</u>	<u>37,224,997</u>	<u>372,250</u>

15 Share capital (continued)

During the year the company's authorised share capital was increased by the issue of new Articles of Association which were approved by a special board resolution on 19 November 2008.

Authorised ordinary shares of £0.01 each was increased by 82,185 shares

Authorised "B" ordinary shares of £0.01 each was increased by 337,488 shares

During the year shares were issued as follows:

"B" ordinary shares of £0.01 each

220,992 shares with an issue value of £14 each and consideration received of £3,093,874.

53,567 shares with an issue value of £9.80 each and consideration received of £525,011.

Premium on issue amounted to £3,377,076.

Deal expenses of £249,041 have been charged against share premium.

16 Share premium account

	2009 £	2008 £
Balance brought forward	1,570,474	1,158,590
Premium on shares issued in the year	3,377,076	411,884
Balance carried forward	<u>4,947,550</u>	<u>1,570,474</u>

17 Profit and loss account

	2009 £	2008 £
Balance brought forward	(1,570,790)	(529,500)
Loss for the financial year	(1,608,262)	(1,041,290)
Balance carried forward	<u>(3,179,052)</u>	<u>(1,570,790)</u>

18 Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £45,000 (2008 - £30,000).