Abbreviated Accounts
Acal Energy Limited

For the year ended 31 March 2014

Registered number: 05209861

Abbreviated Accounts

Company Information

Directors	A M Creeth R M Pettigrew A Nevinskiy D Fyfe T Piret J B McCormick (resigned 10 February 2014) M J Baunton G McCray (resigned 31 January 2014) J Dunne (appointed 10 March 2014) J Bryers (appointed 22 July 2014)
Company secretary	J Dunne
Registered number	05209861
Registered office	Grant Thornton UK LLP Royal Liver Building Liverpool L3 1PS
Independent auditor	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor Royal Liver Building Liverpool L3 1PS
Bankers	Royal Bank of Scotland Plc 1 Dale Street Liverpool L2 2PP The Co-operative Bank The Plaza 100 Old Hall Street Liverpool L3 9QJ
Solicitors	Taylor Wessing LLP 24 Hills Road Cambridge CB2 1JP

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Chairman's Statement

For the year ended 31 March 2014

2013 has seen ACAL Energy continuing to expedite its progress towards the application of its unique chemistry based technology FlowCath® for the clean energy sector with the achievement of further ground-breaking technical and commercial milestones.

In addition to the technical improvements and consolidation of commercial progress, the Company has recruited a new interim CEO and secured internal bridge funding whilst progressing its external "commercialisation" round.

Following the in-depth business model review undertaken in the previous year, which concluded with the decision to pursue a licensing model while maintaining the revenue stream of selling the FlowCath® catalyst solution, the Company has focused in this year on strengthening and beginning the implementation of this model. The model allows customers and partners to pay to license the technical architecture from ACAL Energy while they also purchase the required chemical solution from the Company via ACAL Energy's contracted chemical manufacturers. This model also results in less money required for capital while allowing the Company to reach profitability/cash flow positive earlier. While the ACAL Energy FlowCath® technology, which includes the chemical solution and mechanical system, is capable of providing power for almost any application using the same core design, the Company is targeting the automobile and stationary markets initially and has made progress with customers in these areas. Achieving the performance, durability, size and cost targets of these industries demonstrates the application of FlowCath® into most other industries.

The strategic and operational management of the Company has been significantly strengthened by the appointment of David Pummell as Interim CEO in November 2013. Mr Pummell was recruited to replace the previous CEO, Greg McCray, who left the Company in October 2013 due to a family illness which meant that he needed to be based at his home in the US.

Before joining ACAL Energy, Mr Pummell had worked for fuel cell Company, Ceres Power Group Plc as CEO. He joined Ceres at a critical point following the failure of a key commercial relationship and he was responsible for changing the business strategy which resulted in financing for the business being secured. Prior to his time at Ceres Power, he led MAPS Technology Limited, as CEO, through the technology development process to a successful trade sale. Mr Pummell previously spent over 20 years at British Petroleum (BP) holding a number of posts at Director level across the business. He joined BP as a graduate Chemical Engineer. He brings extensive experience and leadership in commercialisation, fund raising, organisational structuring, licensing and exit execution.

In the challenging economic climate for investment in early stage ventures the Company has found it difficult to secure financing to support full commercialisation. However, positive progress has been made and the Company is continuing to progress this financing round with a number of investors showing interest as the Company continues to make strong commercial and technical progress. We anticipate that a round will be completed in the new financial year.

To bridge the funding gap since July 2013, the Company has been supported by a number of existing shareholders through two convertible loans completed in July and December 2013. In March 2014, the Carbon Trust placed a further £1M convertible loan with the Company which will be available for participation in the upcoming commercialisation financing round. The convertible loan which they placed in March 2013 has been used to fund their participation in the 2013 convertible loans.

There were a number of changes to the Board in the year. Greg McCray stepped down from the Board in January 2014, following a period of handover as a Non-Executive Director. Byron McCormick stepped down from the Board as the Non-Executive Director representing the Carbon Trust in February 2014. We thank both Mr McCray and Mr McCormick for their contribution during their time with the business.

I stepped down as Chairman in June 2014 and am pleased to wish my successor, David Fyfe, all the best as he supports the Company in the next phase of its development. I will remain on the Board as a Non-Executive Director.

Chairman's Statement
For the year ended 31 March 2014

Going forward, ACAL Energy will aggressively contract with and complete projects with customers that will lead to licensing arrangements and demonstrate that FlowCath® technology will transform the PEM fuel cell market and enable it to become a major segment within the global energy generation market.

Name R M Pettigrew
Non Executive Chairman (retired)

Date 30 July 2014

Independent Auditor's Report to Acal Energy Limited

Under section 449 of the Companies Act 2006

We have examined the abbreviated accounts, which comprise the Balance sheet and the related notes, together with the financial statements of Acal Energy Limited for the year ended 31 March 2014 prepared under section 396 of the Companies Act 2006.

This report is made solely to the company in accordance with section 449 of the Companies Act 2006. Our work has been undertaken so that we might state to the company those matters we are required to state to it in a special 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, for our work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the abbreviated accounts in accordance with section 444 of the Companies Act 2006. It is our responsibility to form an independent opinion as to whether the company is entitled to deliver abbreviated accounts to the Registrar of Companies and whether the abbreviated accounts have been properly prepared in accordance with the regulations made under that section and to report our opinion to you.

We conducted our work in accordance with Bulletin 2008/4 issued by the Auditing Practices Board. In accordance with that Bulletin we have carried out the procedures we consider necessary to confirm, by reference to the financial statements, that the company is entitled to deliver abbreviated accounts and that the abbreviated accounts are properly prepared.

Opinion on financial statements

In our opinion the company is entitled to deliver abbreviated accounts prepared in accordance with section 444(3) of the Companies Act 2006, and the abbreviated accounts which comprise the Balance sheet and the related notes have been properly prepared in accordance with the regulations made under that section.

Grant Thornton UK LLP

Kevin Engel (Senior statutory auditor)

for and on behalf of
Grant Thornton UK LLP

Chartered Accountants
Statutory Auditor

Liverpool
Date: 30 July 2014

Abbreviated Balance Sheet
As at 31 March 2014

	Note	£	2014 £	£	2013 £
Fixed assets					
Tangible assets	2		**590,235**		771,540
Investments	3		**76**		76
			590,311		771,616
Current assets					
Debtors		**682,654**		778,499	
Cash at bank		**1,813,860**		1,889,507	
		2,496,514		2,668,006	
Creditors: amounts falling due within one year	4	**(3,093,626)**		(595,490)	
Net current (liabilities)/assets			**(597,112)**		2,072,516
Total assets less current liabilities			**(6,801)**		2,844,132
Creditors: amounts falling due after more than one year	5		**3,243,943**		2,543,884
Capital and reserves					
Called up share capital	8	**381,743**		381,197	
Share premium account		**14,009,914**		14,009,914	
Ordinary shares equity adjustments	, 22	**(1,175,686)**		(1,175,686)	
Profit and loss account		**(16,466,715)**		(12,915,177)	
			(3,250,744)		300,248
			(6,801)		2,844,132

The abbreviated accounts, which have been prepared in accordance with the special provisions relating to companies subject to the small companies regime within Part 15 of the Companies Act 2006, were approved and authorised for issue by the board and were signed on its behalf on 30 July 2014

R. Pettigrew.

R M Pettigrew
Director

The notes on pages 5 to 13 form part of these financial statements.

Notes to the Abbreviated Accounts

For the year ended 31 March 2014

1. Accounting Policies

1.1 Basis of preparation of financial statements

The full financial statements, from which these abbreviated accounts have been extracted, have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008).

1.2 Basis of preparation - going concern

These financial statements have been prepared on a going concern basis which assumes the company will be able to pay its debts as they fall due for a period of at least 12 months from the approval of these financial statements. This assumption is supported by a number of cash flow forecasts prepared for the period to July 2015 and beyond, which sensitise the future funding requirements of the company based on a number of scenarios.

At the date of approving these accounts, the cash flow forecast prepared by management demonstrates the company will need further funding income from external sources from December 2014 to pay its debts as they fall due. The directors are in discussions with potential new investors in respect of a "commercialisation" funding round to raise sufficient funds for the cmpany to complete the current customer projects underway that will lead to licensing contracts. However, given the risk that the business will be unable to pay its debts as they fall due from December 2014 in the event this funding is not forthcoming, the directors have been in discussions with three existing investors who have indicated through a letter of intent that they will continue to support the company and provide additional funding of up to £0.5M if required. In addition, the three existing investors have indicated their intention not to exercise their right to repayment of the loan notes that are detailed in note 14 on the exercise daate in February 2015 or within 12 months from the date of approval of these financial statements. The additional funding offered will allow the business to continue trading and paying its debts as they fall due until July 2015 albeit on the basis of reduced expenditure and activity.

While discussions with potential new investors remain ongoing, the directors secured additional funding from existing investors in the form of convertible loans of £820k in June 2014. A further convertible loan facility of £540K is in place to provide funding from September 2014 to December 2014, should funding from external sources not be secured by then. Under this plan the directors will closely manage the cash burn to an agreed financial plan but the support of existing shareholders of up to £0.5m would still be required to continue trading as a going concern.

The directors are also confident that the company will continue to fulfil the conditions required to satisfy its continuing eligibility for grant funding from various sources throughout the period.

Whilst there is no certainty concerning the achievement of further funding, based on the above the directors are satisfied the company can continue to pay its debts as they fall due. Therefore the going concern basis of preparation of these financial statements remains appropriate.

1.3 Consolidation

In the opinion of the directors, the company and its subsidiary undertakings comprise a small group. The company has therefore taken advantage of the exemption provided by Section 398 of the Companies Act 2006 not to prepare group accounts.

The financial statements present information about the company only and not other members of the group.

Notes to the Abbreviated Accounts
For the year ended 31 March 2014

1. Accounting Policies (continued)

1.4 Turnover

Turnover comprises revenue recognised by the company in respect of goods and services supplied during the year, exclusive of Value Added Tax and trade discounts. Revenue is recognised at the point the goods and services are supplied to the customer.

1.5 Research and development

Research and development expenditure including patent costs is written off in the year in which it is incurred.

1.6 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Leasehold improvements	-	3 years straight line
Plant & machinery	-	20% straight line
Equipment	-	33% straight line

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

1.7 Operating leases

Rentals under operating leases are charged to the Profit and loss account on a straight line basis over the lease term.

Notes to the Abbreviated Accounts
For the year ended 31 March 2014

1. Accounting Policies (continued)

1.8 Pensions

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year.

1.9 Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

1.10 Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the Profit and loss account.

Notes to the Abbreviated Accounts

For the year ended 31 March 2014

1. Accounting Policies (continued)

1.11 Financial instruments

Classification as equity or financial liability

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions. In addition, contracts which result in the entity delivering a variable number of its own equity instruments are financial liabilities. Shares containing such obligations are classified as financial liabilities.

Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability. Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability.

An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Dividends and distributions relating to equity instruments are debited directly to reserves.

Compound instruments

Compound instruments comprise both a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar debt instrument. The liability component is accounted for as a financial liability.

The residual is the difference between the net proceeds of issue and the liability component (at time of issue). The residual is the equity component, which is accounted for as an equity instrument.

The interest expense on the liability component is calculated applying the effective interest rate for the liability component of the instrument. The difference between this amount and any repayments is added to the carrying amount of the liability in the balance sheet.

1.12 Investments

Investments held as fixed assets are shown at cost less provision for impairment.

Notes to the Abbreviated Accounts
For the year ended 31 March 2014

1. Accounting Policies (continued)

1.13 Deferred government grants

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

Government grants/assistance of a revenue nature are credited to the profit and loss account 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.

Notes to the Abbreviated Accounts

For the year ended 31 March 2014

2. Tangible fixed assets

	£
Cost	
At 1 April 2013	**1,356,625**
Additions	**66,216**
Transfer between classes	**-**
At 31 March 2014	**1,422,841**
Depreciation	
At 1 April 2013	**585,085**
Charge for the year	**247,521**
At 31 March 2014	**832,606**
Net book value	
At 31 March 2014	**590,235**
At 31 March 2013	771,540

3. Fixed asset investments

	£
Cost or valuation	
At 1 April 2013 and 31 March 2014	**76**
Net book value	
At 31 March 2014	**76**
At 31 March 2013	76

Subsidiary undertakings

At 31 March 2014 the company held more than 20% of the share capital of the following undertaking incorporated in Japan:

Name	Class of shares	Holding	Business	Capital & reserves £	Loss for the year £
ACAL Japan KK	Ordinary	100%	Dormant	(3,393)	-

4. Creditors: Amounts falling due within one year

Creditors: amounts falling due within one year include secured convertible loan notes amounting to £2,453,234 (2013: £Nil).

Notes to the Abbreviated Accounts

For the year ended 31 March 2014

5. Creditors:
Amounts falling due after more than one year

Creditors: amounts falling due after more than one year include secured convertible loan notes amounting to £1,000,000 (2013: £Nil).

6. Share-based payments

	Exercise price £	2014 No	2013 No
Tenth anniversary	1	400	400
Fifth anniversary	12	2,000	2,000
Tenth anniversary	6	1,700	1,700
Undated	6	1,800	1,800
Undated	14	9,330	9,330
Tenth anniversary	7	127,139	210,439
Eighth anniversary	-	11,661	66,256
	-	154,030	291,925

Share options have been granted to 28 employees including two executive directors under an EMI approved scheme. Further options have been granted to eleven non-executive directors and consultants under an unapproved scheme. In addition options/warrants have been granted to five other bodies. Grants have been made at various dates over the period 1 June 2006 to 28 February 2013. Options totalling 83,500 have lapsed in the year ended 31 March 2014 when the employees left the company. These include 47,964 granted to 4 employees under the EMI approved scheme, and 35,536 under the unapproved scheme.

Pursuant to the completion of the 2013 Investment Agreement on 31 July 2013, 4 1p Warrants for 'new' A ordinary shares were issued for each 10 'new' A ordinary shares purchased. In total 67,526 warrants were issued, of these 54,595 have been exercised in the year (2013: 1,270 exercised).

Notes to the Abbreviated Accounts

For the year ended 31 March 2014

7. Government grants

	2014	2013
	£	£
At 1 April 2013	**337,589**	306,739
Receivable during the year	**-**	30,850
At 31 March 2014	**337,589**	337,589
Amortisation:		
At 1 April 2013	**128,877**	62,902
Credit to the profit and loss account	**67,517**	65,975
At 31 March 2014	**196,394**	128,877
Net balance at 31 March 2014	**141,195**	208,712

8. Share capital

	2014	2013
	£	£
Shares classified as capital		
Authorised		
91,665 Ordinary share shares of £0.01 each	**916.65**	916.65
37,000,000 Deferred shares of £0.01 each	**370,000.00**	370,000.00
718,684 (2013 - 664,089) New A Ordinary shares of £0.01 each	**7,186.84**	6,640.89
363,922 Preferred Ordinary shares of £0.01 each	**3,639.22**	3,639.22
	381,743	381,197
Allotted, called up and fully paid		
91,665 Ordinary share shares of £0.01 each	**916.65**	916.65
37,000,000 Deferred shares of £0.01 each	**370,000.00**	370,000.00
718,678 (2013 - 664,089) New A Ordinary shares of £0.01 each	**7,186.78**	6,640.89
363,922 Preferred Ordinary shares of £0.01 each	**3,639.22**	3,639.22
	381,743	381,197

Notes to the Abbreviated Accounts

For the year ended 31 March 2014

8. Share capital (continued)

During the year 54,595 'new' A ordinary shares with an issue value of £0.01 each were issued following the exercise of warrants.

The A ordinary shareholders are entitled to a cumulative dividend of 8% from the respective date of issue, based on the total issue price of each share.

Conversion rights attach to the holders of A ordinary and Preferred ordinary shares for automatic conversion into fully paid ordinary shares immediately prior to and conditional upon a qualifying IPO at a rate determined in accordance with the Articles of Association.

The rights to a return of capital of the company on a liquidation or other return of capital (including a Total Sale) are that payment is made of liabilities and all dividends declared but unpaid, followed by repayment to the A ordinary, Preferred ordinary, ordinary and deferred shareholders (the latter an amount of £1 only) in that order, with any balance distributed to shareholders proportionate to the numbers of shares held, where all shares will be treated equally (excluding deferred shares).

In the event of a total sale to an existing shareholder, no payment is made to that shareholder as detailed above, and that acquiring shareholder is to be ignored in calculating payments in the order detailed above.

The holders of the deferred shares have no voting rights and the company may acquire the deferred shares at its discretion at any time for £1.

Subject to the above details, the rights attaching to the classes of shares are the same.