INVINITY
ENERGY SYSTEMS

ANNUAL REPORT AND FINANCIAL STATEMENTS 2020

Chairman's report

The adoption of net zero commitments by the world's largest economies, biggest companies and most influential organisations is leading to the increasingly rapid roll-out of renewable energy projects. This provides Invinity with an unprecedented opportunity to benefit from its strategic focus on stationary energy storage with its Vanadium Flow Battery ("VFB") product.

With the UN Climate Change Conference of Parties (COP26) scheduled for November this year in Glasgow, I have noted a distinctive uptick in urgency to practically address climate change, accelerating progress toward a future increasingly powered by low-carbon energy sources. Energy storage is the bridge to take power from clean, low-cost but fundamentally intermittent solar and wind energy to round-the-clock reliable power. It is becoming abundantly clear that there is a vast opportunity for energy storage manufacturers such as Invinity.

In my report last year, I noted that 2020 would be a transformational year for the group. I am accordingly pleased to report that Invinity has had a breakthrough first year, successfully completing the transatlantic merger, launching a new product under a new brand, and building an organisation capable of scaling up to meet the opportunity in front of us.

These steps were accomplished during the most challenging year in recent history. Successfully merging two companies on either side of the Atlantic, whilst servicing existing customers and launching a new product in a highly competitive space is a difficult task at the best of times, let alone during a global pandemic. COVID-19 has understandably had a disruptive effect on the group's activities, introducing additional challenges for the Invinity team, our customers, partners and suppliers.

However, I am delighted to report that despite COVID-19, the group made tremendous progress. In 2020, Invinity closed 18.6MWh of sales contracts which more than doubled the combined sales of redT and Avalon pre-merger. In addition, we successfully rolled out a new "best of both" product, the VS3, and ended the year with an oversubscribed £22.5m placing and open offer, before expenses. This fund raising is providing expansion capital to scale up the business in line with growing demand for our VFBs.

I would like to commend our executives for their leadership during the period and express my sincere thanks to, and respect for, the entire Invinity team for its unwavering dedication and enthusiasm in delivering the progress we have seen. I would also like to thank my Board colleagues for their support and contribution. Larry Zulch and Matt Harper joined the board from Avalon in the roles of Chief Executive Officer and Chief Commercial Officer, respectively, and have since been joined by Peter Dixon-Clarke in the role of Chief Financial Officer. I would also like to record my thanks to Fraser Welham who steered us through the merger before stepping down as Chief Financial Officer and from the Board in August 2020. We have also seen changes on the Non-Executive front and I am pleased to welcome Rajat Kohli who joined the Board in June 2020.

I am also extremely pleased to note the recent announcement of a Joint Development and Commercialisation Agreement with Gamesa Electric, a wholly owned subsidiary of Siemens Gamesa Renewable Energy ("SGRE"). This partnership with a global leader to develop a new grid-scale product represents important validation of our core technology, underscores the importance of our achievements to date and serves to highlight the magnitude of the commercial opportunity ahead for VFBs.

In closing, 2020 saw the successful creation of an effective and cohesive organisation with strong foundations on which to build a sustainable business. The period saw Invinity navigate the vast array of challenges presented by the COVID-19 pandemic and emerge stronger for doing so. 2021 has seen the business focus on delivering our projects, converting our growing pipeline of commercial interest into closed sales and scaling the business responsibly to generate long term value for our shareholders.

As the world looks to a sustainable future, Invinity's prospects look ever brighter. I look forward to another successful year in 2021.

Neil O'Brien
Chairman

30 June 2021

Chief Executive Officer's report

2020 was quite a year. For the group, it was the year that Invinity was formed with the objective to establish the commercial viability of vanadium flow batteries ("VFBs"). I'm pleased to report that the company has made important progress in that effort as I'll detail below.

Macro trends are supporting Invinity's prospects. The global transition to low-carbon energy sources is accelerating. Whether sun, wind, or tide, renewable energy production is fundamentally intermittent. That intermittency requires large-scale, long-duration, and durable energy storage to make energy available when it is needed, to make renewable energy 'dispatchable.' That's where Invinity comes in, with highly advanced products using proven VFB technology. Invinity's batteries have unique characteristics that strongly position our products within emerging segments of the stationary energy storage landscape.

Commercial: Growing market share with record-breaking sales

During 2020, Invinity's commercial group, led by Chief Commercial Officer Matt Harper, closed VFB sales totalling 18.6 MWh with customers in seven countries. In one year, our team sold VFBs with twice the capacity of the entire redT and Avalon historical fleets combined.

Not only do these sales demonstrate growing acceptance of our technology, many of them are also 'beachhead' projects with significant opportunities for follow-on sales. These projects were not confined to a single market segment. Some were in "grid services" (support of electric transmission and consumption), others in "renewable energy smoothing" (taming intermittency) and yet more in "commercial and industrial" (resilience and self-consumption of renewable energy).

Projects closed in 2020 include:

- 5 MWh Energy Superhub Oxford project, UK;
- 1.8 MWh Flow + Hydrogen + Tidal project, Orkney Islands, UK;
- 0.5 MWh California Energy Commission funded project, California, USA;
- 8 MWh Yadlamalka Energy solar-plus-storage power plant, South Australia; and
- 0.8 MWh Scottish Water treatment plant solar-plus-storage, Perth, UK.

I will discuss our organisation's progress towards the delivery of these projects in the Execution section of this report.

Our commercial group continues to focus on new opportunities, which have been abundant, especially in our core markets in California and the rest of the USA, UK and Australia. Major factors that are helping accelerate our commercial progress in 2021 include:

- widespread acceptance of the critical nature of energy storage in the transition to renewable energy-based economies;
- greater understanding of the limitations of lithium-based battery systems and emerging appreciation for VFB's strengths in high cycle and long duration applications
- storage-oriented, and particularly alternative-to-lithium-focused, competition and grant opportunities in the UK and USA; and
- favourable tax treatment and policy developments for 'renewables plus energy storage' projects across the globe as governments look to stimulate investment as part of their pandemic recovery strategies.

Our commercial group has observed that the average project value we encounter has grown more rapidly than expected, up 44% year-on-year. While this is certainly positive in general, larger deals take longer to close, and the pandemic's influence has also led to delays. Since we don't disclose details of deals that are not signed, we find delays can create frustrating silences despite positive assurances "behind the scenes." Ultimately, our disciplined recognition of projects is healthy and helps build our credibility. I'm pleased to report that our future sales prospects are strong.

Further bolstering what we believe is our emerging reputation for delivering on our promises is the process we employ for assembling our sales pipeline. All of our sales' opportunities, as is typical for our industry, move through a series of stages, sometimes in a few short months, but often taking well over a year.

We take a conservative approach to the categorisation of our sales prospects and do not place a deal in the 'Pipeline' category until we are confident that there is a realistic prospect of us winning it. Deals only move from the broad "Pipeline" category to "Upside" (relative to our Base category) when our confidence in its close has grown considerably, generally when our customers have informed us that we have won their business. We set all of our internal planning, including reservation of production slots and working capital, on deals in our "Base" category, displaying our high level of confidence that they will close because we are actively negotiating the sales contract. Despite that high confidence, some deals in the "Base" category do fall through; in those rare cases, we usually find we don't have to wait long to fill those empty production slots with new opportunities from the Upside list.

Below are the current numbers in each category, as at 17 May 2021. Since the previous reported figures (17 March 2021) we continued to see strong growth in our overall pipeline, which has increased 30% overall since 17 March 2021 and 70% since the company released its Admission Document in March 2020. This has been accompanied by a notable increase in the Base over the same periods. I note the reduction in the Upside category reported below which was primarily due to a delay to the expected close date of a single large project well into 2022, with that project now forming part of our Pipeline.

	Closed	Base	Upside	Pipeline
17 May 2021	19.1 MWh	10.1 MWh	30.8 MWh	232 MWh
4 March 2021	18.6 MWh	9.1 MWh	50.3 MWh	143.7 MWh
% Change	+3%	+11%	-39%	+61%

Further details on the above, including fundamental methodology and category definitions, are available in the company's recent regulatory filings.

Execution: Delivering on our promises

While our commercial team has been focused on signing new business, we have three highly capable teams working toward delivering already closed projects. The successful delivery and commissioning of our committed new projects is the Company's single highest priority.

Execution starts with our Solutions Engineering team under the leadership of Jean-Louis Cols, our Vice President Solutions Engineering who is based in Bathgate. Mr. Cols' team determines what is needed to ensure our product capabilities meet our customers' project requirements. I mentioned above how the variety of our projects – they run the gamut from storing tidal power for efficient operation of a hydrogen electrolyser in the Scottish islands, to maintaining grid stability in South Australia with a "solar power plant," to supporting the electrification of Oxford – means each one can be viewed as a beachhead into a broader market. However, that variety provides unique challenges for the Solutions Engineering team, often preventing them from realising the efficiencies achieved by repetition. Fortunately, I'm confident they are up to the task and that follow-on projects will benefit from their pioneering work.

Next is our Operations team under the leadership of Neil Lang, our Chief Operating Officer, based in Vancouver. Mr. Lang's team is tasked with assembling a global supply chain for the components of our battery systems and arranging for the manufacture and shipping of the completed product. This far-from-simple task was made significantly more complex in 2020 (and in 2021) by the impact of COVID-19. Neil's team has adapted to industry-wide challenges in supplier production, congested shipping, temporary assembly-line shutdowns and more. While the net result has been the introduction of delays into some of our manufacturing lead-times, it could have been much worse had the Operations team not successfully performed exceptional work to anticipate and prevent major issues.

Finally, our Customer Operations team, under the leadership of Sean Ellickson, our Vice President Customer Operations in Vancouver, is responsible for project installation and commissioning. Mr. Ellickson's team's other responsibility is ensuring that our customers have a great experience with our systems once they have been installed, including the fleet installed by Avalon and redT, a global task also impacted by the pandemic.

I've gone into some detail about the three teams delivering on projects as they merit more recognition than they typically get and because I'm very proud to be working with such talented, hard-working people. Their capabilities are a major asset of the company.

Integration: Laying the foundations for sustainable growth

Our primary operational focus in our first year was to successfully integrate redT energy and Avalon Battery into a single, scalable organisation operating as one company under a single brand. The progression of Invinity Energy Systems from a concept to a unified and integrated company affected every element of the business from accounting, HR and IT systems to product development and solution engineering, to supply chain and operations, to sales, marketing and all other commercial activities. It would not have been our first choice to conduct this integration in the teeth of a global pandemic, but our teams worked remotely across oceans and took on the challenge with resolve and fortitude.

Notable integration accomplishments in 2020 included the rapid development of a website and brand, designing and launching the latest generation of our VFB, the VS3, using technologies from both companies and creating a single organisation characterised by functional rather than geographic divisions. We scaled up our manufacturing capabilities and met regulatory and exchange requirements in a timely manner with information assembled from operations around the world.

Product Direction

Fundamentally, Invinity is a product company. We build the most advanced VFBs available today as demonstrated by manufacturing a sophisticated, high-performance product at scale in a factory, but we are by no means satisfied.

We must reduce the cost of our battery systems yet further. In applications where our VFB's ability to cycle without degradation is paramount, or the duration of energy storage is relatively long, we are already economically competitive. There are applications, however, where our VFBs are suitable – and may even be the most economical alternative over the life of the project – but their higher initial cost prevents them from currently being considered for deployment. Lowering costs will expand our ability to access those market applications.

We are aggressively reducing costs in our current VS3 product. It starts with the product development process under the leadership of Brian Adams, Vice President of Product Development in Vancouver. Mr. Adams' team focuses on cost, performance and reliability, bringing to the product design process innovations based on their extensive analysis of our flow batteries in operation in the field and their vast experience in flow battery design. The Product Development team's work incorporates performance improvements based on the innovative work in electrochemistry performed by our Technology team under the direction of Andy Klassen, our Chief Technology Officer also in Vancouver.

Invinity's product and technical teams have focused on product design and manufacturing process improvements. They have been able to enhance performance of the VS3 modular product platform and enable greater factory production rates. Advances achieved over the period include improved product modularity to deliver large battery arrays faster, enhanced battery management systems (BMS) and updated cell stack component design for manufacture as well as various other performance improvements. Other notable R&D achievements included advances in core technology materials science, improved BMS algorithms and the granting of 18 additional international patents.

Improvements in product design delivering solutions for innovative applications closed by our Commercial team produce a "virtuous circle." Improved economics from design-for-manufacturing improvements and higher volume production result in lower manufacturing costs. Those reduced costs unlock additional sales opportunities that increase production volume. The resulting cost reductions drive even more business.

Meeting energy storage requirements at grid scale, with project sizes an order of magnitude bigger than our current largest contracts to date, will require further development and even lower product costs as measured primarily by Levelized Cost of Storage (LCOS), a cost analysis methodology that views the entire project cost and capabilities over the project life. Large project developers, such as electric utilities, tend to focus on LCOS. We are highly confident in our ability to achieve significant advances in this area as I will detail further in the "looking to the future" section of my report.

Corporate & Financial

The favourable conditions for energy storage and the advanced state of our integration led us in 2020 to analyse the capital requirements needed to best meet the market opportunity we could see so clearly in front of us. That led to a highly successful fundraising completed in December 2020 of £22.5m, before expenses, that put the group in a position to grow with our current VS3 product and to develop the next generation of VFB simultaneously.

We have remained vigilant about expenses and have undertaken a rigorous process regarding additions to headcount. This has led to the group currently employing 125 people, up from 101 at the end of 2020 and 85 at the merger. The Group made a loss for the year of £24.3m as we invested in integration and the future. This, along with other financial matters, are covered in more detail by Peter Dixon-Clarke, our CFO, in his report.

Looking to the future

If 2020 was the year for Invinity to set the stage for future success – merging two companies, integrating our teams, establishing commercial traction and raising capital – 2021 is the year in which we start to demonstrate our capabilities on a wider stage.

As we successfully deploy the large projects that are underway, we will demonstrate with experience across a broad spectrum of applications what we have known to be true: our VFBs work well at scale and are the best option for a large number of energy storage requirements.

As we make improvements to, and lower costs of, our VS3 VFB, we will demonstrate our ongoing commitment to product evolution through improving performance without sacrificing reliability.

As we announce new signed deals, we will demonstrate our ability to succeed commercially and grow our share of the emerging energy storage market.

We will do all of this while embarking on the product development process announced on 11 May of this year, working with Gamesa Electric, the power electronics subsidiary of Siemens Gamesa Renewable Energy, to create a next-generation, grid-scale VFB and jointly commercialise the resulting product. This Joint Development and Commercialisation Agreement, after extensive interactions between the parties, represents tremendous validation of and opportunity for Invinity.

As a multi-year undertaking, it will require determination on our part and patience on the part of our shareholders, but the scale of the opportunity and its potential rewards are enormous. We will do our utmost to deliver on the potential for VFBs to become a leading part of the world's push towards a sustainable and profitable net-zero future.

In closing, I would like to acknowledge Invinity's most important asset: our dedicated and hard-working staff who meet each new challenge with passion and enthusiasm. I am extremely proud to be working with such a fine team. My sincere appreciation also to our shareholders, both retail and institutional, for their continued support during a crucial phase for our business. We will uphold your trust.

Larry Zulch
Chief Executive Officer

30 June 2021

Chief Financial Officer's report

2020 was an exceptional year, and not just because of the global pandemic. Each of the three core themes were 'one-offs', being: the completion of the group merger; the refinancing of the merged group; and the first steps in commercialising the new combined product, the VS3.

The merger between redT energy plc and Avalon Battery Corporation (Avalon) was completed on 1 April 2020, and the Avalon results have been incorporated from that point. Avalon was acquired in an all-share purchase for £17.3m, which generated goodwill of £18.2m.

The refinancing of the merged group was achieved by way of two placings and open offers, along with a convertible loan, which was fully converted into shares before the year end. The total value raised was £30.8m and is summarised below. All values are after expenses:

	£m
First placing and open offer	7.4
Riverfort facility – converted to equity	1.9
Second placing and open offer	21.5
	30.8

The post-merger product, the VS3, was launched in the year and combines the modular approach of the Avalon Flow Battery (AFB) with know-how from the redT product (Gen3). At six-times the output per minimum unit size of the AFB, the VS3 enjoys the cost benefits of both standardisation and scale.

The most significant step in commercialising the VS3 was the closure of sales contracts totalling 18.6MWh during the year. The contracts represent future revenue of approximately £11.7m, the majority of which is expected to be recognised in the second half of 2021. Of this balance, £2.6m had already been received as deposits by the year end.

Operations

The results and balances of Avalon have been consolidated into the group's results from the effective date of the merger, being 1 April 2020. The results of Avalon are not included in any comparative financial information.

The group made a gross loss of £0.8m (2019: £0.1m) and a total loss of £26.4m (2019: £7.7m) for the year ended December 2020.

All £0.4m (2019: £0.2m) of the recognised revenue related to sales contracts for the pre-merger Avalon AFB product. The associated cost of these sales was £1.2m (2019: £0.3m) and, whilst this generated a gross loss, losses only arose from the first two of the seven sales contracts signed, with all subsequent sales delivered at a gross profit. In addition, the company incurred relatively high costs related to unabsorbed overheads from manufacturing downtime that is not expected to reoccur post-lockdown.

Increased administrative expenses of £9.6m (2019: £6.6m) reflects the greater operational and geographic scale of the combined group. Of the £9.6m, £5.8m relates to staff costs (including accounting charges for share-based compensation), £1.1m to research & development (none of which was capitalised during the year) and approximately £1.0m related to professional fees (2019: £0.7m).

Other items of operating income and expense of £9.8m (2019: £0.8m) related primarily to the £6.1m write-off of historic redT capitalised development costs related to the legacy Gen 3 machine that was discontinued in the year and a £2.1m provision for onerous contracts (of which £1.0m was charged against Inventory purchased to service those contracts).

The increase in the onerous contract provision reflects the decision to early adopt the amendment to IAS 37 that requires inclusion of an estimate of indirect overhead to service a warranty claim when establishing a provision together with the number and size of open sales contracts at the year end. Direct costs were also impacted by a spike in international shipping rates and increased steel costs caused by the second global lockdown.

Financing

Net financing costs of £2.3m (2019: net financing income of £0.1m) were incurred during the year, of which the majority related to the share-conversion feature included in the Riverfort convertible loan facility. More than 90% of financing costs incurred during the year were non-cash in nature.

At the end of the year, the group had cash on hand of £22.0m and had no debt, having converted both the $5.0 million Bushveld facility and the £2.0m Riverfort facility including accrued interest and charges, to equity during the year. Cash movements in the year were as follows:

	£m
Cash at 1 January 2020	1.2
Net operating outflows	(10.9)
Investing outflows	(0.4)
Cash acquired in merger	1.3
Refinancing, net (see above)	30.8
Cash at 31 December 2020	22.0

Going concern

The group's cash balances at the end of May 2021 totalled £14.3m. Latest cash flow forecasts indicate average monthly cash usage is expected to continue at approximately £1.1m per month over the next 12 months and indicate that, provided existing contracts are delivered and new contracts are signed as forecast and that materials costs start to return to pre-lockdown levels in 2022, the existing cash will be sufficient to fund the business for at least the next 12 months

As with many companies at this stage in the development cycle the company is reliant on timely sales receipts and should customer receipts from delivering existing contracts or closing new contracts be delayed by two months or more or costs do not start to return to pre-lockdown levels then, assuming the Group maintains its current operational capacity, it will be necessary to raise further funding within the next 12 months in order to continue trading and to deliver on its strategic objectives.

A detailed summary of the factors considered by the Board in making the going concern assessment in respect of this Annual Report and Financial Statements together with a description of the material uncertainty that exists is included in the Directors' Report on pages 33-35 and in Basis of Preparation contained in Note 2 to the Financial Statements.

Outlook

Delivery of the existing contracts is the operating priority for 2021. Not least because successfully delivered contracts act as a catalyst for future VS3 sales, generate additional cash and will allow the related revenue to be recognised in the second half of 2021.

Along with delivery, focus will remain on driving down the existing product cost base. In addition to the opportunities from scaling up and increasing manufacturing efficiencies, will be the anticipated savings as the global supply chain begins returning to pre-lockdown pricing, particularly for shipping and steel.

Peter Dixon-Clarke
Chief Financial Officer

30 June 2021

Sustainable Investing and ESG

As a company at the forefront of the global energy transition, Invinity is committed to operating responsibly and sustainably in the pursuit of our corporate mission. We aim to make a meaningful contribution to all of the UN's Sustainable Development Goals (SDGs), focussing primarily on supporting UN SDG 7 (Affordable and Clean Energy) and UN SDG 13 (Climate Action).

Furthermore, Invinity is proud to have been one of the first recipients of the London Stock Exchange's Green Economy Mark, which recognises companies that derive 50% or more of their total annual revenues from products and services that contribute to the global green economy.

Environmental Impact

We are committed to Climate Action. The core activity of our business is concerned with accelerating the global transition to a low-carbon energy system. Invinity's Vanadium Flow Batteries ("VFB") complement renewable energy generation such as solar PV, wind turbines and tidal power to deliver 'dispatchable', on-demand energy. Together, these resources can displace fossil fuel powered generation and accelerate the phasing out of coal and gas from the global generation mix while continuing to deliver the reliable, low-cost power that is the cornerstone of our modern energy system without having a destabilising effect on the grid.

Our VFBs are also highly recyclable, consisting primarily of easily and widely recyclable materials. For instance, the vanadium which is used in the electrolyte in our VFBs is found in abundance in the earth's crust and can be reused and recycled almost indefinitely. Furthermore, our batteries also do not use so-called 'conflict minerals', such as Cobalt.

Today, our batteries are installed at numerous sites across the world, playing a key role in renewable energy projects which deliver significant CO_2 savings on an ongoing basis for energy intensive businesses, industry and electricity networks.

As a fast-growing company that provides solutions which help avoid or remove emissions, we are fully committed to taking action to reduce our own carbon footprint and in recognition of the United Nation's Race to Zero Campaign, we have signed up to The SME Climate Commitment.

Because of the threat that climate change poses to the economy, nature and society-at-large, our Company commits to take action immediately in order to:

- Halve our carbon intensity (on a CO_2/revenue basis) before 2030;
- Achieve net zero emissions before 2050;
- Disclose our progress on a yearly basis.

In doing so, we are proud to be recognised by the United Nation's Race to Zero campaign, and join governments, businesses, cities, regions, and universities around the world with the same mission.

Social Impact

We empower our people, partners and customers to change the world. Invinity is committed to fulfilling our social responsibility to all stakeholders and making a positive social impact within the communities in which we operate. We are committed to business and development growth that incorporates:

- being a great place to work – We treat our people fairly, training and developing them to be the best they can be and providing a work/life balance;
- supporting employee health, safety and wellbeing – We ensure our people leave work as healthy as they arrive, while constantly striving to provide a safe working environment;
- strengthening diversity and inclusion – We value all our people equally and are committed to building a workplace free from harassment where individuals can flourish;
- collaborating with our communities – We are committed to sharing our knowledge with schools, colleges and universities with particular reference to the STEM agenda; and
- giving something back – In addition to working with education establishments, as Invinity grows we will seek partnerships that advance the interests of social or charitable organisations who serve the communities in which we operate.

Governance

Invinity is committed to high standards of corporate governance for which the Directors are accountable to stakeholders and particularly shareholders. The company is quoted on the Alternative Investment Market of the London Stock Exchange (AIM) and as such is required to apply a recognised corporate governance code. During 2018, the board adopted the Quoted Companies Alliance Corporate Governance Code (the "QCA Code"), which is designed for small to mid-sized companies and which has been adopted by many AIM companies. Invinity continues to apply the ten principles of the QCA Code and further information regarding required disclosures and corporate governance can be found in the Governance section of the Annual Report.

Risk management report

The group's business exposes it to a broad range of risks. The group's approach to managing these risks is to create a system of internal controls. This system looks to manage, rather than eliminate, risk and is the responsibility of the entire board.

Commercial Risk	Detail	Likelihood	Impact	Mitigation
Lithium battery manufacturers currently dominate the stationary battery energy storage system (BESS) market.	The group's position of delivering longer duration with a safer and more durable BESS, with no supply constraints and excellent long-run economics, could come under threat if the incumbent providers rapidly improve their competitive offerings.	Medium	High	Focus on markets where the group has the largest advantages, including ultra-high cycle counts and safety-critical locations, and deliver successful projects to the agreed specifications.
Near-to-medium-term sales may rely in part on grant funding support in customers' local jurisdictions, and such funding may be delayed or terminated.	Funding programs are currently available but will ultimately be phased out as flow battery technology becomes more established. Such programs are often irregular in their availability, competitive and oversubscribed, and take longer to conclude than other sales.	Medium	High	Continue to develop expertise in grant applications, prioritise projects with a high chance of qualifying and continue to drive down costs through scale and supply chain management.
Commercialisation of the VS3 is at an early stage, and product may fall short of economic, schedule or performance obligations.	The VS3 is the result of the combined technologies of both pre-merger companies, each of which has commissioned earlier generations of battery. However, no projects using the VS3 have yet been commissioned.	Medium	High	VS3 performance expectations are based on an existing fleet and established supply chain. Clear project ownership and monitoring along with strict supplier quality control procedures and factory acceptance testing at each key stage of manufacture.

Operational Risk	Detail	Likelihood	Impact	
The supply chain is International and certain components are sole sourced.	The stacks, wherein resides the group's 'know how', are manufactured in-house in Canada and Scotland with the balance-of-system manufactured in China. Final assembly is in Canada, Scotland or China, depending on customer location.	High	High	Moving away from sole sourcing where and when possible, such as manufacturing stacks in both Canada and Scotland.
The supply chain is, as yet, unproven at the scale envisaged.	Driving costs down to the levels envisaged will require material production increases in each of the coming years.	High	High	A full order book and a strong balance sheet will enable the group to build more equitable relationships with larger suppliers.
The costs of key materials such as steel, copper and electrolyte, can fluctuate.	The disruptions caused by the second COVID lockdown has caused increases in the costs of transport, steel and vanadium.	High	High	Strategic relationships or offtake agreements with suppliers can reduce short term price volatility.

Corporate Risk	Detail	Likelihood	Impact	
The group is the result of a recent merger, in 2020, of two businesses operating in different regions.	Whilst the merger makes commercial sense and the initial products have been combined into a single product, employees are separated by geography and time zone making collaboration and coordination harder, a situation exacerbated by the current pandemic.	High	Medium	Senior roles have been allocated on the basis of function rather than geography to encourage a group, rather than regional, view.
Shareholder concentration.	Just over 50% of the register is held by five shareholders.	High	Medium	Continued shareholder engagement, particularly with Institutions able to make material investments.
Failure to meet shareholder expectations.	The 2020 fundraises have increased expectations and poor performance could deter potential investors from buying or existing shareholders from holding.	Medium	High	Regular news flow and trading updates, particularly where closed sales are concerned.
Competition attracting & retaining skilled personnel.	The sector is seeing rapid growth and continuing to attract and retain skilled personnel will be required to ensure development of the group's business.	Medium	Medium	The group has a pro-active remuneration committee with access to suitable advice.

Financial Risk	Detail	Likelihood	Impact	
The group does not yet generate positive cash flows and therefore is expected to require further funding.	The group is in the early phase of commercialisation and so is not yet generating the product margins required to support all of its costs.	High	Medium	Continued sales growth and product standardisation will allow the group to drive down gross costs and improve product margin.
Equity finance is raised in GB£.	Whilst sales receipts are in a range of currencies, the majority of the materials costs are settled in US$ and a material element of payroll is settled in Canadian $.	High	Medium	The group holds up to six-months of expected US$ required and converts Australian $ receipts into Canadian $.
All contracts contain warranties and some contain extended warranties.	A warranty provision for each sale is provided for in the balance sheet at the time revenue is recognised but may prove insufficient over the life of the warranty.	Medium	Medium	Maintain product performance data, focus on reducing need for maintenance, track O&M (Operations and Maintenance).
Having multi-jurisdictional operations exposes the group to cross-border tax risk, particularly transfer pricing, and tariffs.	The group has manufacturing operations in the UK, Canada and China, along with sales operations in the US. In addition to the tax issues, the US trade tariffs on Chinese produce are material.	High	Low	The group seeks specialist external advice on tax and tariff related matters. In the case of the US tariffs on China, sufficient content is manufactured in Canada.
The merger with a US company exposes the group to US tax inversion legislation.	Avalon Battery Corporation is a US registered entity and so may be deemed to be onshore by the US Internal Revenue Service for US tax purposes.	Medium	Low	The group has taken specialist advice and does not believe this to be the case under current legislation, though this could change should retrospective legislation be introduced.

The Board of directors

Neil O'Brien
Chairman 58
Neil's most recent role was as CEO of AIM listed Alkane Energy which he joined in 2008. Under his leadership, the Company achieved rapid output increases through a combination of organic growth and acquisition activity. Alkane expanded its UK portfolio of baseload power generating sites and established a leading position in the UK back-up power market covering winter peaking, National Grid "STOR" programme and the capacity market.

Neil started his career at Coopers & Lybrand in 1985, where he qualified as a Chartered Accountant, before joining Blue Circle in 1988, holding a number of senior financial and operational roles in the UK and Europe. He then spent three years as a Group Management Accountant at Aggregate Industries.

Neil read Politics, Philosophy and Economics at Oriel College, Oxford University.

Appointed to Board: September 2016

Committees: Chairman of the Nomination Committee.

Larry Zulch
Chief Executive Officer 63
Larry has over 30 years of experience successfully commercialising advanced technologies and scaling the companies that deliver those technologies to market. He was formerly the CEO of Avalon Battery, Dantz Development (acquired by EMC), Photometics, PLCD, Cloud Engines, and Savvius (acquired by LiveAction). He served as VP and Officer at EMC, and as Executive Chairman of Freerange Communications (acquired by Sprint via Handmark).

Appointed to Board: April 2020

Matt Harper
Chief Commercial Officer 44
Matt is an engineer and entrepreneur with over 20 years of experience developing and commercializing clean energy technologies, including 14 years in energy storage. Prior to co-founding Avalon Battery, Matt served as VP Products and Services at Prudent Energy. Matt holds a bachelor's degree from the University of British Columbia, a master's degree from the Massachusetts Institute of Technology, and is named the inventor on six granted U.S. patents.

Appointed to Board: April 2020

Peter Dixon-Clarke
Chief Financial Officer 55
Peter has 30 years' experience in senior finance roles, primarily in the energy sector as well as financial services. His most recent CFO roles were at Kuwait Energy Company plc, Hotspur Geothermal Ltd and AIM-listed Rockhopper Exploration plc. Peter qualified at Deloitte as a chartered accountant and will conduct his global responsibilities out of London.

Appointed to Board: August 2020

Jonathan Marren
Senior Independent Director 46

Jonathan served on the Board of Directors as Chief Financial Officer between July 2012 and March 2016, having been an advisor to the company since early 2006, including on its flotation in April 2006.

He has previously held positions as Deputy Head of Corporate Finance at Singer Capital Markets, prior to which he was at Peel Hunt between 2000 and 2010 where he was a Director in the Corporate Department with responsibility for their new energy and clean tech franchise where he gained considerable experience of working with companies in this area.

Jonathan qualified as a Chartered Accountant with Arthur Andersen in 1999 after obtaining a BSc in Mathematics from Durham University.

Appointed to Board: March 2016

Committees: Audit & Risk Committee (Chairman), Nomination and Remuneration Committees.

Michael Farrow
Non-Executive Director 67

Michael Farrow is a founder director of Consortia Partnership Limited, a Jersey licensed trust company. He currently sits on the Boards of a number of listed companies. He has also been group company secretary of Cater Allen Jersey, a banking, trustee and investment management group.

Michael holds an MSc in Corporate Governance and is a Fellow of the Chartered Institute of Secretaries & Administrators and was formerly a regular British Army Officer.

Appointed to Board: March 2006

Committees: Remuneration Committee (Chairman), Audit & Risk and Nomination Committees.

Rajat Kohli
Non-Executive Director 58

Raj has many years' experience in the resources, energy and infrastructure sectors having began his City career as a mining and metals analyst before becoming Managing Director in HSBC's Resources and Energy Group, Investment Banking in 2000.

Raj joined ArcelorMittal as Co-Head of Mergers & Acquisitions in 2007, returning to banking in 2011, joining Standard Bank as Global Head of Metals and Mining. Since 2015, Raj has provided strategic consulting services to the natural resources sector as Principal of Ptolemy Resource Capital.

Appointed to Board: June 2020

Committees: Audit & Risk, Remuneration and Nomination Committees.

Governance report

Introduction from the Chairman on the Governance Report

Invinity admitted to trading on the Alternative Investment Market of the London Stock Exchange (AIM) and as such is required to apply a recognised corporate governance code. During 2018, the Board adopted the Quoted Companies Alliance Corporate Governance Code (the "QCA Code"), which is designed for small to mid-sized companies and which has been adopted by many AIM companies. The Board agreed that the QCA Code remained the most appropriate corporate governance code for the Company after the merger between redT energy plc and Avalon Battery Corporation in April 2020 (the 'Merger').

The Board has considered how the company applies the ten principles of the QCA Code and the Governance Report includes the required disclosures and explanations where relevant. Further details of the company's corporate governance practices are provided on the company's website in the Investors section under Corporate Governance at https://invinity.com/investors/corporate-governance/.

Corporate Governance Statement

The Board recognises that good governance helps to underpin the foundations of a solid and successful business and delivery of shareholder value. Invinity's Board, led by the Chairman, is committed to maintaining high standards of corporate governance for which the Directors are accountable to shareholders and stakeholders and to ensuring that the Company's values are communicated and upheld across the group. The Board recognises that corporate governance practices will need to be regularly reviewed as the company grows to ensure that they remain appropriate and effective.

Corporate culture

The company is committed to ensuring that there is a healthy corporate culture and since the year end has put in place additional policies and procedures which are designed to ensure that ethical and transparent behaviour is recognised and followed across the group. The policies and procedures currently in place include:

- Code of Conduct
- Whistleblowing Policy
- Equal Opportunities Policy
- Share Dealing Code
- Anti-Bribery and Corruption Policy
- Health and Safety Policy
- Modern Slavery Statement
- Procurement Policy
- Social Impact Policy
- Environmental Impact Policy
- Biodiversity Policy

Board composition

The Board currently consists of a Non-Executive Chairman, three Executive Directors and three Non-Executive Directors. The Board had previously determined that a Senior Independent Director was not required due to the size and composition of the Board. Since the year end, the Board composition has been reviewed and it was agreed that it would be appropriate to appoint a Senior Independent Director to provide a sounding board for the Chairman and to act as an intermediary for Board members. The Senior Independent Director will also act as a point of contact for shareholders who have concerns which have not been adequately addressed by the Chairman or Chief Executive Officer. Jonathan Marren was appointed as Senior Independent Director with effect from 1 May 2021.

There were a number of Board changes during the year:

- Neil O'Brien, formerly Executive Chairman, became Non-Executive Chairman on 2 April 2020
- Lawrence Zulch was appointed as Chief Executive Officer on 2 April 2020
- Matthew Harper was appointed as Chief Commercial Officer on 2 April 2020
- Rajat Kohli was appointed as a Non-Executive Director on 22 June 2020
- Peter Dixon-Clarke was appointed as Chief Financial Officer in place of Fraser Welham on 10 August 2020.

Other than any shareholdings in the company and the receipt of fees for acting as Directors, the Chairman and Non-Executive Directors have no financial interests in the company or business relationships that would interfere with their independent judgement. Rajat Kohli was appointed as a representative of Bushveld Minerals pursuant to the terms of an investment agreement with the company but this arrangement has come to an end since the year end after Bushveld Minerals disposed of its shareholding in the company.

Board composition during the year

Name	Role	Length of service as at 21 June 2021	Date of appointment	Date of resignation
Non-Executives				
Neil O'Brien	Chairman*	4 years, 9 months	09 September 2016	–
Michael Farrow	Non-Executive Director	15 years, 3 months	16 March 2006	–
Rajat Kohli	Non-Executive Director	1 year, 0 months	22 June 2020	–
Jonathan Marren	Non-Executive Director	5 years, 3 months	1 March 2016	–
* Executive Chairman until 2 April 2020				
Executives				
Lawrence Zulch	Chief Executive Officer	1 year, 2 months	2 April 2020	–
Matthew Harper	Chief Commercial Officer	1 year, 2 months	2 April 2020	–
Peter Dixon-Clarke	Chief Financial Officer	0 years, 9 months	10 August 2020	–
Former Directors				
Fraser Welham	Chief Financial Officer	N/A	3 April 2018	10 August 2020

Independence of Directors

The Board considers that the Chairman and all of the Non-Executive Directors except Rajat Kohli were independent for the 2020 financial year notwithstanding circumstances which could indicate otherwise. Such circumstances could include Michael Farrow having been a director for 15 years and Neil O'Brien and Jonathan Marren having previously held executive positions within the Company.

The Board has considered the objectivity and independence of each of these directors and has determined that each individual demonstrates independence of character and judgement and that there are no circumstances which are likely, or could be perceived to be likely, to affect their judgement.

Subsequent to the year end, the Board has agreed that Rajat Kohli, who had been the nominated representative of Bushveld Minerals until the disposal of their shareholding in the Company, should be invited to remain on the Board as an independent director.

Role of the Board

The Board is collectively responsible for delivery of the strategy which is designed to promote the long-term success of the company and to deliver shareholder value. The board is responsible for formulation and approval of the company's long-term objectives and strategy, approval of budgets, oversight of operations across the group, maintenance of internal controls and risk management systems and approval of group policies. The Board may delegate specific responsibilities but there is a schedule of matters specifically reserved for decision by the Board to ensure that it exercises control over the key matters which could impact on delivery of the company's strategy.

Board skills and responsibilities

The Directors have a wide range of skills and industry experience including technical, operational, commercial and financial both in the UK and internationally. The Chairman and Non-Executive Directors have held senior management, Board and advisory positions and bring relevant experience from their current and previous positions.

There is a clear division of responsibilities between the Chairman and Chief Executive Officer which is set out in writing and has been approved by the Board. A clearly defined organisational structure exists across the group, with lines of responsibility and delegation of authority to executive management.

Board meetings and processes

The Board has around eight scheduled meetings each year with other meetings held as required. During 2020, the majority of meetings were held by video conference call due to the COVID-19 pandemic. Informal meetings also take place between the Chairman and the Non-Executive Directors without the Executive Directors present.

At each Board meeting, the Board receives an update from the CEO on key current activities including HSE and considers the Commercial and Finance Reports and any papers relating to specific matters requiring consideration or approval. In the first quarter of 2020, a number of the Board meetings related to the Merger and the admission of the company's shares to trading on AIM.

Non-Executive Directors undertake on joining the company that they are able to allocate sufficient time to discharge effectively their responsibilities and are required to keep the Board updated of any changes in respect of their other commitments.

The letters of appointment of the Non-Executive Directors detail the expected time commitment which is around six Board meetings, one General Meeting and two meetings in respect of each of the Audit and Remuneration Committees per annum and are required to devote to the company's business such additional time as is reasonably necessary by way of preparation for or follow-up after any meeting. The Non-Executive Directors may also be asked to participate in other events such as marketing, social and client functions with this commitment to a maximum of approximately six days per annum.

Board meeting attendance

Director	Board meetings attended
Neil O'Brien – Chairman	9
Lawrence Zulch (appointed 2 April 2020)	9
Matthew Harper (appointed 2 April 2020)	9
Peter Dixon-Clarke (appointed 10 August 2020)	5
Michael Farrow	9
Rajat Kohli (appointed 22 June 2020)	9*
Jonathan Marren	9
Former Director	
Fraser Welham (resigned 10 August 2020)	5†
Total meetings during year	9

Note: a number of meetings were held to consider the Merger and AIM admission and the issue and exercise of warrants. These have not been included in the number of meetings shown as having been held during 2020 which only shows scheduled Board meetings.

* 3 meetings attended as an invitee

† 1 meeting attended as an invitee

Board performance evaluation

Since the year end an internal performance evaluation of the Board has been undertaken. Each Board member completed a questionnaire which focused on strategy, risks and controls, Board structure and development, Board processes and the work and composition of the Board committees. The responses were collated and summarised by an external company secretary and the key conclusions tabled at a Board meeting.

Board induction, training and outside advice

There is no formal induction process in place but new Directors receive an appropriate induction according to their requirements and the roles they are expected to fulfil as a director of the company.

The Board supports directors who wish to receive ongoing training and education relating to their duties.

Independent legal advice is available to directors at the group's expense if external advice is considered necessary and appropriate.

External directorships and interests

Executive Directors are permitted to engage in other activities and businesses outside the group providing that there is no risk of conflict with their executive duties and subject to full Board disclosure.

Non-Executive Directors are required to advise the Chairman as soon as practicable of any proposed Board appointments which could give rise to a conflict with their position as a director of the company. Details are circulated to other Board members who are invited to advise the Chairman if they have any concerns about the proposed appointment.

Conflicts of interest

The Board has in place a procedure for dealing with the consideration and authorisation of any actual or potential conflicts of interest. All Directors are aware of the requirement to advise the Chairman of any situations which could give rise to a conflict or potential conflict of interest. If requested by the Chairman, a director will absent themselves from any Board discussions and decisions on matters where there is an actual or perceived conflict of interest.

Company Secretary

The Company Secretary is Oak Secretaries (Jersey) Limited which is 100% owned by the Oak Group (Jersey) Ltd (Oak Group), a Jersey-based limited liability company regulated by the Jersey Financial Services Commission. Michael Farrow was a director of the Oak Group until May 2019. The Company has also engaged the services of a qualified Company Secretary to assist with a number of post-merger integration matters and to provide corporate governance advice to the Board.

Political and charitable donations

The Group made no charitable or political donations during the year (2019: £nil).

Communication with shareholders

The Company engages with shareholders in a variety of ways:

Meetings	Executive Directors meet regularly with major shareholders and the investment community which allows exposure to new investors. This process includes presentations, one-to-one meetings, analyst briefings and press interviews. During 2020, a roadshow was undertaken in connection with the fundraising. The Chief Executive Officer regularly briefs the Board on meetings held and relays the views expressed. Details of analyst research reports, press reports and share trading and register analyses are shared with Directors which ensures that they are kept up to date with the views of the investment community.
Website	The company's website is updated regularly and includes a dedicated investor resources section. This includes external presentations, Q&As with Directors and other relevant information which ensures that existing and potential investors have access to up to date and relevant information.
IR	The company provides an email address for investors on the website which is monitored by the Director of Communications. This allows investors to address ad hoc queries to the company.
Webinars	The company hosts regular interactive webinars which give shareholders the chance to address questions to management.
Annual Report	The company's annual report gives a detailed overview of the company's strategy, operations, financial position, risk profile and remuneration structure and is available in hard copy and on the website. This ensures that existing and potential investors are provided with the information that they need to make an assessment of the company's performance and prospects.
Newsletter	Investors and any interested parties can subscribe to receive a regular newsletter which gives subscribers updates on the company's activities.
AGM	In addition to the formal AGM business, the executive team give an operational and financial update and shareholders have the opportunity to address questions to the Board. Whilst it was not possible to hold a physical meeting in 2020 due to Government restrictions in relation to the COVID-19 pandemic, a virtual webcast with a Q&A session was arranged.

Neil O'Brien
Chairman

30 June 2021

Report of the Chairman of the Audit & Risk Committee

I am pleased to present the report of the Audit & Risk Committee for the year ended 31 December 2020. The report includes details of the committee's activities during the financial year and since the year end.

Committee composition

The members of the Audit & Risk Committee are Jonathan Marren as Chairman and Michael Farrow and Neil O'Brien. The Board is satisfied that at least one member of the Audit & Risk Committee, Jonathan Marren, has recent and relevant financial experience. Subsequent to the year end, Rajat Kohli was appointed as a member of the Audit and Risk Committee in place of Neil O'Brien.

Meetings

The Audit & Risk Committee met three times during the year and informal discussions were also held both with and without management present. The external auditors had discussions with the Chairman of the committee during the year. The external auditors also met the committee members without management present.

Only members of the committee have the right to attend the meetings of the committee, however the committee can invite the Executive Directors, members of senior management and representatives of the external auditors to attend its meetings.

Details of the meetings attended during the financial year were as follows:

Director	Audit & Risk Committee meetings attended
Jonathan Marren – Chairman	3
Michael Farrow	3
Neil O'Brien	3
Lawrence Zulch (appointed 2 April 2020)	2†
Matthew Harper (appointed 2 April 2020)	2†
Rajat Kohli (appointed 22 June 2020)	1†
Peter Dixon-Clarke (appointed 10 August 2020)	2†
Former Director	
Fraser Welham (resigned 10 August 2020)	3†
Total meetings during year	**3**

† Invitee

Role

The core terms of reference of the Audit & Risk Committee include reviewing and reporting to the board on matters relating to:

- the audit plans of the external auditors;
- the group's overall framework for financial reporting and internal controls;
- the group's overall framework for risk management;
- the accounting policies and practices of the group; and
- the annual and interim financial reporting carried out by the group.

The committee is responsible for notifying the Board of any significant concerns that the external auditors may have arising from their audit work, any matters which may materially affect or impair the independence of the external auditors, any significant deficiencies or material weaknesses in the design or operation of the Group's internal controls and any serious issues of non-compliance. No such concerns were identified during the financial period.

Key matters considered by the committee

During the year, the issues considered by the committee both during and outside formal committee meetings included:

- group financial disclosures and accounting matters including impairment review and amortisation of intangible assets, going concern, accounting for business combination and revenue recognition;
- audit plan of the external auditors for the 2019 financial year;
- reports of the external auditors concerning its audit and review of the financial statements of the group;
- 2019 Annual Report and financial statements and 2020 interim financial statements;
- external auditors' fees; and
- non-audit services/auditor independence and objectivity.

Since the year end, management has developed a risk matrix which identifies and classifies the key commercial, operational, corporate and financial risks facing the Group with associated mitigants. The risk matrix will be tabled at Board meetings at regular intervals and in the event of any significant change to the Company's risk profile and will be used to develop the group's systems of internal controls and risk management.

Going concern

As part of the year end reporting process, management prepares a detailed report including detailed cashflow forecasts with a number of potential scenarios and sensitivity assumptions. The committee reviews and challenges management's assumptions and conclusions in order that it can provide comfort to the Board that management's assessment has been challenged and is supported and that it is appropriate to prepare the financial statements on a going concern basis. Further details of the going concern assessment process and the material uncertainty that exists are contained in note 2 to the group financial statements on page 47 and in the Directors Report on pages 33-35.

External auditors

The committee recommends to the Board the appointment of the external auditors, subject to the approval of the Company's shareholders at a general meeting. Shareholders in a general meeting authorise the Board to fix the remuneration of the external auditors and the Board has delegated this responsibility to the committee.

The committee is responsible for the approval of the provision of all audit services and permitted non-audit services undertaken by the external auditors

The Committee actively considers the effectiveness and quality of the external auditors.

Whistleblowing and anti-bribery

The company is committed to conducting all of its business dealings in a responsible, honest and ethical manner. All employees, directors and consultants are required to act with integrity and to have regard to the company's Code of Conduct in their day-to-day business behaviour. The company also has in place an Anti-Bribery and Corruption Policy and Procedures and arranges training for selected employees following a risk analysis.

All employees are made aware of the company's whistleblowing policy which includes contact details for the Company's internal whistleblowing officer and an independent whistleblowing charity, Public Concern at Work.

All employees are required to undertake training on the Market Abuse Regulation in relation to inside information and unauthorised trading in the company's shares.

Jonathan Marren
Chairman of the Audit & Risk Committee

30 June 2021

Report of the Chairman of the Nomination Committee

I am pleased to present the report of the Nomination Committee for the year ended 31 December 2020.

Committee composition

The committee is chaired by the Chairman of the Board with Michael Farrow and Jonathan Marren as its members. The Board considers all members of the committee to be independent. Subsequent to the year end, Rajat Kohli has been appointed as a member of the Nomination Committee.

Meetings

The committee did not meet during 2020 as Board composition as a consequence of the Merger was managed by the full Board. Only members of the committee have the right to attend the meetings of the committee, however the committee can request the attendance of the Chief Executive Officer.

Role

The role of the committee is to consider Board member succession, review the structure and composition of the Board and its Committees and identify and make recommendations for any changes to the Board. Any decisions relating to the appointment of Directors are made by the entire Board based on the merits of the candidates and the relevance of their background and experience, measured against objective criteria, with care taken to ensure that appointees have enough time to devote to the job.

Succession planning

The company is committed to appointing, retaining and developing an experienced team which can effectively manage the company's objectives and deliver its strategy. When considering succession planning, the committee will evaluate the balance of skills and experience on the Board and make recommendations to the Board on the basis of what it considers that the company needs in order to support delivery of the agreed strategic objectives.

The committee recognises the need for progressive refreshing of the Board and the benefits of diversity and the committee will have regard to these when considering succession planning. When considering new Board appointments, the committee will be committed to recruiting on merit measured against objective criteria.

The management of human resources across the group is a matter for executive management but the Non-Executive Directors are advised in advance of recruitment plans in respect of senior appointments.

Neil O'Brien
Chairman of the Nomination Committee

30 June 2021

Report of the Chairman of the Remuneration Committee

Annual Statement
On behalf of the Board, I am pleased to present the Directors' Remuneration Report ('Report') for the year ended 31 December 2020. The Report has been prepared largely in compliance with the requirements of Schedule 8 of the Large and Medium-sized Companies and Group Regulations 2013 except where deemed inappropriate given the size and structure of the Company.

The Report is divided into two sections:

– The Policy report which sets out the current Remuneration Policy

– The Annual Report on Remuneration which sets out details of the operation of the Remuneration Committee and details of the Directors' remuneration packages for the year ended 31 December 2020. It also sets out details of the implementation of the Remuneration Policy for Executive and Non-Executive Directors for the year ending 31 December 2021.

2020 was a pivotal year in the company's history with the merger in April between redT energy plc and Avalon Battery Corporation (the 'Merger') and a consolidatory open offer at the end of the year. Clearly, these significant advances in the company's prospects required incentivisation and some reward for the newly formed team. With the company's global reach and production over two continents, the remuneration policy required alignment to cater for employees' needs and expectations. The basic pay scales in the US, Canada and UK were not too dissimilar and so most effort was put into merging and rationalising the employee share plans.

It is a fact that the US and Canada place much emphasis on share-based incentives at all levels of employment. This culture encapsulates the entrepreneurial spirit that Invinity wishes to encourage share options with exercise prices set at the prevailing market value at the date of grant have, and will continue to be, offered to valued employees across the company.

The Committee is satisfied that the outcomes, in respect of the incentives and remuneration during the financial year under review, are appropriate. The Committee will continue to ensure that the Company's Remuneration Policy and practices are kept under review to ensure that they remain appropriate for the company at its stage of development and that they do not encourage any unnecessary risk taking by the executive team.

I express my thanks to the members of the Committee for their support over the year.

Yours sincerely,

Michael Farrow
Chairman of the Remuneration Committee

30 June 2021

Directors' remuneration report

Remuneration policy
This part of the Report sets out the remuneration policy for the company. The policy for the Executive Directors is determined by the Committee and the Committee recommends to the Board any adjustments to salary and bonus awards. The Committee also makes recommendations to the Board in respect of the remuneration packages of certain members of the senior team based on recommendations from the Chief Executive Officer, subject to Committee oversight. Authority is delegated to the Executive Directors to manage the remuneration packages of all other employees. Awards of share options to employees under the 's Share Option Plan are the responsibility of the Board which considers recommendations from the Committee and the Chief Executive Officer in respect of employees.

The aim of the Committee is to ensure that the remuneration packages are sufficiently competitive to attract, retain and motivate individuals of the quality required to contribute towards the strategic objectives of the group and thereby enhance shareholder value. The Committee also aims to ensure that all employees receive rewards that fairly reflect their seniority, level of work and contribution to the company.

The company is committed to promoting equal opportunities in employment with all employees and potential employees receiving equal treatment.

Executive Director Policy
The summary of the remuneration policy for the Executive Directors is set out below. Full details of the remuneration packages are given in the Report on Remuneration on page 28.

Salary

Purpose and link to strategy	To provide an appropriate salary level to support retention and recruitment of Executive Directors.
Operation	Executive Directors receive the same annual salary. Base salaries are reviewed annually on 1 January with regard to the external economic environment and salary adjustments across the Company. The salaries of the Chief Executive Officer and Chief Commercial Officer are designated in sterling but paid in local currencies. The salaries are re-based annually to allow for differentials arising through foreign exchange.
Opportunity	Salary increases will be awarded taking into account the outcome of the review. Salary increases will usually be in line with increases awarded to other employees but the Committee may make additional adjustments where there has been a change in role or responsibilities or to reflect a gap in market positioning.
Performance metrics	Not applicable for base salaries.

Pension and Benefits

Purpose and link to strategy	To provide an appropriate range of benefits and pension contributions to assist in the attracting and retaining the calibre of Executive Directors required for delivery of corporate and strategic objectives.
Operation	The CEO, based in the US, does not receive any benefits or employer contributions to a pension plan. The CFO, based in the UK, has income protection and life assurance cover. Benefits are administered internally and a review of providers and prices is conducted annually through a broker to ensure that the level of rates and cover remain competitive. A matching employer contribution of up to 5% of annual base salary is made to the Group personal pension plan. The CCO, based in Canada, has private medical and dental insurance and life assurance cover. He does not receive any employer pension contributions to a pension plan.
Opportunity	The benefits and pension packages, which are tailored to the individual Executive Directors, are set at a level that the Committee considers is appropriate. The value of benefits will vary each year according to the cost of provision.
Performance metrics	Not applicable for benefits and pension package.

Annual Bonus

Purpose and link to strategy	To reward the achievement of corporate targets.
Operation	Objectives are set as early as possible in the financial year. The bonuses may be paid in cash and/or shares after the end of the financial year to which they relate.
Opportunity	The annual bonus award is determined as a percentage of base salary based on performance against pre-agreed objectives. When deciding on the level of bonus awards, the Committee will have regard to the extent to which achievement of the objectives has contributed to progress against the Company's strategic drivers. The bonus is contractual but is at the discretion of the Committee. The maximum bonus potential for Executive Directors is 100% of salary.
Performance metrics	The targets for the Executive Directors comprise the corporate, strategic and financial objectives agreed by the Board. The Committee uses its judgement to decide the extent to which the objectives have been achieved and exercises its discretion to decide on the level of bonus awards to be paid. The Committee considers whether operations have been completed to acceptable HSE standards and considers whether there were any HSE incidents when considering the level of bonus payments.

Share Option Plan (Option Plan)

Purpose and link to strategy	To support alignment with shareholders through the link to the creation of shareholder value.
Operation	The Option Plan was introduced in 2018 to replace historical long-term incentive arrangements. The Committee makes awards of options at an exercise price based on the prevailing market price of the company's shares as at the date of grant. The options will vest in equal tranches after one, two and three years' further continuous employment subject to leaver provisions.
Opportunity	Option awards are usually made for a three-year term but the Committee has discretion over the frequency and quantum of awards.
Performance metrics	None.

Further details on the policy

Performance measurement

Annual bonus – the annual bonus is based on a range of corporate and individual objectives that the Board have agreed are key to progressing and delivering the company's strategy. These can be operational, strategic and financial. Performance targets are designed to be stretching but achievable having regard to the company's strategic priorities from time to time.

Option Plan – the Option Plan ensures alignment with shareholders being focussed on share price growth over the medium to long term. Vesting of equity awards is phased with options vesting in equal tranches in years 1, 2 and 3 after the date of grant. Options granted in exchange for options in predecessor companies at the time of the Merger vest in accordance with the terms of the original option grant. The Option Plan for the Executive Directors is the same as that for all other employees.

Remuneration policy for other employees and consultation

The company's policy for all employees is to provide remuneration packages that reward them fairly for their contribution and role within the company.

All employees are entitled to receive the full range of company benefits but with different qualifying periods and levels of cover depending on seniority. The most senior employees below Board level are eligible to receive an annual bonus based on performance against corporate targets.

All permanent employees have been granted options under the Option Plan on the same terms as the Executive Directors but proportionate to their employment contracts and their ability to contribute towards the company's strategic objectives. This ensures that an element of remuneration is deliverable through a scheme that aligns participants with shareholders.

The company does not consult with employees on the effectiveness and appropriateness of the policy but, in considering individual salary increases, the Committee does have regard to salary increases across the company.

Recruitment

In the case of recruiting a new Executive Director, the Committee can use all the existing components of remuneration as set out in the policy table.

The salary of a new appointee will be determined by reference to the experience and skills of the individual, market data, internal relativities and the candidate's current remuneration. New appointees may be entitled to receive the full range of Company benefits on joining and, if the Committee considers it appropriate, a matching employer contribution of up to 5% of annual base salary to the group personal pension plan.

In relation to any elements of variable pay, the Committee will take the following approach:

Component	Approach	Maximum annual opportunity
Annual Bonus	The annual bonus would operate as outlined in the Policy for existing Executive Directors. The relevant maximum will be pro-rated to reflect the period of employment over the year. Consideration will be given to the appropriate performance targets at the time of joining	100% of base salary in respect of the current financial year
Option Plan	The Option Plan would operate as outlined in the policy for existing Directors. An award of options may be granted on joining subject to the Company being in an open dealing period.	Committee discretion

Service contracts, exit payments and change of control provisions

The Executive Directors have rolling term service agreements with the company. Details of the Directors' service contracts and appointment dates are as follows:

Executive Directors	Appointment date	Contract date	Employing company
Lawrence Zulch	2 April 2020	2 April 2020	Avalon Battery Corporation
Matthew Harper	2 April 2020	2 April 2020	Avalon Battery (Canada) Corporation
Peter Dixon-Clarke	10 August 2020	7 August 2020	Invinity Energy Systems plc

The Directors' service contracts are available to view at the company's registered office and prior to each Annual General Meeting at the venue for the meeting.

The notice period for the Executive Directors is six months' notice in writing by either party. The Company has the right to make a payment in lieu of notice of six months' salary and, in the case of the CEO, a reimbursement of certain benefits if relevant. The Committee will consider termination payments on a case-by-case basis and will ensure that there is no "reward for failure".

The Committee also has discretion to settle any other amounts which it considers are reasonably due to the Director such as where the parties agree to enter into a settlement agreement and the individual is required to seek independent legal advice. The Committee can approve new contractual arrangements with a departing Director covering matters such as confidentiality or restrictive covenants and/or consultancy arrangements where it believes this is in the best interests of the company.

Treatment of incentives for leavers and following a corporate event

a) Annual bonus

In relation to annual bonuses, a bonus payment will not usually be made if the Director is under notice at the bonus payment date or has already left.

b) Option Plan

In relation to awards granted under the Option Plan, all unvested options will lapse on cessation of employment. In good leaver and Intermediate leaver circumstances (as defined in the Option Plan rules), all vested options will be retained and will be exercisable for a period of six months after the cessation of employment or 12 months in the case of death. The Committee has discretion to further extend the exercise period for Intermediate leavers and to allow the vesting of all or part of the unvested portion of an option for good leavers.

In the event of change of control of the company, all vested options will remain exercisable for a period of six months after the change of control and the Committee has the discretion to allow the vesting of all or part of the unvested portion of an option. Subject to the agreement of any acquiring company, option holders may be offered the opportunity to exchange their options for equivalent options over shares in the acquiring company for a period of up to six months from the change of control taking effect.

The Option Plan rules include malus and clawback provisions whereby the Committee has discretion to reduce the number of shares subject to an existing option award in the event that an option has been granted or has vested on the basis of any incorrect information relevant to the setting of any performance condition or condition of satisfaction including a material misstatement in the published financial result or in the event of fraud or misconduct by an option holder including where an option holder has been dismissed for cause. In the case of an option which has been exercised, the Committee can require the option holder to repay the Company an amount equal to the benefit by way of a transfer of shares or cash.

The Board can amend the Option Plan rules at any time provided that an option holder's existing rights cannot be adversely affected without the option holder's consent.

Non-Executive Director Policy

The company's Articles of Association provide that the Board can determine the remuneration of the Directors. The policy for the Chairman and Non-Executive Directors is as follows:

Fees

Purpose and link to strategy	To provide a competitive level of fee which will attract and retain high calibre directors with the range of skills and experience required to support the Executive Directors and assist the company in delivering its objectives
Operation	The fees for the Chairman and Non-Executive Directors are determined by the Board as a whole with directors absenting from discussions regarding their own remuneration The Board has regard to level of fees paid to the Non-Executive Directors of other similar sized companies and the time commitment and responsibilities of the role Neither the Chairman nor the Non-Executive Directors participate in any of the company's share schemes
Opportunity	The current annual fees are: Chairman: £60,000 Non-Executive Director basic fee: £30,000 Committee Chairman fee: £5,000 No additional fees are payable for acting as Chairman of the Nomination Committee The fee levels will be reviewed on a periodic basis with reference to the time commitment of the role and fee levels in comparative companies No benefits or other remuneration are provided. All board and committee meetings in the year were held virtually and hence no travel or other expenses were incurred by the Directors related to their attendance.
Performance metrics	Not applicable to Non-Executive Directors

Recruitment

The Committee will follow the Non-Executive Director remuneration policy as set out above in relation to the appointment of a new Non-Executive Director.

Terms of appointment

The Non-Executive Directors serve under letters of appointment. Their appointments can be terminated at any time by either party giving three months' notice to the other. The appointments can also be terminated by the company without notice in certain circumstances including incapacity for three months in any 12-month period, serious or repeated breach of obligations in connection with the appointment or unsatisfactory performance as determined by the Board.

Details of the Non-Executive Director appointments are set out below:

Director	Appointment date	Original appointment letter	Revised appointment letter
Neil O'Brien	9 September 2016	8 September 2016	14 March 2019 – in respect of appointment as Executive Chairman 13 March 2020 – in respect of appointment as Non-Executive Chairman effective 2 April 2020
Michael Farrow	16 March 2006	16 March 2006	–
Rajat Kohli	22 June 2020	20 June 2020	–
Jonathan Marren*	1 March 2016	23 February 2016	–

*J Marren was Chief Financial Officer from 9 July 2012 to 29 February 2016

The Directors' letters of appointment are available to view at the Company's registered office and prior to each Annual General Meeting at the venue for the meeting.

Report on Remuneration

Remuneration Committee membership and meetings

At 31 December 2020, the Committee comprised Michael Farrow as the Committee Chairman, Neil O'Brien and Jonathan Marren. Subsequent to the year end, Rajat Kohli has been appointed as a committee member in place of Neil O'Brien.

The Committee met three times during the year. Details of the meeting attendance during the financial year was as follows:

Director	Remuneration Committee meetings attended
Michael Farrow – Chairman	3
Jonathan Marren	3
Neil O'Brien	2
Lawrence Zulch	2†
Matthew Harper	2†
Rajat Kohli	2†
Peter Dixon-Clarke	1†
Former Director	
Fraser Welham (resigned 10 August 2020)	2†
Total meetings during year	**3**

† Invitee

During the financial year, the Committee's main areas of activity included:

- Approving bonus awards in respect of the year ended 31 December 2019;
- Approving the 2020 KPIs for the executive bonus plan;
- Approving amendments to the employee and consultant share option plan following the merger between redT Energy PLC and Avalon Battery Corporation; and
- Approving the grants of the following options:
  - new options in substitution and cancellation of options held under the Avalon Battery Corporation 2013 Equity Incentive Plan
  - replacement options for employees of redT Energy PLC
  - option awards to group employees under the Option Plan.

No individual is involved in determining his or her own remuneration.

Directors' remuneration was considered only when all three members of the committee were in attendance. The consideration of Directors remuneration did not involve any director who was not formally a committee member.

External advice

The Committee obtains external legal advice from Fox Williams in relation to employment matters.

During the period, the Committee also received advice from JD Ghosh, an independent tax consultant, in relation to the Option Plan and the adjustments as a consequence of the merger.

The Committee considers that the advice it received during the financial period was objective and independent.

Total remuneration paid during the year ended 31 December 2020

The table below reports a single figure for total remuneration for each Executive Director:

	Salary £'000	Salary £'000	**Benefits £'000**	Benefits £'000(i)	**Annual bonus £'000**	Annual bonus £'000	**Long-term incentives £'000**	Long-term incentives £'000	**Pension benefits £'000**	Pension benefits £'000	**Total £'000**	Total £'000
Directors as at 31 December 2020	**Year ended 31 Dec 2020**	Year ended 31 Dec 2019	**Year ended 31 Dec 2020**	Year ended 31 Dec 2019	**Year ended 31 Dec 2020(ii)**	Year ended 31 Dec 2019	**Year ended 31 Dec 2020**	Year ended 31 Dec 2019	**Year ended 31 Dec 2020**	Year ended 31 Dec 2019	**Year ended 1 Dec 2020**	Year ended 31 Dec 2019
L Zulch (appointed 2 April 2020)	**103.9**	N/A	**–**	N/A	**–**	N/A	**–**	N/A	**–**	N/A	**103.9**	N/A
M Harper (appointed 2 April 2020)	**106.6**	N/A	**1.4(i)**	N/A	**–**	N/A	**11.2(iii)**	N/A	**–**	N/A	**119.2**	N/A
P Dixon-Clarke (appointed 10 August 2020)	**63.0**	N/A	**–**	N/A	**–**	N/A	**–**	N/A	**3.0**	N/A	**66.0**	N/A
Former Directors												
S McGregor (resigned 14 March 2019)	**N/A**	42.0	**N/A**	1.0	**N/A**	–	**N/A**	–	**N/A**	2.0	**N/A**	45.0
F Welham (resigned 10 August 2020)	**88.0**	150.0	**8.0**	13.0	**115.0**	–	**–**	–	**5.0**	8.0	**216.0**	171.0

(i) Represents employer contribution to private medical and dental insurance cover

(ii) Represents amounts paid in respect of the year ended 31 December 2019

(iii) Represents value of options which vested in the period from the date of the Merger to 31 December 2020 based on mid-market price on the various vesting dates. The options had not been exercised as at the date of this report.

The table below reports a single figure for total remuneration for each Non-Executive Director:

Directors as at 31 December 2020	**Fees £'000 Year ended 31 Dec 2020**	Fees £'000 Year ended 31 Dec 2019	**Total Fees T£'000 Year ended 31 Dec 2020**	Total Fees £'000 Year ended 31 Dec 2019
N O'Brien (Executive Chairman until 2 April 2020 and Non-Executive Chairman thereafter)	**60.0**	55.0	**60.0**	55.0
M Farrow	**30.0**	30.0	**30.0**	30.0
R Kohli (appointed 22 June 2020) *	**15.0**	N/A	**15.0**	N/A
J Marren	**30.0**	30.0	**35.0**	35.0
Former directors				
J Kenna (resigned 31 December 2019)	**N/A**	36.0	**N/A**	36.0

* R Kohli was the nominated director of Bushveld Minerals during 2020 and 50% of his fees were recharged to Bushveld

No fees were paid to Non-Executive Directors for membership of a committee or for attending committee meetings.

Additional information in respect of single figure table of remuneration for the year ended 31 December 2020

Annual bonus

In respect of the financial period, the Committee agreed that the Executive Director annual bonus opportunity would be up to 100 per cent of base salary. The Committee had agreed objectives for the 2020 financial year relating to:

- Value of sales orders closed;
- Staff retention;
- Staff and contractor expenses;
- Timely receipt of cash on key contracts; and
- Development of strategic relationships

The Committee agreed that the final bonus calculation for 2020 was 66.7% on the basis of the extent to which the objectives had been achieved. The Committee had recommended to the Board that cash bonuses be awarded for the full year to Larry Zulch and Matt Harper and on a pro rata basis to Peter Dixon-Clarke who had joined the Company later in the year.

All Directors' bonus payments in respect of the year ended 31 December 2020, where applicable, were paid after the year-end.

Awards of options during the financial year

The table below summarises the options granted to Executive Directors during the financial year.

Director	Date of grant	Number of options	Exercise price	Vesting date
M Harper	1 April 2020* (revised)	263,034	£0.0434	Options vest on a monthly basis over a five-year period from 15 July 2014
M Harper	1 April 2020* (revised)	73,065	£0.0434	Options vest on a monthly basis over a five-year period from 1 July 2016
M Harper	26 August 2020	300,000	£1.13	Options vest in equal instalments at the end of years 1, 2 and 3 following date of grant
P Dixon-Clarke	26 August 2020	500,000	£1.13	Options vest in equal instalments at the end of years 1, 2 and 3 following date of grant

* Following the merger between redT Energy PLC and Avalon Battery Corporation, the Company granted new options in substitution for and cancellation of options held under the Avalon Battery Corporation 2013 Equity Incentive Plan which had original dates of grant of 21 November 2014 and 7 July 2016.

Implementation of Executive Director remuneration policy for 2021

Base salaries

No increases to base salaries were implemented for the Executive Directors for the 2021 financial year.

Annual bonus

For 2021, the Executive Director annual bonus will be determined as a percentage of base salary based on performance against pre-agreed corporate objectives. The maximum bonus potential is 100% of base salary.

For the financial year ending 31 December 2021, the Committee has agreed objectives with equal weighting relating to project delivery, signed sales contracts and the development of strategic relationships.

Option Plan

The Committee does not plan to make any awards of share options to Executive Directors under the Option Plan during the 2021 financial year.

Benefits and pension contributions

The Executive Directors will receive the benefits and pension contributions in line with the policy.

Implementation of Non-Executive Director remuneration policy for 2021

Since the year end, the Board has appointed a Senior Independent Director and has set the fee payable for this role as £5,000 per annum in addition to the basic fee for a Non-Executive Director. In addition, the fee for acting as Remuneration Committee Chairman, which had previously been waived, will be reinstated with effect from 1 January 2021. No further adjustments to Non-Executive Director fees are planned for the 2021 financial year.

The current fees are set out in the table below:

Role	Type of fee	
Chairman	Total fee	£60,000
Other Non-Executive Directors	Basic fee Chairman of Remuneration and Audit & Risk Committees Senior Independent Director	£30,000 £5,000 £5,000

Statement of directors' shareholdings

The table below summarises the interests in shares of the Directors in office at the year-end:

	Ordinary €0.50 shares at 31 December 2020	Percentage of issued share capital at 31 December 2020
Neil O'Brien	**87,500**	0.10
Lawrence Zulch (appointed 2 April 2020)	**2,231,949**	2.57
Matthew Harper (appointed 2 April 2020)	**1,597,845**	1.84
Peter Dixon-Clarke (appointed 10 August 2020)	**–**	–
Michael Farrow	**9,224**	0.01
Rajat Kohli (appointed 22 June 2020)	**–**	–
Jonathan Marren	**155,876**	0.18

Outstanding awards under the Option Plan

Director	Date of grant	Exercise price	Options held at date of Merger	Vested as at date of Merger	Lapsed/ Relinquished during year	Vested since date of Merger	Options held at 31 December 2020	Earliest vesting date
Matt Harper	1 April 2020* (revised)	£0.0434	263,034	263,034	–	–	263,034	Options fully vested
Matt Harper	1 April 2020* (revised)	£0.0434	73,065	54,799	–	9,742	73,065	Monthly vesting commenced on 1 July 2016
Matt Harper	26 August 2020	£1.13	N/A	–	–	–	300,000	26 August 2021
Peter Dixon-Clarke	26 August 2020	£1.13	N/A	–	–	–	500,000	26 August 2021

* Following the merger between redT Energy PLC and Avalon Battery Corporation, the Company granted new options in substitution and cancellation of options held under the Avalon Battery Corporation 2013 Equity Incentive Plan which had original dates of grant of 21 November 2014 and 7 July 2016. The options have retained the original vesting dates.

Share price movements during year ended 31 December 2020

The mid-market closing price of the company's shares as at 31 December 2020 was 230 pence per share. The range of the trading price of the company's shares since the merger was between 32.5 pence and 245 pence per share.

Michael Farrow
Chairman of the Remuneration Committee

30 June 2020

Directors' report

Corporate Governance
The company's Corporate Governance Statement is set out on pages 15 to 18 and is deemed to form part of this report by reference.

Principal activity
The principal activity of the group is the development and production of vanadium flow batteries.

Results and dividends
The trading results for the year, and the group's financial position at the end of the period are shown in the attached financial statements. The Directors have not recommended a dividend for the year (year ended 31 December 2019: £nil).

Substantial shareholders
At 31 May 2021, the company had been notified of the following interests of three percent or more of the company's voting rights.

Shareholder/ Fund Manager	Number of shares	% of issued share capital
Schroders plc	18,786,859	21.64%
GSR Ventures	8,495,506	9.78%
Brantingham & Carroll International	7,093,026	8.17%
Johnson Chiang	6,420,074	7.39%
Hong Kong Hao Yuan Shen Trading	3,579,276	4.12%

Directors
The present members of the Board are as listed in the Board composition section of the Governance Report. The interests of the Directors in office at the year-end in the share capital of the company are shown in the Directors' Remuneration Report along with details of their service contracts and terms of appointment.

Post balance sheet events
On 11 May 2021, the company announced that it had entered into a Joint Development and Commercialisation Agreement ("JDCA") with Gamesa Electric S.A.U. ("Gamesa Electric"), a wholly owned subsidiary of Siemens Gamesa Renewable Energy ("SGRE"), to:

- Jointly develop a grid-scale vanadium flow battery ("VFB") based on the company's proven technology and incorporating Gamesa Electric's advanced power conversion systems;
- Cooperatively manufacture the VFB upon achieving a jointly validated design; and
- Commercialize the VFB through each company's sales channels.

The JDCA sets out a detailed development program for the next-generation VFB that is expected to take approximately two years to reach commercialisation. Over this period, Gamesa Electric has agreed to fund an aggregate US$4.62 million of the Company's activities within the joint development program, payable as development milestones are met. The JDCA may be terminated by Gamesa Electric should there be a failure to advance through development stages. In addition to the joint activities, each company will independently advance their core technology to support program deliverables.

The company and Gamesa Electric have also entered into an Option Agreement granting Gamesa Electric or its nominee within the SGRE group an option for 9.99 per cent. of the company's issued share capital as at the date of this announcement (the "Option", the "Option Shares") at £1.75 per share, the same as the company's most recent placing in December 2020. If the option were to be exercised, Gamesa Electric or its nominee would have the right to appoint a director to the Company's board subject to Gamesa Electric or its nominee maintaining a minimum 5% shareholding in Invinity. The ability to exercise the Option is subject to Company shareholders' approval.

In addition, on 17 May 2021, the company announced that it had concluded contracting on another project awarded funds by the California Energy Commission (CEC). This follows the company's announcement in Q4 2020 that it has been selected for a number of projects funded by the CEC, California's primary energy policy and planning agency.

Invinity has entered into a contract with Webcor, a leading Californian construction firm, to provide a vanadium flow battery (VFB) for a project developed by Indian Energy LLC, a 100% Native American-owned utility-scale and microgrid development and systems integration firm with approximately 4 GW of solar PV and wind and 6 GWh of energy storage projects under development.

The 0.5 MWh system is expected to be delivered during Q4 2021 and to contribute revenue of approximately £450,000 to the Company, relating to the Invinity VS3 vanadium flow battery, ancillary components and associated services.

Going concern

These considerations are summarised as follows as they relate to the 31 December 2020 Annual Report and Financial Statements:

In the fourth quarter of 2020, prior to the second UK lockdown, the group raised £21.5 million by way of a placing and open offer. Whilst the placing was significantly over-subscribed, the directors chose to limit the number of new shares issued and hence funds raised to the authorities then held for the dis-application of pre-emption rights, as this supported the business plan at that time.

The purpose of the placing was to provide funds for the planned scale-up of the business in order to accelerate the delivery of existing contracts and the closing of new contracts as well as driving the product cost savings arising from greater economies of scale. Whilst the group has been scaling up during the first half of 2021, the impact of the second lockdown delayed the delivery of existing contracts and the closing of new contracts and has also resulted in increased input costs, particularly related to shipping services and steel.

The group's cash balances at the end of May 2021 totalled £14.3 million. The group's latest cash flow forecasts indicate that, provided existing contracts are delivered and new contracts are signed as forecast and that materials costs start to return to pre-lockdown levels in 2022, the existing cash will be sufficient to fund the business for at least the next 12 months.

Should customer receipts, from delivering existing contracts or closing new contracts, be delayed by two months then, assuming the group maintains its current operational capacity it will be necessary for it to raise further funding within the next 12 months in order to continue trading and delivering on its strategic objectives.

Based on the recent signing of a Joint Development Commercialisation Agreement (JDCA) with Gamesa Electric S.A.U. (a wholly owned subsidiary of Siemens Gamesa Renewable Energy) along with ongoing discussions with existing and potential customers, grant providers, investors and debt providers, the directors are optimistic that the necessary customer receipts or, if delayed, additional funding will be secured in the appropriate time scale. It therefore considers it appropriate to present these financial statements on a going concern basis.

However, the group's need to secure customer receipts or additional funding, creates a material uncertainty that casts significant doubt about its ability to continue as a going concern. In addition to the issues discussed above, the directors have also reviewed other varying, and wide-ranging information relating to both present and future conditions when reaching their conclusion regarding going concern. These included the:

- opportunity presented by the emergent energy storage market;
- commercial viability of the group's existing product within this market;
- growing sales pipeline of 273MWh against 203MWh at the March Trading Update; and
- validation of the business as provided by the JDCA with Gamesa Electric.

Having taken all the above factors into account, the directors continue to believe it is appropriate to prepare these financial statements on a going concern basis, noting the material uncertainty that exists arising from the need to secure customer receipts or long-term funding within the coming months.

The financial statements do not include any adjustments that would be necessary if the group were unable to continue as a going concern.

Principal risks and uncertainties

Information relating to the principal risks and uncertainties facing the group is set out in the risk management report.

Share capital

The issued share capital of the company at 1 January 2020 was £8,157k with share premium of £101,035k comprised of 951,250k ordinary shares of €0.01. There were no shares held in treasury.

Concurrent with the merger with Avalon, the share capital was consolidated with every 50 shares of €0.01 each becoming a single share of €0.50 each (rounded down to the closest whole share.

A total of 66,875k new ordinary shares of €0.50 each were issued during the year and principally related to the merger transaction that completed on 1 April 2020 together with the two placings of shares and associated and open offers undertaken in April and December 2020, respectively.

The issued share capital of the company at 31 December 2020 was £37,870k comprised of 85,900 ordinary shares of €0.50. and with associated share premium of £124,545k. There were no shares held in treasury.

Related party transactions

Related party transactions are disclosed in notes 15 and 31 to the financial statements.

Financial instruments

For the period under review the group held no financial instruments, outside of cash and receivables. Financial risk management policies are disclosed in note 30 to the financial statements.

Political and charitable contributions

The group made no charitable donations (year ended 31 December 2019: £nil) and no political donations (year ended 31 December 2019: £nil) during the year.

Creditor payment policy

The group does not follow any specific code or standard on payment practice. However, it is the policy of the group to ensure that all of its suppliers of goods and services are paid promptly and in accordance with contractual and legal obligations. Average creditor days for the year were 37 days (year ended 31 December 2019: 25 days), on the basis of accounts payable as a percentage of amounts invoiced during the year.

Directors' and Officers' insurance

The group maintained directors' and officers' liability insurance cover throughout the period. The Directors are also able to obtain independent legal advice at the expense of the group, as necessary, in their capacity as Directors.

Employees

The group had 101 employees at the year end, three of whom are Executive Directors. The Group seeks to employ people on the basis of merit and ability to perform the required roles. The Group does not discriminate on any grounds including race, gender, religion, age, nationality or sexual orientation.

Relations with shareholders

The company provides shareholders and stakeholders with relevant information in a timely and balanced manner. We understand and respect the rights of shareholders, will convene Annual General Meetings in full consideration of these rights, and encourage full participation of both institutional and private investors.

Auditor

A resolution for the re-appointment of PricewaterhouseCoopers LLP as auditor of the company will be proposed at the forthcoming Annual General Meeting.

Peter Dixon-Clarke
Chief Financial Officer

30 June 2021

Statement of Directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulation.

The Companies (Jersey) Law, 1991 requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union.

Under The Companies (Jersey) Law, 1991, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

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

The directors are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 (Jersey) Law, 1991.

The directors are responsible for the maintenance and integrity of the group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

In the case of each director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the group's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group's auditors are aware of that information.

Independent auditors' report to the members of Invinity Energy Systems plc

Report on the audit of the financial statements

Opinion

In our opinion, Invinity Energy Systems plc's group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2020 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted in the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

We have audited the financial statements, included within the Annual report and Financial Statements (the "Annual Report"), which comprise: the Consolidated statement of financial position as at 31 December 2020; the Consolidated statement of comprehensive loss, the Consolidated statement of changes in equity and the Consolidated statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the group's ability to continue as a going concern. Whilst the group has secured £21.5 million additional funding during the year through a placing and open offer, the appropriateness of the going concern assessment of the group is dependent on existing contracts being delivered as planned, new contracts being signed as forecast and that materials costs start to return to pre-lockdown levels in 2022. If these conditions are not met, the group is forecasted to require additional funding in order to continue trading and delivering on its strategic objectives. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group were unable to continue as a going concern.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's ability to continue to adopt the going concern basis of accounting included:

- obtaining future cash flow forecasts for a period of at least 12 months from the date of approval of the financial statements. We assessed the forecast assumptions used in the base and severe but plausible downside scenarios and the impact of COVID-19 on these forecasts;
- review of the past forecasting accuracy by management;
- testing the mathematical accuracy of the model;
- corroborating the forecasted budgeted revenue with confirmed sales orders or revenue pipeline of the group;
- comparing the assumptions used within the going concern model to the board approved budgets and business plans;
- reviewing and evaluating management's sensitivities and performing additional sensitivity analysis over key assumptions in the model in order to assess the potential impact of a range of possible outcomes; and
- reading the disclosures in the financial statements and checking these were consistent with the group's plans for future fundraising and the group's current funding position.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Our audit approach

Context

Invinity Energy Systems plc is an independent, Jersey incorporated company. Its key subsidiaries are based in the UK, Canada and United States of America. The principal activities of the company and its subsidiaries relate to the manufacture and sale of vanadium flow battery systems plus associated installation, warranty and other services. Its manufacturing and assembly sites are located in the UK and Canada.

Overview

Audit scope

- We conducted full scope audits on 4 components and the audit of specified balances and classes of transactions on 1 component. The scope of work at each component was determined by its contribution to the group's overall financial performance and its risk profile.
- We engaged our network firm in Canada to perform the audit procedures for components based in the United States of America and Canada. The work on the other components was performed by us.
- The components where audit work was performed accounted for approximately 99% of total assets.

Key audit matters

- Material uncertainty related to going concern
- Impairment of goodwill with respect to group (Note 8)
- Accounting for acquisition and purchase price allocation of Avalon Battery Corporation (Note 7)
- COVID-19 risks and uncertainties (Note 2)

Materiality

- Overall materiality: £500,000 (2019: £154,000) based on 1% of total assets.
- Performance materiality: £375,000.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

Accounting for acquisition and purchase price allocation of Avalon Battery Corporation is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill with respect to group (Note 8) The group holds intangible assets, including goodwill (£23,944k), which arose on the acquisition of the remaining shareholding of redT Energy Holdings (Ireland) Limited and acquisition of Avalon Battery Corporation. IAS 36 Impairment of assets requires an annual impairment assessment to be carried out for all indefinite life intangibles (goodwill) and whenever there are any indications of impairment for all other assets. We focused on this area due to the material nature of the intangibles balance and given that the group is currently incurring losses, there is a risk that the value of goodwill may not be recoverable. In addition, as impairment assessments are based on key assumptions, which are inherently subjective, this heightens the risk around carrying value of intangible assets.	We tested management's impairment assessment of goodwill and intangible assets by performing the work described below: – checking the mathematical accuracy of key formulae in the impairment models; – corroborating the inputs to the fair value less cost of disposal assessment of impairment; – reviewing management's sensitivities over key assumptions in the model in order to assess the potential impact of a range of possible outcomes; – assessing the inclusion of all appropriate assets and liabilities in the cash generating unit and agreed that all relevant balances had been included; and – verifying the adequacy of relevant disclosures in the group financial statements. Based on the work performed, we determined that the assumptions used, and the approach taken, were reasonable. The recoverability of the goodwill is interlinked with the going concern assumption therefore the recoverability of the asset is at risk should the group not continue as a going concern.
Accounting for acquisition and purchase price allocation of Avalon Battery Corporation (Note 7) The group's acquisition of Avalon Battery Corporation completed on 1 April 2020. The total purchase consideration used in accounting for the business combination and related transactions was £17,258k. Net liabilities of £948k were taken over in the acquisition and the resultant goodwill recognised on acquisition amounted to £18,206k. The group was required to complete an acquisition accounting exercise in accordance with IFRS 3. This comprised determination of acquirer, determining fair value of the consideration payable and allocation of consideration across various assets and liabilities acquired, intangibles assets and resultant goodwill. There was significant judgement involved in determination of acquirer as per IFRS 3 and related to the purchase price allocation exercise. This was an area of focus given the material values associated with the acquisition and the inherently judgemental nature of the valuation required by management.	We performed audit procedures over the accounting for acquisition and purchase price allocation of Avalon Battery Corporation by performing the work described below: – audit procedures were performed to test material balances in Avalon Battery Corporation balance sheet on the date of the acquisition; – we obtained an understanding of the methodology applied in allocating the purchase consideration to assets and liabilities acquired, intangible assets and resultant goodwill; – we reviewed the judgements applied by the management in determining the acquirer in the business combination; – we tested the disclosures in the financial statements and checked for compliance with the requirements of IFRS 3 'Business Combinations. Based on our work performed, we consider accounting for acquisition and purchase price allocation of Avalon Battery Corporation has been performed appropriately.

Key audit matter	How our audit addressed the key audit matter
COVID-19 risks and uncertainties (Note 2) The COVID-19 pandemic has caused significant global disruption and economic uncertainty, including increased volatility in commodity prices which has impacted the group's results and resulted in the delays in execution of revenue projects. The uncertainty caused by the pandemic could have a direct impact on the going concern of the group.	In challenging management's assessment of the impact of COVID-19 on their business, our procedures included: – conducting enquiries with key members of management outside of the finance function, to understand the group's mitigating actions and contingency plans; – reviewing board reporting about the business impact of the matter; – with respect to work performed on going concern – refer section "Material uncertainty related to going concern"; and – reviewing the related financial statement disclosures for consistency with the results of our procedures. Based on the procedures performed and based on the current facts and circumstances we believe that management's disclosures in relation to COVID-19 are appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which it operates.

The group has one segment and cash generating unit. Following the acquisition of Avalon Battery Corporation, the group has two manufacturing and assembly locations in the UK and Canada. The accounting and financial reporting functions are also based in these two regions. The group has 15 components.

Our group scoping was based on total assets within each component. We identified four components (the company, Invinity Energy (UK) Limited, Invinity Energy Systems (Canada) Corporation and Invinity Energy Systems (US) Corporation) which comprised a high proportion of total group assets which required an audit of their complete financial information. One other component was subject to procedures over the intangibles and contract liabilities financial statement line item level to obtain sufficient coverage.

The audit work was performed by the group engagement team based in the UK and component auditors team based in Canada. We maintained regular communication and conducted formal interim and year-end conference calls with component team, as well as reviewing the audit work and reports to us.

Together the above scoping gave appropriate coverage of all material balances at a group level. On a consolidated basis, these provided coverage of 99% of Total assets.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£500,000 (2019: £154,000).
How we determined it	1% of total assets
Rationale for benchmark applied	We believe that total assets are an appropriate measure for the group given the current stage of development of the business and products.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £150,000 and £450,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £375,000 for the group financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £25,000 (2019: £7,700) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to tax legislation and employment regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial results and potential management bias in accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Evaluation of the design effectiveness of management's controls designed to prevent and detect irregularities;
- Inquiries with the Board of Directors, Chief Financial Officer, Financial Controllers and the HR Managers, including consideration of known or suspected instances of tax matters, employment regulations and non-compliance with laws and regulations and fraud;
- Review of board minutes;
- Challenging assumptions made by management in its significant accounting estimates, in particular in relation to impairment of intangible assets, provision for warranty, inventory and onerous contracts; and
- Identifying and testing the validity of journal entries, in particular any journal entries posted with unusual account combinations and unusual words.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies (Jersey) Law 1991 exception reporting

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion we have not obtained all the information and explanations we require for our audit.

We have no exceptions to report arising from this responsibility.

Richard Spilsbury
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants
Edinburgh

30 June 2021

Consolidated statement of comprehensive loss

For the year ended 31 December 2020

Continuing operations	Note	2020 £'000	Restated 2019 £'000
Revenue	3	**406**	227
Cost of sales	5	**(1,221)**	(275)
Gross loss		**(815)**	(48)
Operating costs			
Administrative expenses	13	**(9,593)**	(6,565)
Other items of operating income and expense	14	**(9,822)**	(832)
Loss from operations		**(20,230)**	(7,445)
Finance income	18	**1**	1
Finance costs	18	**(2,298)**	(28)
(Loss)/gain on foreign currency transactions		**(1,744)**	92
Net finance costs	18	**(4,041)**	65
Loss before income tax		**(24,271)**	(7,380)
Income tax expense	19	**–**	(5)
Loss from continuing operations		**(24,271)**	(7,385)
Discontinued operations	9		
Loss from discontinued operations after taxation		**–**	(35)
Gain on sale of discontinued operations		**–**	578
Loss for the year		**(24,271)**	(6,842)
Other comprehensive loss			
Items that may reclassified subsequently to profit or loss:			
Exchange difference on the translation of foreign operations		**(2,162)**	(845)
Total comprehensive loss for the year		**(26,433)**	(7,687)
Arising from			
Continuing operations		**(26,433)**	(8,088)
Discontinued operations		**–**	401
		(26,433)	(7,687)
Basic loss per share in pence	21		
From continuing operations		**(41.0)**	(40.6)
From continued and discontinued operations		**(41.0)**	(37.6)
Diluted loss per share in pence	21		
From continuing operations		**(41.0)**	(40.6)
From continued and discontinued operations		**(41.0)**	(37.6)

The above consolidated statement of comprehensive loss should be read in conjunction with the accompanying notes.

Prior year loss per share has been restated to give effect to the 50:1 share consolidation that took place on 1 April 2020. The restatement is made to aid comparability with current year loss per share.

Consolidated statement of financial position

At 31 December 2020

	Note	2020 £'000	Restated 2019 £'000
Non-current assets			
Property, plant and equipment	10	**695**	254
Right-of-use assets	11	**1,014**	71
Goodwill and other intangible assets	8	**24,127**	12,789
Total non-current assets		**25,836**	13,114
Current assets			
Inventories	26	**905**	236
Other current assets	24	**1,414**	726
Contract assets	4	**5**	58
Trade receivables	23	**33**	62
Cash and cash equivalents	25	**21,953**	1,243
Total current assets		**24,310**	2,325
Total assets		**50,146**	15,439
Current liabilities			
Trade and other payables	27	**(2,468)**	(1,523)
Contract liabilities	4	**(2,644)**	(38)
Lease liabilities	12	**(161)**	(52)
Borrowings	28	**–**	(1,143)
Provisions	4	**(1,927)**	(95)
Total current liabilities		**(7,200)**	(2,851)
Net current assets/ (liabilities)		**17,110**	(256)
Non-current liabilities			
Lease liabilities	12	**(595)**	–
Total non-current liabilities		**(595)**	–
Total liabilities		**(7,795)**	(2,851)
Net assets		**42,351**	12,588
Share capital and share premium	29	**162,415**	109,192
Share based payment reserve	29	**3,762**	2,250
Accumulated losses	29	**(122,185)**	(97,914)
Other reserves	29	**(1,641)**	(940)
Total equity		**42,351**	12,588

The above consolidated statement of comprehensive loss should be read in conjunction with the accompanying notes.

The financial statements on pages 43 to 95 were authorised by the board of directors and authorised for issue on 30 June 2020 and were signed on its behalf by:

Michael Farrow
Director

Consolidated statement of changes in equity

For the year ended 31 December 2020

	Share capital and share premium £'000	Share-based payment reserve £'000	Accumulated losses £'000	Translation reserve £'000	Other reserves £'000	Total £'000
At 1 January 2020	**109,192**	**2,250**	**(97,914)**	**482**	**(1,422)**	**12,588**
Total comprehensive loss for the year	**–**	**–**	**(24,271)**	**–**	**–**	**(24,271)**
Other comprehensive loss						
Foreign currency translation differences	**–**	**–**	**–**	**(2,162)**	**–**	**(2,162)**
Total comprehensive loss for the year	**–**	**–**	**(24,271)**	**(2,162)**		**(26,433)**
Transaction with owners in their capacity as owners						
Contribution of equity, net of transaction costs	**31,734**	**–**	**–**	**–**	**–**	**31,734**
Issue of ordinary shares as consideration for a business combination, net of transaction costs	**21,403**	**–**	**–**	**–**	**–**	**21,403**
Exercise of share options	**86**	**–**	**–**	**–**	**–**	**86**
Fair value realised on note conversion	**–**	**–**	**–**	**–**	**1,461**	**1,461**
Share based payments	**–**	**1,512**	**–**	**–**	**–**	**1,512**
Total contributions by and distributions to owners	**53,223**	**1,512**	**–**	**–**	**1,461**	**56,196**
At 31 December 2020	**162,415**	**3,762**	**(122,185)**	**(1,680)**	**39**	**42,351**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

	Share capital and share premium £'000	Share-based payment reserve £'000	Accumulated losses £'000	Translation reserve £'000	Other reserves £'000	Total £'000
At 1 January 2019	106,250	2,225	(91,072)	1,327	(1,422)	17,308
Total comprehensive loss for the year	–	–	(6,842)	–	–	(6,842)
Other comprehensive loss						
Foreign currency translation differences	–	–	–	(845)	–	(845)
Total comprehensive loss for the year	–	–	(6,842)	(845)	–	(7,687)
Transaction with owners in their capacity as owners						
Contribution of equity, net of transaction costs and taxes	2,942	–	–	–	–	2,942
Share based payments	–	25	–	–	–	25
Total contributions by and distributions to owners	2,942	25	–	–	–	2,967
At 31 December 2019	109,192	2,250	(97,914)	482	(1,422)	12,588

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the year ended 31 December 2020

	Note	2020 £'000	Restated 2019 £'000
Cash flows from operating activities			
Cash used in operations	6	**(10,885)**	(6,660)
Interest received		**1**	1
Interest paid		**(32)**	(3)
Income taxes paid		**–**	(5)
Net cash outflow from operating activities		**(10,916)**	(6,667)
Cashflows from investing activities			
Acquisition of property plant and equipment	10	**(349)**	(6)
Acquisition of intangible assets	8	**(9)**	–
Proceeds from the sale of discontinued operations	9	**–**	628
Net cash outflows from investing activities		**(358)**	622
Cashflows from financing activities			
Payment of lease liabilities		**(163)**	(91)
Proceeds from the issue of share capital, net of transaction costs		**28,915**	2,942
Proceeds from the issuance of convertible notes, net of transaction costs		**1,944**	–
Proceeds from borrowings	28	**–**	1,165
Acquisition of cash through business combination	7	**1,264**	–
Proceeds from the exercise of share options		**37**	–
Net cash inflow from financing activities		**31,997**	4,016
Net increase/(decrease) in cash and cash equivalents		**20,723**	(2,029)
Cash and cash equivalents at the beginning of the year		**1,243**	3,344
Effects of exchange rate changes on cash and cash equivalents		**(13)**	(72)
Cash and cash equivalents at the end of the year	25	**21,953**	1,243

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

Notes

(forming part of the consolidated historical financial information)

1 General Information

Invinity Energy Systems plc is a public limited company (plc) incorporated in Jersey under the Companies (Jersey) Law 1991 and limited by shares. The company is domiciled in Jersey with its registered office address at: 3rd floor, Standard Bank House, 47-49 La Motte Street, St. Helier Jersey, JE2 4SZ. The company is listed on the Alternative Investment Market of the London Stock Exchange with the ticker symbol IES.L.

The principal activities of the company and its subsidiaries (together 'the group') relate to the manufacture and sale of vanadium flow battery systems plus associated installation, warranty and other services.

2 Summary of significant accounting policies

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, the associated interpretations issued by the IFRS Interpretations Committee (together 'IFRS') and in accordance with the Companies (Jersey) Law 1991.

Separate presentation of the parent company financial statements is not required by the Companies (Jersey) Law 1991 and, accordingly, such statements have not been included in this report.

The significant accounting policies applied in preparing these consolidated financial statements are set out below. These policies have been consistently applied throughout the period and to each subsidiary within the group.

The financial statements have been prepared under the historical cost convention except where stated.

Going concern

In the fourth quarter of 2020, prior to the second UK lockdown, the group raised £21.5 million (after expenses) by way of a placing and open offer. Whilst the placing was significantly over-subscribed, the directors chose to limit the number of new shares issued and hence funds raised to the authorities then held for the dis-application of pre-emption rights, as this supported the business plan at that time.

The purpose of the placing was to provide funds for the planned scale-up of the business in order to accelerate the delivery of existing contracts and the closing of new contracts as well as driving the product cost savings arising from greater economies of scale. Whilst the group has been scaling up during the first half of 2021, the impact of the second lockdown delayed the delivery of existing contracts and the closing of new contracts and has also resulted in increased input costs, particularly related to shipping services and steel.

The group's cash balances at the end of May 2021 totalled £14.3 million. The Group's latest cash flow forecasts indicate that, provided existing contracts are delivered and new contracts are signed as forecast and that materials costs start to return to pre-lockdown levels in 2022, the existing cash will be sufficient to fund the business for at least the next 12 months.

Should customer receipts, from delivering existing contracts or closing new contracts, be delayed by two months then, assuming the group maintains its current operational capacity it will be necessary for it to raise further funding within the next 12 months in order to continue trading and delivering on its strategic objectives.

Based on the recent signing of a Joint Development Commercialisation Agreement (JDCA) with Gamesa Electric S.A.U. (a wholly owned subsidiary of Siemens Gamesa Renewable Energy) along with ongoing discussions with existing and potential customers, grant providers, investors and debt providers, the directors are optimistic that the necessary customer receipts or, if delayed, additional funding will be secured in the appropriate time scale. It therefore considers it appropriate to present these financial statements on a going concern basis.

However, the group's need to secure customer receipts or additional funding, creates a material uncertainty that casts significant doubt about its ability to continue as a going concern. In addition to the issues discussed above, the directors have also reviewed other varying, and wide-ranging information relating to both present and future conditions when reaching their conclusion regarding going concern. These included the:

Notes

(forming part of the consolidated historical financial information)

- opportunity presented by the emergent energy storage market;
- commercial viability of the group's existing product within this market;
- growing sales pipeline of 273MWh against 203MWh at the March Trading Update; and
- validation of the business as provided by the JDCA with Gamesa Electric.

Having taken all the above factors into account, the directors continue to believe it is appropriate to prepare these financial statements on a going concern basis, noting the material uncertainty that exists arising from the need to secure customer receipts or long-term funding within the coming months.

The financial statements do not include any adjustments that would be necessary if the group were unable to continue as a going concern.

Reclassification of prior year figures
In preparing the financial statements for the year ended 31 December 2020, certain changes have been made to the comparative financial information presented in respect of the year ended 31 December 2019. All of the changes made relate to the reclassification of transactions or balances to improve the financial statement presentation and better reflect the underlying nature of transactions and balances in question.

There has been no change to either net assets at 31 December 2019 or to net loss for the year ended 31 December 2019 as previously reported. Accounting standards require that reclassifications are presented as restatements of previously reported financial information.

Summary of reclassifications made
Revenue and administrative costs, notes 3, 13
Grant income received in the year ended 31 December 2019 and recognised as revenue in that year has been reclassified where the terms of the grant show that grant funds received relate to contributions in respect of development or other costs. A total of £436k previously recognised as revenue have been reclassified to administrative costs to offset the underlying costs the grants were awarded in respect of.

Cost of sales and administrative expenses, notes 5, 13
Overhead and other costs of £60k related to operational staff or facilities that were classified within administrative costs in 2019 have been reclassified as cost of sales. The revised presentation is considered to better reflect the nature of the costs.

Administrative and other items of operating income and expense, notes 13, 14
Inventory impairments of £332k that were classified within administrative costs in 2019 have been reclassified as other items of operating income and expense. The revised presentation is considered to better reflect the nature of the costs.

Trade receivables and accrued income, other current assets, notes 23, 24
In 2019, trade receivables were presented together with accrued income. Amounts receivable related to grant awards totalling £125k and previously included within trade receivables and accrued income have been reclassified as other current assets. This presentation is consistent with no longer presenting certain grant income as revenue.

Accrued income and contract related balances, note 4
In 2019, trade receivables and accrued income included £58k related to accrued customer receipts. This amount has been reclassified as contract related balances in the current period.

Financial risk management, note 30
The reclassifications related to trade receivables, other current assets and contract related balances has caused the sensitivity analysis presented within the financial risk management footnote to be updated to reflect the adjusted balances.

Notes

(forming part of the consolidated historical financial information)

Foreign currency
Presentation currency – the consolidated financial statements are presented in Great British Pounds (GBP) rounded to the nearest thousand (£'000), except where otherwise indicated.

Functional currency – items included in the financial information of the individual companies that comprise the group are measured using the currency of the primary economic environment in which each subsidiary operates (its functional currency).

Whilst Jersey uses the Jersey Pound as its currency, Jersey is in a currency union with the United Kingdom and hence the functional currency of the parent company of the group has been determined to be GBP.

Foreign currency transactions – transactions in currencies other than an entity's functional currency (foreign currencies) are translated using the exchange rate on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of transactions denominated in a foreign currency are translated into GBP using the relevant exchange rate at the date of the transaction.

Foreign currency gains/(losses) realised on the retranslation of subsidiaries as part of the year-end consolidation are recorded in the translation reserve that forms a part of shareholders' funds in the consolidated financial statements of the group.

Consolidation of subsidiaries
Subsidiaries are all entities over which the company has control. The company controls an entity when it is exposed to, or has rights over, variable returns from its involvement with the entity and can affect those returns through its ability to exercise control over the entity. Subsidiaries are consolidated in the group financial statements from the date at which control is transferred to the company.

Subsidiaries are deconsolidated from the date that control ceases, for instance because of the sale of a subsidiary or other change in the company's shareholding, voting rights or board representation, such that the company is no longer able to exercise control over the entity in question.

Foreign operations
Subsidiaries of the company that are based in countries other than the UK or Jersey may have functional currencies that are different to the company (Euro). In addition, the group financial statements are presented in Pounds Sterling. The assets and liabilities of foreign subsidiaries consolidated into these financial statements are translated into the group's presentational currency using exchange rates prevailing at the end of the reporting period. Income and expense items are similarly translated using the month-end rate for each month during the year. Where exchange rates fluctuate significantly within a month the exchange rates on the actual dates of transactions are used. Exchange differences arising on consolidation are recognised in other comprehensive income and are accumulated as part of shareholder's equity.

Investments in associates and joint arrangements
Associates are entities where the company can exert significant influence but not control.

Joint arrangements may be incorporated, where an entity exists, or may be unincorporated, where the venture or joint operation is governed by contract or other arrangement between two or more parties.

The company is not currently party to any unincorporated joint arrangements.

The group accounts for its interests in associates and incorporated joint ventures using the equity method of accounting where the relevant investment is initially recorded at the cost to acquire the interest. After initial recognition, the group recognises its share in the post-acquisition income and expenses of the associate in the statement of comprehensive loss with a corresponding increase (for income) or decrease (for losses) in the carrying value of the investment in the associate.

Dividends received by the company from an associate are treated as a reduction in the carrying value of the associate (as the net assets have reduced by it giving the dividend) and income for the group (as its net assets have increased by receiving the dividend).

Notes

(forming part of the consolidated historical financial information)

The group assesses the carrying value of associates for impairment at each reporting period end or where there is an indication that an impairment may exist. Where there is an indication of impairment of an investment, the group assesses if an actual impairment loss exists by comparing the carrying value of the investment to its recoverable amount to assess which is the lower of its fair value less cost to sell or its value in use. Fair value less costs to sell is determined by reference to the proceeds that could be expected to be received should the interest in the associate be sold less the costs of doing so. Value in use is typically calculated by reference to the value of the discounted cashflows expected to be received from the associate.

Where there is a deficit of recoverable value as compared to the carrying value of the investment then an impairment loss is recognised in the income statement of the amount of the deficit. The carrying value of the investment in the associate is also reduced by a corresponding amount.

Acquisitions

The group allocates the purchase consideration given in respect of the acquisition of a subsidiary to the assets acquired and liabilities assumed based on an assessment of their individual fair values at the date of acquisition. Any excess of the cost of the acquisition over the fair value of assets acquired and liabilities assumed in the business combination is recognised as goodwill.

Goodwill is an intangible asset and is reviewed annually to determine if the goodwill can continue to be carried at its originally calculated value or, if circumstances exist that show that the value of the goodwill may be impaired. Goodwill is impaired where circumstances show that the recoverable value of the underlying cash generating unit to which the goodwill that has been allocated can no longer support the carrying value of the goodwill.

The assessment of fair value is made by comparing the discounted value of the future cashflows expected to be generated from the cash generating unit (CGU) to which the goodwill has been allocated to the net book value of the assets and liabilities of that CGU including the allocated goodwill. Any deficit of discounted cash flows when compared to the carrying value of the CGU's net assets and allocated goodwill is recognised as an impairment charge. A corresponding reduction is made to the carrying value of goodwill and then to the net assets of the CGU if goodwill is insufficient to absorb the loss. Goodwill may also be tested for impairment under the fair value less costs to sell method where the recorded value of goodwill is compared to the market or value of the company calculated by reference to its share price.

Any such impairment loss is recognised in profit and loss in the period in which it is identified. Impairment losses related to goodwill cannot be reversed in future years.

Merger transaction with Avalon Battery Corporation (Avalon)

On 1 April 2020, the company completed a business combination transaction with Avalon. The comparative financial information that is presented in these group financial statements consists of the comparative financial information of the legacy Invinity Energy Systems plc group (Invinity) (formerly redT energy plc) for the year ended 31 December 2020. The financial information of the Avalon group has been consolidated within these financial statements for the period from 1 April to 31 December 2020.

Transaction between entities within the group

Transactions and balances between companies forming part of the group together with any unrealised income and expenses arising from intra-group transactions are eliminated in the preparation of the consolidated financial statements of the group.

Discontinued operations

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs on actual disposal or earlier if the operation meets the criteria to be held for sale. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation had been discontinued from the start of the comparative period.

Notes

(forming part of the consolidated historical financial information)

Disposal of subsidiaries

Transactions that result in the loss of control of a subsidiary are accounted for as disposals. The previously consolidated assets and liabilities and the carrying amount of any non-controlling interests in the subsidiary are derecognised. Any retained interest in the former subsidiary is recognised at its fair value at the date when control is lost. A gain or loss on disposal is recognised as the difference between the fair value of the consideration received together with the fair value adjustment made in respect of any retained interest in the subsidiary as offset by the carrying value of the assets and liabilities derecognised. Any gains or losses of the disposed entity that were previously recognised in other comprehensive income or loss and that require to be recycled to profit or loss also form part of the gain or loss on disposal.

New standards, amendments and interpretations effective and adopted by the group in 2020

No new standards became effective for the preparation of financial statements in accordance with IFRS for the year ended 31 December 2020.

Amendments to existing standards previously issued by the IASB with effective dates during the year ended 31 December 2020 are summarised below. With the exception of the amendment to IAS 37, there was no effect on the group's consolidated financial statements for the year ended 31 December 2020 as a result of the adoption of these amendments.

Amendment to IAS 37 – Provisions, contingent liabilities and contingent assets

An amendment to IAS 37 was published in May 2020 and requires the provision in respect of an onerous contract to also include an assessment of the indirect costs, such as production overhead or indirect labour, that are expected to be incurred in servicing a contract considered to be onerous. The company elected to adopt the amendment as of 1 January 2020.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the company. These standards are not expected to have a material impact on the entity in the current or future reporting periods an on foreseeable future transactions

Amendment to IFRS 16 – Leases

IFRS 16 was issued by the IASB in January 2016 with an effective date of 1 January 2019 and introduced a single lease model requiring the recognition of right-of-use assets for all leases with a term greater than 12 months together with a corresponding lease liability. There is no longer any distinction between the accounting treatment for lease contracts that were previously classified as either operating leases or finance leases. IFRS 16 was adopted by the group in its 2019 annual report and financial statements, as required by the standard.

On 28 May 2020, the IASB issued an amendment to the standard related to the treatment of rent concessions given by lessors in relation to COVID-19. The group did not receive any rent concessions related to COVID-19 that would require consideration of the amendment to IFRS 16 and, accordingly, the amendment had no impact on the consolidated financial statements for the year ended 31 December 2020.

Amendments to IFRS 9 – Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, and IFRS 7 – Financial Instruments: Disclosures

On 26 September 2019, the IASB issued 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)' related to potential effects of the IBOR reform on financial reporting related to hedging instruments. The amendment was effective for accounting periods starting on or after 1 January 2020. The company does not currently use hedges or other purchased derivative instruments and therefore there is no impact on the group financial statements for the period ended 31 December 2020.

A second amendment related to the IBOR reform was issued on 27 August 2020 with an effective date of 1 January 2021. This amendment is similarly not expected to have an impact on the financial reporting for the group.

Amendment to IFRS 3 – Business Combinations

On 22 October 2018, the IASB issued 'Definition of a Business (Amendments to IFRS 3)' that sought to resolve difficulties that may arise in determining whether a business or a group of assets has been acquired. The amendment was effective for accounting periods commencing on or after 1 January 2020 and had no impact on the group or on the reporting for the business combination completed in the period.

Notes

(forming part of the consolidated historical financial information)

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements in conformity with generally accepted accounting practice (GAAP) requires management to make estimates and judgments. Those estimates and judgments can affect the reported values for assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date.

Management is also required to make estimates and judgments related to the reported amounts of revenues and expenses and related to the timing of the recognition of those revenues and expenses.

Judgements made and estimates applied are based on historical experience and other factors including management's expectations of future events that are considered relevant. Actual results may differ from these estimates. The estimates, judgements and underlying assumptions made are reviewed on an ongoing basis and specifically in the preparation of the interim and full-year published financial information.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and applied consistently in future periods subject to the ongoing reassessment of estimates.

Critical judgments

Going concern

The directors are required to assess whether it is appropriate to prepare the financial statements on a going concern basis. In making this assessment the directors need to be satisfied that the group can meet its obligations as they fall due and will remain cash-positive for a period of at least 12 months from the date of approval of the financial statements. Potential additional funding that is not yet committed at the date of approval of the financial statements cannot be anticipated in making the assessment of going concern.

The directors make their assessment based on a cashflow model prepared by management and based on their expectation of cashflows for the 18-month period from the date of approval of the financial statements. The extended period in the model provides additional comfort that the 12-month solvency requirement can be met when making the assessment of going concern.

In preparing the cashflow model, assumptions have been made regarding the timing of cash collection from customers based on the expected cash receipt under contracts that require milestone payments to be made by customers. The timing of the receipt of milestone payments may not always align with or precede the costs incurred by the company in performing its obligations under a contract.

Downside sensitivities have been applied to the cashflows primarily related to the delay of customer receipts from existing or expected sales contracts. Refer to 'Basis of preparation' for details of the going concern analysis performed and the directors' conclusions regarding going concern.

Notwithstanding the uncertainty articulated in relation to the basis of preparation, the directors expect that the business will continue to be viable throughout the model period and, accordingly, the financial statements have been prepared on a going concern basis.

Revenue recognition

Sales contracts are assessed in accordance with the group accounting policy for revenue recognition. The policy requires the separate performance obligations, or promises, under the contract to be identified. Revenue is recognised only when a distinct performance obligation under a contact is satisfied.

Some performance obligations are satisfied independently – for instance, the delivery of equipment, other obligations may be satisfied in conjunction with other contract promises – for instance, where a contract calls for equipment sold under the contract to be integrated into a larger project before formal acceptance is notified by the customer.

Where the ability of a customer to benefit from a product or service is dependent on the satisfaction of other performance obligations, more than one promise may need to be bundled together as a combined performance obligation that must be satisfied before the revenue related to each element can be recognised.

Notes

(forming part of the consolidated historical financial information)

Identifying where equipment or, more likely, services are readily available from other providers is a key determinant as to whether a contract promise represents a separate performance obligation or if it should be bundled with other promises that, together, represent a single performance obligation.

The assessment of what constitutes a performance obligation can be complex and requires judgement. Revenue is only recognised for each performance obligation under a contract when that performance obligation, bundled or otherwise, is satisfied. The requirement to bundle combinations of goods and/ or services together as a single performance obligation could delay the timing of revenue recognition where the separate promises comprising the performance obligation are delivered sequentially.

Capitalisation of development costs

The group undertakes internal projects and test work to advance the core technology used in its battery systems and the physical design of the battery systems themselves. The group has developed a standard homogenous design for battery systems, known as the VS3, based on the elements of each of the pre-merger legacy battery designs. The group continues to refine and enhance that design based on experience gained in constructing the units and performance data gathered from their use that will inform the design of successive generations of battery systems.

Management must determine when the ongoing process of enhancement represents development work that will benefit future generations of battery systems and generate economic benefits for the group. Where this determination can be made objectively, the associated costs will likely meet the criteria for capitalisation.

Capitalised development costs are amortised as the battery systems that have been constructed based on that development work and using the resultant technologies, techniques or materials and component selections are sold to customers.

Recoverability of internally generated intangible development asset

Following the introduction of the new VS3 battery design, management has reconsidered the carrying value of the capitalised development costs. Costs that relate to technologies or techniques developed over time but which are not directly relevant to or used in the VS3 battery design have been amortised in full during the year with a corresponding charge of £6.1m recognised in the income statement for the period ended 31 December 2020.

Business combination

A number of significant judgments were required to be made by management in relation to the merger with Avalon that took place in the year. Judgments were required to determine the acquirer for accounting purposes, the fair value of the consideration given and the fair value of the assets acquired and liabilities assumed. Judgement was also required in determining the value of goodwill recognised and determining if the carrying value of any goodwill recognised could be supported.

Refer to note 7 and discussion of estimations below.

Key sources of estimation uncertainty

Accounting for business combinations and the assessment of fair value

Business combinations are accounted for at fair value. The assessment of fair value for assets acquired and liabilities assumed is subjective and will depend on a number of assumptions.

These assumptions include assessment of appropriate discount rates, taxation rules in different jurisdictions, and the amount and timing of future cash flows related to assets and liabilities. In addition, the selection of specific valuation methods for individual assets and liabilities requires judgment and will be driven by the nature of the specific asset or liability being assessed.

The consideration given to a seller for the purchase of a business or a company is accounted for at its fair value and may contain multiple elements that are required to be assessed separately.

In accounting for a business combination, fair value may need to be calculated for items that would not be included in the financial statements under the historic cost convention. These items may include certain contingent liabilities, contracts that have terms that are more, or less beneficial than current market practice or contracted future sales. Where these items represent a benefit that will be realised in the future they are recorded as assets. Items that are expected to result in cash outflow are recorded as liabilities.

Notes

(forming part of the consolidated historical financial information)

Goodwill is recognised where the fair value of the purchase consideration given to the seller is greater than the fair value of the assets acquired and liabilities assumed. Determining what goodwill relates to requires judgement. Where the value of goodwill cannot be supported the goodwill is not recognised and a corresponding charge equal to the value of the unsupportable goodwill is recorded as an impairment loss in the income statement.

The company was party to a business combination in the period through which it acquired 100% of the issued share capital of Avalon in return for new shares to be issued in the combined group, see note 7 to the consolidated financial statements.

Warranty provision

The company provides time-limited standard warranties in its contracts for sale of battery systems. In addition, customers may elect to purchase separate, standalone extended warranties. Extended warranties are for periods greater than the standard warranties provided with the purchase of battery systems.

Estimating the costs that may be incurred by the company in servicing warranty agreements requires judgment to be exercised in respect of the estimation of the number of expected warranty claims in relation to the total number of battery systems sold. In addition, an estimate of costs that the company could expect to incur to remedy each warranty claim should be made to determine the amount of the total provision that should be recorded for warranties.

Provisions made in respect of expected warranty obligations are reassessed and remeasured where actual experience indicates the claim rate may be higher or lower than expected or where costs to remedy warranty claims differ from the assumptions used in calculating the provision. The release of an over-provision of warranty costs results in income being recognised in the period whereas an additional provision for warranties results in a charge being recognised.

If the number of actual warranty claims were 10% higher (or lower) than estimated by management in determining the level of the provision, then the estimated warranty expense would increase (or decrease) by approximately £85k.

Refer to note 4, contract related balances.

Provision for onerous contracts

A contract is onerous when the unavoidable costs of meeting the company's obligations under the contract are expected to be greater than the revenue earned under that contract. The assessment of the unavoidable costs under a contract previously only required direct costs such as parts and labour to be considered.

An amendment to IAS 37 – Provisions, contingent liabilities and contingent assets, was published in May 2020 and requires the provision in respect of an onerous contract to also include an assessment of the indirect costs, such as production overhead or indirect labour, that are expected to be incurred in servicing a warranty claim. The company elected to adopt the amendment as of 1 January 2020.

The assessment of future costs is inherently subjective and requires the exercise of judgment in determining the appropriate amount of provision that may be required.

Onerous contracts provisions are first used to write-down the value of associated contract inventory with any remaining balance held as a provision on the balance sheet. The total value of the onerous provision in the balance sheet may therefore be presented at a value lower than the initial calculation where contract inventory is held.

Substantially all of the high value and variable costs expected to be incurred in respect of servicing contracts determined to be onerous at 31 December 2020 have been locked-in by way of advance purchases for vanadium, steel and third-party manufactured components. However, if overall costs were to be 10% higher (or lower) than estimated by management in determining the level of the provision, then the estimated warranty expense would increase (or decrease) by approximately £110k.

Refer to note 4, contract related balances.

Notes

(forming part of the consolidated historical financial information)

Share based payments, warrants and employee options

The company determines the fair value of share-based payments and employee options using a Black-Scholes methodology. Black-Scholes uses certain assumptions to determine fair value including measures of share price volatility, expected conversion or exercise rates and levels of employee retention, among others.

Operating segments

The group is organised internally to report to the group's executive directors as a group. The executive directors comprise the chief executive officer, the chief commercial officer and the chief financial officer. The group's executive directors as a group have been determined, collectively, to prosecute the role of chief operating decision maker of the group.

The chief operating decision maker is ultimately responsible for entity-wide resource allocation decisions, the evaluation of the financial, operating and ESG performance of the group.

The group's activities have been determined to represent a single operating segment being the provision of vanadium flow batteries and ancillary services, principally comprising installation and integration services, and the provision of extended warranties for battery units.

Accounting policies

Revenue

The group measures revenue based on the consideration specified in the contracts for sale with customers. Revenue is recognised when a performance obligation is satisfied by transferring control over a good or service to a customer. Revenue excludes any taxes such as sales taxes, value added tax or other levies that are invoiced and collected on behalf of third parties such as governmental tax collection authorities.

The group generates revenue from the sale of battery storage systems and related hardware and services. The main portion of sales is derived from contractual arrangements with customers that have multiple elements (or performance obligations), that principally comprise the sale of battery systems, system related options, installation, and extended warranties. The sales agreements do not include a general right of return.

For agreements that contain multiple elements or promises, the group accounts for individual goods and services separately if they are distinct. A product or service is distinct if it is separately identifiable from other items in the agreement and where a customer can benefit from the good or service on its own or together with other resources that are readily available.

The consideration paid for each performance obligation is typically fixed. A significant portion of the aggregate payment due under a contract for sale is normally due before shipment or completion of the service. The total consideration under the contract is allocated between the distinct performance obligations contained in the contract based on their stand-alone selling prices. The stand-alone selling price is estimated using an adjusted market assessment approach that looks to industry benchmarks or pricing surveys for certain standalone products or services.

In addition, under the terms of its contracts for sale, the group may be responsible for shipping battery systems to its customers. When this is the case, the group will invoice the relevant customer for, and will recognise as revenue, any charges incurred for shipping products to customers together with any associated handling costs. The related costs incurred by the group for shipping and handling services are recognised as cost of sales concurrent with the recognition of the associated revenue.

Grant income

Government and other grants received are recognised in the income statement in the period that the related expenditure is incurred. Grant income received in respect of costs incurred are presented net within the associated cost category. Capital grants are similarly netted against the relevant asset acquired or constructed.

Grant income received in advance of the associated expenditure is presented as deferred income within contract liabilities and released to profit and loss as the associated expenditure is incurred. Grant income receivable is presented as accrued income within contract assets and until such time as it can be claimed or is received.

Notes

(forming part of the consolidated historical financial information)

Finance income and costs

Finance income comprises interest on cash deposits, foreign currency gains and the unwind of discount on any assets that are carried at amortised cost. Interest income is recognised as it accrues using the effective interest rate method.

Finance cost comprises interest expense on borrowings including movements in fair value of certain embedded derivatives and other financial instruments granted to lenders under arrangements for borrowing. Finance costs also include foreign currency losses and the unwind of the discount on any liabilities held at amortised cost, such as lease liabilities arising from lease contracts.

Employee benefits

Short-term benefits

Benefits given to employees that are short-term in nature are recognised as expenses in the statement of comprehensive loss as the related service is provided. The principal short-term benefits given to employees are salaries, associated holiday pay and other periodic benefits such as healthcare and pension contributions made by the company for the benefit of the employee. A liability is recognised for the amount expected to be paid under short-term cash bonus plans if there is either a present legal or constructive obligation to pay the amount and the amount can be reliably estimated.

Share based payments

The group operates certain equity-settled share-based compensation plans, under which it compensates employees for services rendered through the issue of equity instruments, deferred share awards or options to subscribe for ordinary shares of the company. The fair value of the employee services received in exchange for the grant of the equity instruments, shares or options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market conditions (for example, the company's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets, and remaining an employee of the group over a specified period); and
- including the impact of any non-vesting conditions (for example, the requirement for an employee to save).

Non-market performance and service conditions are included in the assumptions regarding the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied.

In some circumstances, employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement and the grant date.

At the end of each reporting period, the group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Any social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

Taxes

The total tax charge or credit recognised in the statement of comprehensive loss comprises both current and deferred taxes.

Taxation is recognised in the income statement except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax

The current tax charge is based on the taxable profit for the year. Taxable profit or loss is different to the profit or loss reported in the statement of comprehensive loss as it excludes items of income and/or expense that are taxable or deductible in other years and it further excludes items that are never taxable nor deductible.

Notes

(forming part of the consolidated historical financial information)

Deferred tax

Deferred tax is the tax that is expected to be payable or recoverable on differences between the carrying value of assets and liabilities in the financial statements and the corresponding value of those assets and liabilities used to calculate taxable profit or loss.

Deferred tax assets are recognised as deductible temporary differences only where it is probable that taxable profits will be generated against which the carrying value of the deferred tax asset can be recovered. Deductible temporary differences exist where there is a difference in the timing of an item of income or expense between the statement of comprehensive loss and the calculation of taxable profit or loss.

Deferred tax assets and liabilities are recognised using the liability method, for all taxable temporary differences except in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint operations. Where the timing of the reversal of temporary difference arising from such investment related assets and liabilities can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future then the group does not recognise deferred tax liabilities on these items.

A deferred tax asset or liability is not recognised if a temporary difference arises on initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Current and deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

The effects of anti-dilutive potential ordinary shares are ignored in calculating diluted EPS. Anti-dilution is when an increase in earnings per share or a reduction in loss per share result from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

Intangible assets

Goodwill

The group allocates the fair value of the purchase consideration on the acquisition of a subsidiary to the assets acquired and liabilities assumed based on an assessment of fair value at the acquisition date. Any excess of purchase consideration is recognised as goodwill. Where goodwill is recognised, it is allocated to the cash generating units (CGUs) in a systematic manner reflective of how the group expects to recover the value of the goodwill.

Any goodwill arising is recognised as an intangible asset in the balance sheet and is subject to annual review for impairment. Goodwill is written off where circumstances indicate that the recoverable amount of the underlying CGU may no longer support the carrying value of the goodwill. Any such impairment is recognised in the statement of comprehensive loss for the period in which it is determined the goodwill is no longer recoverable. Impairment losses related to goodwill cannot be reversed in future periods.

In testing for impairment, goodwill arising on business combinations at the date of acquisition is allocated to the group of CGUs representing the lowest level at which it will be monitored. Because the group has been determined to consist of a single business unit, the carrying value of goodwill is tested for impairment based on the recoverable value of the group as a whole.

Notes

(forming part of the consolidated historical financial information)

The recoverable amount of a CGU or a group of CGUs is based on the higher of its assessed fair value less costs of disposal or its value in use. Value in use is calculated by reference to the expected future cashflows from the CGU after discounting to take account of the time value of money. Fair value less costs to sell can be based on a similar cash flow measure adjusted for disposal costs or can be estimated by reference to similar comparable reference transactions. Because the company is listed, fair value can also be assessed by reference to the company's market capitalisation. Where cash flows are used, they are risk weighted to reflect an assessment of future commercial success.

The key assumptions in assessing cash flows relate to the ability of the company to develop existing markets and applications and to establish new markets and applications for the sale and use of its battery systems. Prospective cash flows are also sensitive to the company's ability to realise economies of scale as market penetration grows.

Internally generated intangible assets – research and development costs

Research

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Research activities are aimed at creating new knowledge or the use of existing knowledge in new or creative ways to generate new concepts. Research activity does not typically have a defined commercial objective at the outset.

Development

Where projects evolve toward commerciality or are related to a specific commercial objective they are assessed to determine if the activity constitutes development that is associated with a commercial objective or practical application.

The associated costs represent development costs and can be capitalised if, and only if, the following conditions can be demonstrated:

- the technical feasibility of completing the intangible asset so that it can be made available for use or sale;
- the intention to complete the intangible asset for use or sale;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell it;
- an asset is created that can be separately identified for use or sale;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Development work undertaken by the group typically relates to the refinement of design, materials selection, construction techniques, firmware and control systems to enhance battery system performance over successive generations. Where development costs are capitalised, they are amortised over the expected period to the introduction of the next generation of battery system. Depreciation is recorded over that period on a straight-line basis with the corresponding depreciation charge recognised in the statement of comprehensive loss as a component of administrative expenses.

Four years has historically been the typical cycle time between successive generations of battery system design.

Other intangible assets

Intangible assets other than goodwill that are acquired by the group are stated at their historical cost of acquisition less accumulated amortisation and any impairment losses.

Software and purchased domain names

Third-party software is initially capitalised at its cost of purchase. Amortisation is charged to administrative expenses over the expected useful life of the software which has been assessed as three years from the date of acquisition.

Acquired domain names are initially capitalised at cost of purchase. Amortisation is charged to administrative expenses over the expected useful life of the domain name which has been assessed as ten years from the date of acquisition.

Patents and certifications

Patent rights and certifications are initially capitalised at the cost of applying for relevant patent rights and other protections, and certifications. Amortisation is charged to administrative expenses over the expected useful life of the patents and certifications which has been assessed as five years from the date of acquisition.

Notes

(forming part of the consolidated historical financial information)

Property, plant and equipment
Items of property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent expenditure is only included in the asset's carrying amount or recognised as a separate asset, as appropriate, when it is probable that future economic benefits associated with that item will flow to the group.

Costs that do not enhance the value of an asset such as repair and maintenance costs are charged to the statement of comprehensive loss in the period in which they are incurred.

Depreciation is charged to write off the cost of assets over their estimated useful lives on a straight-line basis. Depreciation commences on the date the asset is brought into use. Work in progress assets are not depreciated until they are brought into use and transferred to the appropriate category of property, plant and equipment.

Estimated useful lives for property, plant and equipment are:

Category	Period (years)	Recognition in statement of comprehensive loss
Computer and office equipment	3-5	Administrative expenses
Leasehold improvements	Shorter of lease term or useful life	Administrative expenses/Cost of sales
Vehicles	3	Administrative expenses
Manufacturing equipment and tooling	3-20	Cost of sales
R&D Equipment	5-10	Administrative expenses

Depreciation methods, useful lives and residual values of assets are reviewed, and adjusted prospectively as appropriate, at each reporting date.

Where an asset is disposed of, the corresponding gain or loss on disposal is determined by comparing the sales proceeds received with the carrying amount of that asset at the date of disposal. Gains or losses on disposal of fixed assets are included within other items of operating income and expense in the statement of comprehensive loss.

Impairment of tangible and intangible assets
The group reviews the carrying values of its tangible and intangible assets, other than goodwill, at each balance sheet date to determine if any indicators exist that could mean those assets are impaired. Where an indicator of impairment exists the recoverable amount of the relevant asset (or CGU) is estimated to determine the quantum of any impairment loss.

Recoverable amounts are determined using a discounted cashflow model related to each asset or CGU being assessed. The discount rate applied to the cash flows in the model is a pre-tax discount rate that reflects market assessment of the time value of money and risks specific to the company or the groups of assets being considered.

If the recoverable value estimated in the cash flow model for a specific asset (or CGU) is lower than the carrying valve, then the carrying value of the asset is reduced to its estimated recoverable value with a corresponding charge immediately recognised in the statement of comprehensive loss.

Where the condition giving rise to an impairment loss reverses in a subsequent period, the impairment loss is similarly reversed and the carrying value of the asset increased to the revised estimate of its recoverable value. The carrying value of an asset immediately following the reversal of an impairment cannot exceed the carrying value that the asset would have had if the original impairment had not been made and the asset was depreciated as normal.

A reversal of an impairment loss is recognised immediately in profit or loss.

The value of any impairment (or reversal of impairment) of an asset is recorded in the same financial statement line item that depreciation or amortisation of the asset would normally be included in.

Where it is impractical to meaningfully assess recoverable amount using a discounted cashflow model, for instance where near term cashflows are low or negative, an assessment of the fair value adjusted for the costs that would be incurred in the disposal of an asset or operation is used.

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(forming part of the consolidated historical financial information)

This is typically the case for development stage assets, operations or associated intangible assets (including goodwill) where the underlying products or technologies have not yet been commercialised.

Provisions

Provisions are established when the group has a present legal or constructive obligation because of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount of that outflow can be reliably estimated.

Provisions are measured at the present value of the expenditures that are expected to be incurred in settling the obligation using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks related to the obligation. The initial recognition of a provision results in a corresponding charge to profit or loss.

The increase in a provision as the discount rate unwinds due to the passage of time, is recognised in the income statement as other items of operating income and expense.

Leases

Group entities only participate in lease contracts as the lessee. Lease contracts typically relate to vehicles and facilities.

On inception of a contract, the group assesses whether it contains a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The right to control the use of an identified asset is determined based on whether the group has the right to obtain substantially all the economic benefits from the use of the asset throughout the period of use, and if the group has the right to direct the use of the asset.

Obligations under a lease are recognised as a liability with a corresponding right-of-use asset, these are recognised at the commencement date of the lease.

The lease liability is initially measured at the present value of the lease payments that have not yet been paid at the inception of the lease, discounted using the interest rate implicit in the lease contract. Where the interest rate implicit in the lease contract cannot be readily determined, the group's incremental borrowing rate is used.

Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability. The lease liability is measured at amortised cost using the effective interest rate method.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from a change in an index or rate;
- there is a change in the group's estimate of the amount expected to be payable under a residual value guarantee; or
- the group changes its assessment of whether it will exercise a purchase, extension or termination option.

When a lease liability is remeasured under one of these scenarios, a corresponding adjustment is made to the carrying value of the right-of-use asset or in profit and loss when the carrying amount of the asset has already been reduced to zero.

The corresponding right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of the costs required to remove or restore the underlying asset, less any lease incentives received. The right-of-use asset is amortised over the shorter of the asset's useful life and the lease term on a straight-line basis.

The group has elected not to recognise right-of-use assets and corresponding lease liabilities for short-term leases that have a lease term of 12 months or less, those existing leases with a remaining lease term of less than 12 months at 1 January 2020 and leases related to low value assets with an annual lease cost of £3,500 or less.

The group recognises these lease payments as an expense on a straight-line basis over the lease term.

Notes

(forming part of the consolidated historical financial information)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their current location and condition. Cost is calculated using the first-in, first-out method.

Net realisable value is calculated as the estimated selling price for an item of inventory less estimated costs of completion and the costs that would be incurred in the marketing, selling and distribution of an item of inventory.

Financial instruments

Financial assets and liabilities are recognised by the group and recorded in the statement of financial position when the group is contractually bound to the terms of the financial instrument. Financial assets and liabilities are derecognised when the group is no longer bound by the terms of the financial instrument through settlement or expiry.

Financial assets

The classification of financial assets that the group is party to is determined based on the nature of the underlying financial instrument and the characteristics of the contractual cashflows expected to be received under the terms of instrument.

Financial assets are not reclassified after their initial recognition unless there is a contractual change in the nature of the cashflows under the instrument or the business purpose of the instrument has changed.

A financial asset is recorded at amortised cost where it expected to be held to maturity and the objective of the group is to collect the contractual cashflows under the financial instrument based on specified contractual terms, including the timing of receipt of cashflows.

Financial assets that the group is party to are classified and measured as follows:

Financial asset	Measurement basis
Trade receivables and accrued income	Amortised cost
Other current assets	Amortised cost
Contract assets	Amortised cost
Cash and cash equivalents	Amortised cost

Amortised cost

On initial recognition, the group measure amortised cost for financial assets based on the fair value of each financial asset together with any transaction costs that are directly attributable to the financial asset.

After initial recognition, amortised cost is measured for each financial asset held using the effective interest rate method less any impairment loss identified. Interest income is recognised for all financial assets, other than those that are classified as short-term, by applying the effective interest rate for the instrument. Interest income on short-term financial assets is not considered to be material. Short-term financial instruments are determined as those that have contractual terms of 12 months or less at inception.

Interest income, foreign exchange gains and losses, impairment, and any gain or loss on derecognition are recognised in profit or loss.

Impairment of financial assets

A loss allowance for financial assets is determined based on the lifetime expected credit losses for financial assets. Lifetime expected credit losses are estimated based on factors including the group's experience of collection, the number and value of delayed payments past the average credit periods across the group's financial assets. The group will also consider factors such as changes in national or local economic conditions that correlate with default on receivables and financial difficulties being experienced by the counterparty.

Notes

(forming part of the consolidated historical financial information)

Financial assets are impaired in full with a corresponding charge to profit or loss where there is no reasonable expectation of recovery.

Financial liabilities

The classification of financial liabilities is determined at initial recognition. Financial liabilities are classified and measured as follows:

Financial liability	Measurement basis
Trade and other payables	Amortised cost
Borrowings	Amortised cost
Lease liabilities	Amortised cost

Amortised cost

At initial recognition, the group measures financial liabilities at amortised cost using the fair value of the underlying instrument less transaction costs directly attributable to the acquisition of the financial liability.

Derecognition of financial liabilities

The group derecognises financial liabilities when the groups obligations under the relevant instrument are discharged, expire or are cancelled.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with financial institutions that can be called on demand together with other short-term, highly liquid investments with maturities of three months or less and are readily convertible to known amounts of cash.

3 Revenue from contracts with customers and income from government grants

Segment information

The group derives revenue from a single business segment, being the manufacture and sale of vanadium flow battery systems and related hardware together with the provision of services directly related to battery systems sold to customers.

The group is organised internally to report on its financial and operational performance to its chief operating decision maker, which has been identified as the three executive directors as a group.

All revenues in 2020 were derived from continuing operations.

Revenue from contracts with customers	2020 £'000	Restated 2019 £'000
Battery systems and associated control systems	**369**	222
Integration, commissioning and other services	**34**	–
Other services	**3**	5
Total revenue in the consolidated statement of comprehensive loss	**406**	227
Analysed as:		
Revenue recognised at a point in time	**369**	222
Revenue recognised over time	**37**	5
Total revenue in the consolidated statement of comprehensive loss	**406**	227

Notes

(forming part of the consolidated historical financial information)

Geographic analysis of revenue

The group's revenue from contracts with customers was derived from the following geographic regions:

	2020 £'000	Restated 2019 £'000
United Kingdom	**15**	199
Asia	**206**	–
United States of America	**167**	–
Other	**18**	28
Total revenue in the consolidated statement of comprehensive loss	**406**	227

The group maintains its principal production and assembly facilities in Bathgate, Scotland, and Vancouver, Canada. These facilities include office space for design, sales and administrative teams. The group also has offices, operations and management based in London, England, and Oakland, California.

The group does not consider that the locations of its operations constitute geographic segments as they are managed centrally by the executive management team. The location of the manufacturing plants and business development activity is a function of time-zone when servicing customers both pre-sale and during product delivery. The geographic location of offices, facilities and management is not related to distinct markets or customer characteristics at the present time.

Significant customers and concentration of revenue

Revenue from contracts with customers was derived from four (2019: one) customers who each accounted for more than 10% of total revenue as follows:

	2020 £'000	2019 £'000
Customer A	**127**	199
Customer B	**82**	–
Customer C	**81**	–
Customer D	**44**	–

Grant income other than revenue

The group receives grant income to help fund certain projects that are eligible for support, typically in the form of innovation grants. The group also received grant income related to operating costs under government subsidy programmes as part of national COVID response efforts. The total grant income that was received in the year was as follows:

Grant income received	2020 £'000	2019 £'000
Business support grants against cost of sales – COVID-19	**17**	–
Business support grants against employee costs – COVID-19	**240**	–
Grants for research and development	**203**	366
Economic and social development	**35**	70
Total government grants	**495**	436

Notes

(forming part of the consolidated historical financial information)

4 Contract related balances

The group has recognised the following assets and liabilities related to revenue from contracts with customers that are in progress:

	2020 £'000	Restated 2019 £'000
Amounts due from contract customers included in trade receivables	**33**	62
Contract assets (accrued income for work done not yet invoiced)	**5**	58
Contract liabilities (deferred revenue related to contract advances)	**(2,644)**	(38)
Net position of sales contracts	**(2,606)**	82

No revenue was recognised in the current period (2019: £119,242) that was recorded as a contract liability at the end of the previous period.

The aggregate contract position included in the statement of financial position will change according to the number and size of contracts in progress at a given year-end as well as the status of payment milestones made by customers toward servicing those contracts. The group structures payment milestones in contracts to cover upfront expenditure for parts and materials and other working capital requirements associated with the delivery of promises under sales contracts in order to better manage group cashflow.

The timing of revenue recognition is based on the satisfaction of individual performance obligations within a contract and is not based on the timing of advances received. Customer advances are recognised as contract liabilities in the statement of financial position and are released to income progressively as individual performance obligations are met. The difference in timing between the receipt of contract advances and the timing of the satisfaction of performance obligations for revenue recognition can cause values to remain in deferred income. The quantum of such deferrals is related to both the overall size of the underlying contract and the planned pace of delivery in the related project work schedule. This is more likely to occur where satisfaction of performance obligations is evidenced by customer acceptance of the good or service that is the subject of the performance obligation.

Provisions related to contracts with customers

	Warranty provision £'000	Provision for contract losses £'000	Total Total £'000
At 1 January 2018	–	–	–
Charges to profit or loss:			
Provision created in the year	95	–	95
At 31 December 2019	95	–	95
Acquisition of subsidiaries	**1,011**	**39**	**1,050**
Charges to profit or loss:			
Provision created in the year	**340**	**1,084**	**1,424**
Unused amounts reversed	**(51)**	**–**	**(51)**
Amounts used in the year	**(571)**	**(20)**	**(591)**
At 31 December 2020	**824**	**1,103**	**1,927**

Notes

(forming part of the consolidated historical financial information)

Warranty provision

The warranty provision represents management's best estimate of the costs anticipated to be incurred related to known warranty claims from customers in respect of products sold that remain in their warranty period. It also includes a best estimate of the costs expected to be incurred in respect of claims that may arise in the future related to products already sold to customers. The estimate of future warranty costs is updated periodically based on the company's actual experience of warranty claims from customers.

The element of the provision that is related to potential future claims is based on management's experience and is judgemental in nature. As for any product warranty, there is an inherent uncertainty around the likelihood and timing of a fault occurring that would cause further work to be undertaken or the replacement of equipment parts.

A standard warranty of up to two years from the date of commissioning is provided to all customers on products sold and is included in the original cost of the product. Customers are also able to purchase extended warranties that extend the warranty period for up to a total of ten years.

Provision for contract losses

A provision is established for contract losses when it becomes known that a commercial contract has become onerous. A contract is onerous when the unavoidable costs of fulfilling the company's obligations under a contract are greater than the revenue that will be earned from the contract.

The unavoidable costs of fulfilling contract obligations will include both direct and indirect costs. Any provision made for contract losses will similarly include provision for both direct and indirect costs to fulfil the company's remaining obligations under a contract.

The creation of an additional provision is recognised immediately in profit and loss. The provision is used to offset costs that are incurred as the contract moves to completion.

5 Cost of sales

	2020 £'000	Restated 2019 £'000
Movement in inventories of finished battery systems	**436**	263
Production costs	**374**	45
Depreciation of production facilities, equipment and intangibles	**107**	15
Movement in provisions for warranty costs	**304**	(48)
Total cost of sales	**1,221**	275

Notes

(forming part of the consolidated historical financial information)

6 Cashflows from operating activities

	2020 £'000	2019 £'000
Loss after income tax	**(24,271)**	(6,842)
Adjustments for:		
Depreciation and amortisation	**577**	380
Impairment of property, plant and equipment	**56**	–
Accelerated amortisation of intangible asset	**6,138**	–
Loss on disposal of property plant and equipment	**(6)**	–
Impairment of inventory	**1,027**	–
Gain on disposal of scrap inventory	**27**	–
Gain on sale of discontinued operations	**–**	578
Taxation	**–**	5
Equity settled share-based payment expenses	**707**	11
Equity issued in lieu of service	**68**	–
Equity settled transaction costs on acquisition of subsidiary	**(456)**	–
Equity settled interest and transaction costs on convertible notes	**(592)**	–
Fair value adjustment on convertible notes and warrants	**300**	–
Net finance costs/(income)	**2,297**	(65)
Net foreign exchange differences	**(1,220)**	–
	(15,348)	(7,089)
Change in operating assets and liabilities		
(Increase)/decrease in inventories	**(1,359)**	290
Decrease in contract assets	**53**	–
(Increase)/decrease in trade receivables and other receivables	**115**	40
Decrease in other current assets	**(750)**	–
Increase/(decrease) in trade and other payables	**3,348**	174
Increase/(decrease) in warranty provision	**(380)**	95
Increase in onerous contract provision	**1,060**	–
Increase/(decrease) in contract liabilities	**2,376**	(170)
	(402)	429
Cash used in operations	**(10,885)**	(6,660)

7 Business combination

On 1 April 2020, the merger between the company and Avalon completed with the company acquiring 100% of the issued share capital and voting equity of Avalon in exchange for 1,735,397,545 €0.01 ordinary shares in the company (prior to the 50:1 share consolidation).

Prior to, and in contemplation of, the completion of the merger, a loan in the amount of US$5.0 million had been advanced to Avalon by Bushveld Minerals Limited (Bushveld). The loan was used to fund expenses expected related to the merger and to provide additional pre-merger working capital to the company and Avalon Battery Corporation. Half of the total amount advanced by Bushveld and amounting to US$2.5 million was loaned to the company by Avalon prior to the merger between the companies.

On 1 April 2020, and concurrent with the completion of the merger, the Bushveld loan was discharged by the company issuing 302,978,063 €0.01 ordinary shares (prior to the share consolidation) to Bushveld.

The market price of the company's shares on 1 April 2020 was 1.05p per ordinary share (equivalent to 52.5p per share post-consolidation using the 50:1 consolidation ratio). The fair value of the total number of shares issued to effect the merger and to discharge the Bushveld loan was £21,402,944.

In addition to issuing ordinary shares related to the transaction, outstanding share options held by Avalon employees at the date of the merger were cancelled and replaced by the company with new options to subscribe for shares in the combined group.

Notes

(forming part of the consolidated historical financial information)

The fair value of the replacement share options was assessed at the transaction date using a Black-Scholes methodology. The portion of the fair value of the replacement share options that was determined to relate to pre-merger service of legacy Avalon employees was assessed as £854,000 and was allocated to the equity purchase price as it represented value contributed by Avalon employees prior to the transaction date.

Details of the total purchase consideration used in accounting for the business combination and related transactions are as follows:

Fair value of shares issued and options granted related to the transactions	£'000
Consideration shares	18,222
Bushveld loan discharge	3,181
Replacement options issued to Avalon employees	854
	22,257

In purchase accounting, the consideration given is allocated to the fair value of assets acquired and liabilities assumed or discharged based on their assessed fair values. The fair value of the total consideration shares issued and options granted were allocated as follows:

Fair value of transaction	£'000
Discharge of Bushveld loan held by Avalon, at fair value	4,999
Fair value the Avalon assets acquired and liabilities assumed	17,258
	22,257

Determining the acquirer for accounting purposes

Prior to the merger the assessed fair value of Avalon was higher than the assessed value for the company. The share exchange ratio that was used to give effect the transaction was determined based on the assessed relative fair values of the two businesses prior to the combination. Notwithstanding the relatively higher fair value of Avalon, as part of the combination and in addition to the Bushveld loan, new convertible loan funds were advanced by a new private investor to provide additional funds to meet transaction costs and provide additional working capital.

The company also entered a further convertible loan note arrangement, the Riverfort Facility, that provided up to an additional £3.0 million of working capital funding.

The conversion features in these instruments at the date of the combination had the effect that, if the debt holders chose to convert the outstanding debt to new ordinary shares of the company, then the shareholders of Avalon immediately prior to the combination would hold less than 50% of the share capital of the combined group and therefore control of the combined group would not have transferred to the former Avalon shareholders.

The composition of the board can also be a determinant of whether control has passed. The former directors of Avalon represented two of the seven post-combination board seats with former directors of redT occupying four of those seats and a newly appointed, independent, director making up the balance of the board. In addition, due to the conversion of certain merger-related financing arrangements that resulted in the issue of new shares to third parties, the overall control of the combined group did not pass to the former Avalon shareholders on conclusion of the merger.

Based on the composition of the board of directors and the relative shareholdings in the combined group held by legacy shareholders, redT has been identified as the accounting acquirer for the purposes of accounting for the combination transaction.

The fair value of the merger consideration of £17.3 million is therefore allocated to the assets and liabilities of Avalon that, for purchase accounting purposes, were acquired or assumed by the company as follows:

Notes

(forming part of the consolidated historical financial information)

Assets acquired and liabilities assumed At 1 April 2020	**Fair value £'000**
Non-current assets	
Property, plant and equipment	472
Right-of-use assets	1,160
Intangible assets	205
Current assets	
Inventories	364
Other current assets	370
Trade receivables	86
Cash and cash equivalents	1,264
Current liabilities	
Trade and other payables	(2,596)
Contract liabilities	(268)
Lease liabilities	(150)
Provisions	(1,153)
Non-current liabilities	
Lease liabilities	(702)
Net identifiable liabilities acquired	**(948)**
Goodwill	**18,206**
Consideration for acquisition of Avalon	**17,258**

The assets acquired and liabilities assumed in the purchase price allocation that was included in the interim financial statements at 30 June 2020 were based on book values. The purchase price allocation has been revised to reflect the assessed fair value of certain assets and liabilities.

Fair value adjustments made

The book values of current assets and current liabilities were determined to be equivalent to their fair value due to the short-term nature of the balances and the expectation that they would be settled or received at their book value within 12 months of the date of the business combination.

The principal component of property, plant and equipment relates to the stack-line at the group's Vancouver premises used to assemble vanadium flow batteries. The fair value of the line was assessed by reference to third-party quotes for the construction of a new stack-line in Vancouver.

Right-of-use assets principally relate to the group's production and development premises in Vancouver. The fair value of the right-of-use asset has been assessed by reference to quotes obtained for the rental of similar sized properties with similar amenities, square footage and in a similar location to the existing facility.

The fair value of patent rights and certifications has been assessed by reference to the original cost of applying for relevant patent rights and other protections.

Goodwill recognised in the merger

Goodwill has been determined to relate to the greater opportunities afforded to the combined group from shared technologies and know-how and greater presence and potential penetration in key markets.

The carrying value of goodwill has been assessed using a fair value less costs to sell methodology and primarily based on the quoted market capitalisation of the combined group using the 31 December 2020 share prices of 230 pence per share. No impairment was identified at 31 December 2022 or in the period to the publication of the annual report and financial statements.

Revenue and profit contribution

Avalon contributed revenues of £401,308 and a net loss of £3,780,538 to the group for the period from 1 April 2020 to 31 December 2020.

Notes

(forming part of the consolidated historical financial information)

If the merger had taken place on 1 January 2020, consolidated pro-forma revenue and net loss for the year ended 31 December 2020 would have been £586,072 and £8,171,977 respectively.

These amounts have been calculated using Avalon's results and adjusting them for the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property plant and equipment and intangible assets had been applied from 1 January 2020, together with the consequential tax effects.

8 Goodwill and intangible assets

	Goodwill £'000	Development costs £'000	Patents and certifications £'000	Software and domain names £'000	Total £'000
At 1 January 2019					
Cost	7,362	6,129	–	–	13,491
Accumulated amortisation	–	–	–	–	–
Net book amount	7,362	6,129	–	–	13,491
Year ended 31 December 2019					
Opening net book amount	7,362	6,129	–	–	13,491
Effect of movement in foreign exchange	(391)	(311)	–	–	(702)
Closing net book amount	6,971	5,818	–	–	12,789
At 31 December 2019					
Cost	6,971	5,818	–	–	12,789
Accumulated amortisation	–	–	–	–	–
Net book amount	6,971	5,818	–	–	12,789

	Goodwill £'000	**Development costs £'000**	**Patents and certifications £'000**	**Software and domain names £'000**	**Total £'000**
At 1 January 2020					
Cost	**6,971**	**5,818**	**–**	**–**	**12,789**
Accumulated amortisation	**–**	**–**	**–**	**–**	**–**
Net book amount	**6,971**	**5,818**	**–**	**–**	**12,789**
Year ended 31 December 2020					
Opening net book amount	**6,971**	**5,818**	**–**	**–**	**12,789**
Effect of movement in foreign exchange	**(1,233)**	**320**	**–**	**1**	**(912)**
Acquisition of subsidiaries	**18,206**	**–**	**203**	**2**	**18,411**
Additions	**–**	**–**	**–**	**9**	**9**
Amortisation charge	**–**	**–**	**(30)**	**(2)**	**(32)**
Accelerated amortisation	**–**	**(6,138)**	**–**	**–**	**(6,138)**
Closing net book amount	**23,944**	**–**	**173**	**10**	**24,127**
At 31 December 2020					
Cost	**23,944**	**–**	**203**	**29**	**24,176**
Accumulated amortisation and impairment	**–**	**–**	**(30)**	**(19)**	**(49)**
Net book amount	**23,944**	**–**	**173**	**10**	**24,127**

Acquisition of subsidiaries
Goodwill and intangible assets acquired in 2020 relate to the business combination transaction with Avalon that completed on 1 April 2020 (note 7).

Notes

(forming part of the consolidated historical financial information)

Goodwill
The opening goodwill balance on 1 January 2020 represents goodwill recognised in the year ended 31 December 2015 on the completion of the step acquisition by the company of Renewable Energy Dynamics Holdings Limited (REDH), the holding company for the redT energy storage business. All goodwill is tested annually for potential impairment. At 31 December 2020, goodwill was tested for impairment using a fair value less costs of disposal methodology by reference to the company's quoted market capitalisation using the price of 230 pence per share at that date. No impairment loss was identified in relation to goodwill.

Patents and certifications
Patents and certification acquired in merger transaction with Avalon were stated at their assessed fair value in the purchase price allocation used for consolidation accounting. There have been no events or circumstances since the merger that would indicate that the carrying value of patents and certifications may be impaired at 31 December 2020.

Development Costs
The development costs at 31 December 2019 represent costs associated with the redT Gen 3 vanadium flow battery that has been superseded by the Invinity VS3 battery system and, accordingly, the intangible asset has been impaired in full by recording an accelerated amortisation charge in the period.

9 Discontinued operations

There were no discontinued operations in year ended 31 December 2020.

Discontinued operations – prior period
On 5 April 2019, the group completed the divestment of its legacy Camco business with the sale of its wholly owned subsidiary, Camco International Group Inc. ('CIG'). The business provided project development and asset management services to biogas projects in the United States.

CIG was sold to Jim Wiest, the then managing director of CIG, and the transaction constituted a related party transaction under the AIM Rules for Companies. The directors consulted with Investec Bank plc, its then Nominated Adviser in relation to the application of the AIM Rules to the sale of Camco and specifically in respect to the fairness of the terms of sale. Based on that consultation, the directors concluded that the sale of the business was fair and reasonable insofar as the company's shareholders were concerned.

Cash receipts from the sale consist of a distribution of US$1.0m (£0.8 million) received by the UK Group funded by a loan into CIG from a third party plus US$0.5m (£0.4 million) of further consideration paid in two instalments, the first paid in April 2019 and the balance in July 2019. The book and fair value of the net assets of CIG at the date of sale were £0.59m, including cash of £0.55 million, giving rise to a profit on disposal of £0.6 million.

The sale of Camco represents a discontinued operation in 2019. The financial result of Camco to the date of disposal is as follows:

Result of discontinued operation	2020 £'000	2019 £'000
Revenue	–	638
Expenses	–	(669)
Operating loss for the year	–	(31)
Income tax credit	–	(4)
Loss for the year	–	(35)
Decrease in trade and other receivables	–	47
Increase in trade and other payables	–	44
Net cash generated from operating activities	–	56
Exchange differences on translation of foreign operations	–	142

There were no discontinued operations in the year to 31 December 2020.

Notes

(forming part of the consolidated historical financial information)

10 Property, plant and equipment

	Computer and office equipment £'000	Leasehold improvements £'000	Vehicles and equipment £'000	Total £'000
At 1 January 2019				
Cost	771	302	90	1,163
Accumulated depreciation and impairment	(427)	(171)	(27)	(625)
Net book amount	344	131	63	538
Year ended 31 December 2019				
Opening net book amount	344	131	63	538
Additions and transfers	(2)	–	8	6
Depreciation charge	(190)	(71)	(29)	(290)
Closing net book amount	152	60	42	254
At 31 December 2019				
Cost	747	302	105	1,154
Accumulated depreciation and impairment	(595)	(242)	(63)	(900)
Net book amount	152	60	42	254

	Computer and office equipment £'000	**Leasehold improvements £'000**	**Vehicles and equipment £'000**	**Total £'000**
At 1 January 2020				
Cost	**747**	**302**	**105**	**1,154**
Accumulated depreciation and impairment	**(595)**	**(242)**	**(63)**	**(900)**
Net book amount	**152**	**60**	**42**	**254**
Year ended 31 December 2020				
Opening net book amount	**152**	**60**	**42**	**254**
Effect of movement in foreign exchange	**2**	**(1)**	**(1)**	**–**
Acquisition of subsidiaries	**22**	**86**	**364**	**472**
Additions	**20**	**90**	**239**	**349**
Disposals	**(6)**	**–**	**–**	**(6)**
Depreciation charge	**(136)**	**(79)**	**(103)**	**(318)**
Impairment	**–**	**–**	**(56)**	**(56)**
Closing net book amount	**54**	**156**	**485**	**695**
At 31 December 2020				
Cost	**748**	**513**	**753**	**2,014**
Accumulated depreciation and impairment	**(694)**	**(357)**	**(268)**	**(1,319)**
Net book amount	**54**	**156**	**485**	**695**

The group has no assets pledged as security. No amounts of interest have been capitalised within property, plant and equipment at 31 December 2020 (2019: £nil).

The impairment loss relates to assets that were taken out of service when new versions of the same assets came into service. The impairment loss was recognised as other items of operating income and expense in profit or loss.

Acquisition of subsidiaries
Assets acquired in 2020 relate to the combination transaction with Avalon that completed on 1 April 2020 (note 7).

Notes

(forming part of the consolidated historical financial information)

Geographic analysis of assets

The group's property, plant and equipment are located in the following geographic regions:

Net book value	2020 £'000	2019 £'000
United Kingdom	**113**	251
Canada	**542**	–
United States of America	**39**	–
Other	**1**	3
Total property plant and equipment	**695**	254

11 Right-of-use assets

	Offices and facilities £'000	Vehicles and equipment £'000	Total £'000
At 1 January 2019			
Cost	109	–	109
Accumulated depreciation	–	–	–
Net book amount	109	–	109
Year ended 31 December 2019			
Opening net book amount	109	–	109
Additions	52	–	52
Depreciation charge	(90)	–	(90)
Closing net book amount	71	–	71
At 31 December 2019			
Cost	161	–	161
Accumulated depreciation	(90)	–	(90)
Net book amount	71	–	71

	Offices and facilities £'000	**Vehicles and equipment £'000**	**Total £'000**
At 1 January 2020			
Cost	**161**	**–**	**161**
Accumulated depreciation	**(90)**	**–**	**(90)**
Net book amount	**71**	**–**	**71**
Year ended 31 December 2020			
Opening net book amount	**71**	**–**	**71**
Effect of movement in foreign exchange	**(21)**	**(2)**	**(24)**
Acquisition of subsidiaries	**1,135**	**24**	**1,160**
Additions	**34**	**–**	**34**
Depreciation charge	**(223)**	**(4)**	**(227)**
Closing net book amount	**996**	**18**	**1,014**
At 31 December 2020			
Cost	**1,572**	**28**	**1,600**
Accumulated depreciation	**(576)**	**(10)**	**(586)**
Net book amount	**996**	**18**	**1,014**

Right-of-use assets relate to buildings, vehicles and equipment held under leases with third-party lessors. A right-of-use asset represents the company's right to use a leased asset over the term of the lease. The company's rights to use specific buildings, items of equipment or specific vehicles under lease arrangements represent assets to the group.

Notes

(forming part of the consolidated historical financial information)

Acquisition of subsidiaries
Assets acquired in 2020 relate to the combination transaction with Avalon that completed on 1 April 2020 (note 7).

Geographic analysis of right-of-use assets
The group's right-of-use assets are located in the following geographic regions:

Net book value	2020 £'000	2019 £'000
United Kingdom	**–**	55
Canada	**777**	–
United States of America	**206**	–
South Africa	**31**	16
Total right-of-use assets	**1,014**	71

12 Lease liabilities

The group's obligations under lease contracts are presented as follows:

At 31 December	2020 £'000	2019 £'000
Current – due within 12 months	**161**	52
Non-current – due after 12 months	**595**	–
Total lease liabilities	**756**	52

Payments of lease principal and interest in the period to 31 December were:

At 31 December	2020 £'000	2019 £'000
Payments of lease principal	**163**	91
Payments of interest	**26**	6
Total payments under leases	**189**	97

The expense related to variable lease payments that were not included in the measurement of lease liabilities was £26,984 (2019: nil). These payments principally relate to the variable element of lease payments in a period that are incurred for operating costs related to the asset under lease.

The expense related to short-term leases was £165,279 (2019: £200,454). The expense related to low-value assets held under lease contracts was £826 (2019: £3,885).

The contractual undiscounted cashflows for lease obligations at each period end were:

At 31 December	2020 £'000	2019 £'000
Less than one year	**190**	54
One to five years	**493**	–
More than five years	**155**	–
Total lease liabilities	**838**	54

Lease liabilities represent the present value of the minimum lease payments the group is obligated to make to lessors under contracts for the lease of assets that are presented as right-of-use assets.

Notes

(forming part of the consolidated historical financial information)

13 Administrative expenses

	2020 £'000	Restated 2019 £'000
Staff costs	**5,811**	3,266
Research and non-capitalised development costs	**1,099**	846
Professional fees	**960**	716
Sales and marketing costs	**96**	71
Facilities and office costs	**787**	859
Other administrative costs	**840**	807
Total administrative expenses	**9,593**	6,565

14 Other items of operating income and expense

The following items are Included in other comprehensive loss:

	2020 £'000	2019 £'000
Income		
Gain on disposal of scrap inventory and equipment	**27**	–
Expense		
Merger transaction costs	**(1,412)**	(500)
Provision for onerous contracts, net of amounts used	**(1,064)**	(332)
Impairment of inventory to net realisable value	**(1,019)**	–
Accelerated amortisation of development costs	**(6,138)**	–
Impairment of plant, property and equipment	**(56)**	–
Impairment of obsolete inventory and disposal of scrap inventory	**(8)**	–
Abnormal unabsorbed production overhead costs	**(152)**	–
Total other operating income and expenses (net)	**(9,822)**	(832)

Merger transaction costs include tax advisory, audit related assurance services, reporting accounting services and legal and advisory costs.

Abnormal unabsorbed production overhead includes temporary reduction in production hours due to COVID-19 and materials quality.

15 Staff costs and headcount

Staff costs

	2020 £'000	2019 £'000
Wages and salaries	**5,053**	3,174
Employer payroll taxes	**365**	358
Other benefits	**225**	159
Share-based payments	**854**	11
Total staff costs	**6,497**	3,702

Average headcount

	2020 £'000	2019 £'000
United Kingdom	**52**	62
Canada	**33**	–
United States of America	**6**	–
Other	**2**	2
Total	**93**	64

Notes

(forming part of the consolidated historical financial information)

The increase in staff costs and headcount is mainly because of the merger with Avalon that completed on 1 April 2020.

Key management compensation

	2020 £'000	2019 £'000
Short-term employee benefits	**1,410**	523
Post-employment benefits	**14**	18
Termination benefits	**75**	211
Total key management compensation	**1,499**	752

As of 1 April 2020, the key management of the group has been determined to comprise the members of the executive management committee. For the year ended 2019 key management was comprised of the Board of Directors and the then CEO.

16 Share based payments

Since its incorporation, the company has operated various share-based incentive plans. The purpose of each of the schemes has been to incentivise directors and employees related to improving company performance and building shareholder value.

Set out below is a summary of the option awards currently in issue at 31 December 2020. The comparative figures for both number of awards outstanding at the end of 2019 and their respective exercise prices have been adjusted to reflect the 50:1 share consolidation that took place on 1 April 2020 (as rounded down to the nearest whole share).

Standard	Grant date	Expiry date	Exercise price		2020	2019
redT 2015 plan	7 Dec 2015	7 Dec 2020	58.95	€.c.	**206,911**	277,962
redT 2015 plan	7 Dec 2015	7 Dec 2020	280.00	p	**–**	13,896
redT 2015 plan	13 Mar 2017	13 Mar 2022	400.00	p	**–**	14,500
redT 2018 plan	18 May 2018	18 May 2023	295.00	p	**60,000**	184,467
redT 2018 plan	18 May 2018	18 May 2023	352.50	p	**–**	118,857
redT 2018 plan	29 Nov 2018	29 Nov 2023	297.50	p	**–**	59,438
redT 2018 plan	29 Nov 2018	29 Nov 2023	350.00	p	**40,000**	94,777
Invinity 2020 plan	1 Apr 2020	1 Apr 2025	82.50	p	**870,000**	–
Invinity 2020 plan	1 Apr 2020	1 Apr 2025	4.34	p	**1,278,635**	–
Invinity 2020 plan	1 Apr 2020	1 Apr 2025	6.84	p	**784,229**	–
Invinity 2020 plan	26 Aug 2020	26 Aug 2025	113.00	p	**2,637,000**	–
					5,876,775	763,897

Non-standard	Grant date	Expiry date	Exercise price		2020	2019
Long-term Incentive plan	30 Jun 2009	Closed	50.00	p	**15,000**	15,000
Camco 2006 Executive Share Plan	30 Jul 2013	27 Jul 2022	50.00	p	**68,127**	68,127
redT 2018 Plan	13 Mar 2017	13 Mar 2022	50.00	p	**70,000**	70,000
					153,127	153,127
Total					**6,029,902**	917,024

Weighted average remaining contractual life of options outstanding at the end of period (years)	**9.32**	6.78

A total of 71,058 options were exercised during the year with a weighted average exercise price of €0.5895 per shares. All the options exercised were part of the 7 December 2015 tranche of options issues that were reissued under the 2018 plan.

Notes

(forming part of the consolidated historical financial information)

The grant-date fair value of share options issued is calculated using a Black-Scholes methodology at the date of grant. Key inputs to the model include the share price at the date of grant, the option exercise price, the term of the award, share price volatility, the risk-free interest rate (by reference to government bond yields) and the expected dividend yield rate, which has historically been zero, reflective of the development-stage nature of the company.

The Long-term Incentive Plan, Camco 2006 Executive Share Plan and the redT 2015 Plan are now closed. No further options option awards will be made under either of these plans.

The aggregate number of options granted, vested, exercised and forfeited during the year under the plans are summarised and analysed between unvested and vested awards as follows:

Unvested	No.	Average exercise price (p)
At 1 January 2020	500,172	284.81p
Granted	4,363,757	86.31p
Paralleled	(124,815)	330.21p
Forfeited	(382,696)	138.59p
Vested	(345,945)	82.68p
Awards yet to vest at 31 December 2020	4,010,473	98.84p

Vested	No.	Average exercise price (p)
At 1 January 2020	416,852	143.79p
Vested	345,945	82.68p
Paralleled	(30,259)	342.46p
Granted	1,431,214	4.77p
Forfeited	(73,272)	318.56p
Exercised	(71,051)	52.32p
Vested and exercisable at 31 December 2020	2,019,429	29.09p
Total	**6,029,902**	

Plans with non-standard performance conditions

Long term incentive plan (LTIP)

The LTIP for directors and employees was approved by the board in 2008 and entitled directors and employees to receive equity settled payments annually based on the achievement of certain market and non-market performance conditions.

The LTIP is now closed. At both the beginning and the end of the year, there were 15,000 options vested and exercisable at €0.5 per share under the LTIP.

CAMCO 2006 executive share plan (the plan)

The plan was established in 2017 to make awards of shares up to an aggregate of 10% of the share capital of the company over a period of 10 years.

The plan is now closed. At the beginning and the end of the year there were 68,127 options that had vested and were exercisable at €0.50 per share.

Notes

(forming part of the consolidated historical financial information)

2018 plan

Options with non-standard performance conditions were also issued under the 2018 plan. At the beginning and end of the period 70,000 options under the 2018 plan have vested and are exercisable at 400p per share.

Plans with standard performance conditions

The primary share plan that remains outstanding at 31 December 2020 is the 2018 plan.

The 2018 plan was adopted by the board on 14 May 2018 and introduced HMRC scheme rules related to certain non-taxable option grants. The plan contains provision to issue options as CSOP, EMI or unapproved awards.

In the year ended 31 December 2020 the board approved the expansion of awards to be made under the 2018 plan with grants expected to be made more frequently going forward and to a potentially wider group of employees. The intention of the increase in frequency and quantum of employee share options granted was to incentivise and to better align employee compensation with shareholder return.

Options issued to legacy Avalon employees at the merger date

Following the merger transaction 1,432,000 options were granted to legacy Avalon employees to replace options held by them in the former Avalon employee share plan. A total of 457,538 options are vested and exercisable under the 2018 plan at 31 December 2020 with a further 5,669,864 unvested share options outstanding.

Parallel options issued

In addition, certain legacy redT options were reissued as they were considered by the board to be sufficiently out-of-the-money such that they no longer provided a performance incentive to the holders of the options. As a mechanism to adjust the terms of the unfavourable options, new parallel options were issued on a one-for-one basis with the same terms as the original awards excepting that they were issued with a lower exercise price.

Both the original and parallel option remain in existence. However, the exercise by an employee of a single option from either pool (original or parallel) allocated to them will cause the other pool to be forfeited. Accordingly, the number of options disclosed above have been adjusted to remove the number of options that is equivalent to the number of parallel options issued.

Other share-based payments in the period

Convertible investment agreement and warrant deed

On 13 March 2020, the company entered a loan arrangement under an investment agreement with Riverfort Global Opportunities PCC Limited (Riverfort) and YA II PN, Ltd (Yorkville) under which Riverfort and Yorkville agreed to provide a working capital facility to the group of up to £3.0 million. The facility was convertible into new ordinary shares of the company.

The company drew a total of £2.0 million under the facility, all of which was converted to equity at the option of Riverfort and Yorkville. All the shares received by each of Riverfort and Yorkville under the conversion feature have been sold and neither counterparty remains a shareholder of the group related to the conversion shares. The aggregate gain recognised by Riverfort and Yorkville on the exercise of the conversion feature and the sale of the resultant shares that were issued to them has been recognised as a financing cost in the statement of comprehensive loss for the year ended 31 December 2021.

In addition to the convertible loan, a warrant instrument was issued to Riverfort and Yorkville under which warrants to subscribe for an aggregate of 1,818,181 new ordinary shares were issued to Riverfort and Yorkville in lieu of loan arrangement fees due from the company in respect of the investment agreement. In total, 909,091 warrants were issued to Riverfort with the remaining 909,090 issued to Yorkville. All of the warrants issued to Yorkville have been exercised. The warrants issued to Riverfort remain outstanding,

The fair value of the warrant instruments issued to Riverfort and Yorkville was calculated using a Black-Scholes methodology with inputs to the valuation including the company's share price, historic volatility and the exercise price of the warrants among other assumptions.

Notes

(forming part of the consolidated historical financial information)

The subscription price under the warrant instrument was 107.25p for each €0.50 ordinary share subject to the agreement. Similar to the fair value of the shares received under the conversion feature, the fair value at inception of the warrants granted to Riverfort and Yorkville has been recognised as a financing cost in the statement of comprehensive loss for the year ended 31 December 2021.

Warrants issued for services
On 1 April 2020, a total of 340,000 warrants to subscribe for new ordinary shares of the company were issued to VSA Capital Limited as part compensation for services rendered in relation to the April 2020 merger and concurrent equity fundraise.

The subscription price under the agreement was 82.50p for each €0.50 share to be issued under the arrangement. The fair value of the warrant instruments issued to VSA was calculated using a Black-Scholes methodology with inputs to the valuation including the company's share price, historic volatility and the exercise price of the warrants among other assumptions. As of the date of this report, none of the warrants issued to VSA Capital Limited have been exercised.

On 20 May 2020 1,020,438 ordinary shares of €0.50 each were issued to Latham and Watkins in respect of legal and corporate finance services rendered in connection with the April 2020 merger transaction.

17 Auditors Remuneration

	2020 £'000	2019 £'000
Fees payable to the company's auditor and its associates for the audit of the parent company and consolidated financial statements	**213**	62
Audit of financial statements of subsidiaries pursuant to legislation	**20**	11
Fees payable to the company's auditor for other services:		
Tax compliance services	**8**	–
Other taxation services	**–**	83
Other assurance related services – including Reporting Accountant services associated with readmission to AIM	**597**	113
Total auditors' remuneration	**838**	269

The group has a policy in place related to commissioning non-audit service from its auditors where all such work requires pre-approval by the audit committee before the commencement of any non-audit work.

Audit fees are discussed with and approved by the Audit Committee.

Notes

(forming part of the consolidated historical financial information)

18 Net finance income and costs

	2020 £'000	2019 £'000
Finance income		
Interest on bank deposits and money market funds	**1**	1
Finance costs		
Interest on borrowings	**(422)**	(19)
Fair value adjustment on convertible notes	**(1,162)**	–
Finance charges for loan financing	**(682)**	–
Finance charges for lease liabilities held at fair value	**(27)**	(6)
Finance charges for liabilities held at amortised cost	**(5)**	(3)
(Losses)/gains on foreign currency transactions	**(1,744)**	92
Net finance (costs)/income	**(4,041)**	65

19 Income tax expense

	2020 £'000	2019 £'000
Current tax		
Current tax on profits for the year	**–**	5
Total current tax expense	**–**	5
Income tax expense is attributable to:		
Loss from continuing operations	**–**	5
Profit from discontinued operations	**–**	–

Reconciliation of income tax expense calculated using statutory tax rate

	2020 £'000	2019 £'000
Loss before tax	**(24,271)**	(7,380)
Tax at the Jersey tax rate of nil%	**–**	–
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-taxable gains and expenses not deductible for tax	**(12)**	(64)
Differences in overseas tax rates	**(2,775)**	(1,033)
Unrelieved tax losses carried forward	**2,684**	1,059
Origination and reversal of timing differences not recognised	**103**	43
Total income tax expense	**–**	5

Notes

(forming part of the consolidated historical financial information)

20 Deferred tax balances

Deferred tax assets

	2020 £'000	2019 £'000
Timing differences and tax losses on which deferred tax is not recognised		
Accelerated capital losses	**221**	(95)
Share options	**3,704**	21
Accrued liabilities	**462**	–
Reserves and other	**600**	–
Tax losses	**56,225**	32,186
Total deferred tax assets	**61,212**	32,112

Tax losses

The Company's subsidiaries carry on business in other tax regimes where the corporation tax rate is not zero. At 31 December 2020, the Group had the following tax losses carried forward available for use in future periods:

	2020 £'000	2019 £'000
United Kingdom	**34,699**	29,535
Canada	**11,067**	–
United States of America	**7,657**	–
Ireland	**2,802**	2,651
Total potential tax benefit	**56,225**	32,186

Under current tax legislation tax losses in the United Kingdom and Ireland can be carried forward indefinitely and be offset against future profits arising from the same activities at the tax rate prevailing at that time. There is a portion of the tax losses in the United States of America that will begin to expire in 2035, whereas the majority can be carried forward indefinitely. The tax losses in Canada can be carried forward 20 years. Tax losses in Canada will expire in 2025.

Due to the uncertainty regarding the timing and extent of future profits within these subsidiaries, no deferred tax assets have been recognised in respect of these tax losses. Deferred tax is also not recognised on the timing differences between accounting and tax treatment in these subsidiaries given the offsetting tax losses on which no deferred tax has been recognised.

21 Loss per share

Loss per share attributable to the equity holders of the company is calculated as follows:

Basic loss per share	2020 pence	Restated 2019 pence
From continuing operations	**(41.0)**	(40.6)
From continuing and discontinued operations	**(41.0)**	(37.6)

Diluted loss per share	2020 pence	2019 pence
From continuing operations	**(41.0)**	(40.6)
From continuing and discontinued operations	**(41.0)**	(37.6)

Loss used in calculation of basic and diluted loss per share	2020	2019
From continuing operations	**(24,271)**	(7,385)
From continuing and discontinued operations	**(24,271)**	(6,842)

All operations in the year ended 31 December 2020 are continuing operations.

Notes

(forming part of the consolidated historical financial information)

Earnings per share in respect of the year ended 31 December 2019 have been restated to give effect to the 50:1 share consolidation that took place in 2020 and to aid comparability.

Weighted average number of shares used in calculation	**2020 number**	Restated 2019 number
Basic	**59,205,798**	18,174,431
Diluted	**59,636,887**	18,174,431

The number of shares used to calculate earnings per share for the year ended 31 December 2019 have been adjusted to reflect the 50:1 share consolidation that took place in 2020. The restatement of the number of shares provides better comparability of EPS over the periods presented.

Additional potential shares used in the calculation of diluted earnings per share primarily relate to potential shares that may be issued in satisfaction of in-the-money employee share options. In addition, potentially dilutive shares also relate to warrants to subscribe for ordinary shares in the company that were issued for services or related to financing transactions that have an exercise price lower than the quoted share price and remain outstanding at 31 December 2020.

Where additional potential shares have an anti-dilutive impact on the calculation of loss per share calculation, such potential shares are excluded from the weighted average number of shares used in the calculation.

Additional potential shares are anti-dilutive where their inclusion in the calculation of loss per share results in a lower loss per share. The weighted average number of shares not included in the diluted loss per share calculation because they had an anti-dilutive effect on the calculation was 5,475,305 (2019: 887,235 – restated for 50:1 share consolidation).

Weighted average number of shares used in loss per share calculation – basic and diluted	**2020 number**	Restated 2019 number
In issue at 1 January 2020	**19,025,799**	15,824,383
Shares issued in the year – weighted average	**40,180,789**	2,350,048
Weighted average shares in issue 31 December	**59,206,588**	18,174,431
Effect of employee share options and other warrants not exercised	**431,089**	–
Weighted average number of diluted shares at 31 December	**59,637,677**	18,174,431

22 Financial assets and liabilities

Financial assets – 31 December 2020	**Total £'000**
Assets at amortised cost	
Trade receivables	**33**
Other current assets	**45**
Cash and cash equivalents	**21,953**
Total financial assets	**22,031**

Financial assets – 31 December 2019	Total £'000
Assets at amortised cost	
Trade receivables	62
Other current assets	208
Cash and cash equivalents	1,243
Total financial assets	1,513

All financial assets are held at amortised cost. There were no financial assets measured at fair value through other comprehensive income nor through profit and loss in either period presented.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial asset presented above. The carrying value of the financial assets approximate their fair values due to the short-term maturities of these instruments.

Notes

(forming part of the consolidated historical financial information)

Financial liabilities – 31 December 2020	**Total £'000**
Liabilities at amortised cost	
Trade and other payables	**2,468**
Total financial liabilities	**2,468**

Financial liabilities – 31 December 2019	Total £'000
Liabilities at amortised cost	
Trade and other payables	1,523
Borrowings	1,143
Total financial liabilities	2,666

The group does not currently use derivative instruments for managing financial risk. All financial liabilities are held at amortised cost.

Recognised fair value measurements
The group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading securities) is based on quoted market prices at the end of the reporting period.

The battery systems manufactured by the company use vanadium metal as a key component in the electrolyte. Vanadium is an actively traded commodity for which quoted market prices are available.

The company does not currently hold inventories of vanadium. Vanadium purchased from third parties is solely for the use in electrolyte and open purchase contracts are not accounted for as derivatives.

In April 2020, the company entered an Investment Agreement with Riverfort and Yorkville to provide additional working capital funding to the group. The Investment agreement was convertible into €0.50 ordinary shares of the company and, due to variability in the exercise price, the conversion feature was determined to represent an embedded derivative. In addition, a warrant deed to subscribe for €0.50 ordinary shares in the company was entered with the same counterparties concurrent with the investment agreement. The exercise feature of the warrant deed was similarly determined to be an embedded derivative.

Both embedded derivatives were recorded at their assessed fair values using a Black-Scholes methodology. Key inputs to the valuation of the embedded derivatives included the company's share price and historic price volatility with a corresponding derivative and financing loss recorded in the income statement

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques that maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value instrument are observable, the instrument is included in Level 2. The group did not hold any financial assets or liabilities that were required to be valued using level 2 inputs (2019: none)

Level 3: If one or more of the significant inputs is not based on observable market data the instrument is included in Level 3.

At 31 December 2019, the company was party to a loan agreement with Avalon. The loan was carried at amortised cost using the interest rate for the instrument and was effectively settled by the merger transaction when the loan became an intercompany item and is therefore not presented in these consolidated financial statements. Amortised cost was calculated using the interest rate in the loan agreement that was fixed at 12% annually.

At 31 December 2020, the warrant deed remained outstanding. No other financial instruments were outstanding at the period end that required to be valued using a methodology that uses Level 1, 2 or 3 inputs.

Notes

(forming part of the consolidated historical financial information)

23 Trade and other receivables

	2020 £'000	2019 £'000
Trade receivables from contracts with customers	**33**	62
Provision for doubtful receivables	**–**	–
	33	62

No provision for doubtful receivables was held at 31 December 2020 (2019: £Nil)

Trade receivables are amounts due from customers for sales of vanadium flow battery systems in the ordinary course of business. Trade receivables do not bear interest and generally have 30-day payment terms and are all therefore classified as current.

The actual credit loss over 2020 was determined to be 0% of total sales (2019: 0%). No allowance has been recognised in either period presented.

24 Other current assets

	2020 £'000	2019 £'000
Prepayments and deposits	**1,108**	127
Government grants receivable	**–**	125
Tax credits – recoverable	**127**	80
Due from joint venture	**168**	–
Other receivables	**11**	–
Due from Avalon (recharge of merger transaction costs)	**–**	394
Total other current assets	**1,414**	726

25 Cash and cash equivalents

	2020 £'000	2019 £'000
Cash at bank and in hand	**21,760**	1,243
Short-term investments	**193**	–
Total cash and cash equivalents	**21,953**	1,243

Short term investments
Term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours' notice with no loss of interest.

26 Inventories

	2020 £'000	2019 £'000
Raw materials and consumables	**698**	93
Work in progress	**207**	–
Finished goods	**–**	143
Total inventories	**905**	236

Inventories recognised as an expense during the current year amounted to £436,461 (2019: £332,000). These were included in cost of sales.

Write-downs of inventories to net realisable value amounted to £1,045,232 (2019: £nil). These were recognised as an expense and included in other items of operating income and expense.

Notes

(forming part of the consolidated historical financial information)

27 Trade and other payables

	2020 £'000	2019 £'000
Trade payables	**498**	246
Accrued liabilities	**653**	1,261
Accrued employee compensation	**1,010**	16
Government remittances payable	**307**	–
Total trade and other payables	**2,468**	1,523

Trade payables are unsecured and are usually paid within 30 days.

The carrying amounts of trade and other payables are considered to be the same as their fair values due to the short-term nature of the underlying obligation representing the liability to pay.

28 Borrowings

	2020 £'000	2019 £'000
Borrowings	**–**	1,143
Total borrowings	**–**	1,143

Bushveld 12% fixed rate convertible loan notes

On 1 November 2019, Avalon entered a convertible loan note instrument with Bushveld Vametco Limited under which Avalon issued 50 convertible loan notes of US$100,000 each to Bushveld. The loan notes bore interest at 12% annually and, through a separate agreement with the company, were convertible into ordinary shares of the company, contingent on the successful completion of the merger between the company and Avalon. Conversion to equity was at the noteholder's option and, if not exercised by the noteholder, the company would have been required to settle any outstanding balance at the repayment date in cash. On completion of the merger, the agreement also provided that Bushveld became entitled to a 20% commitment fee in relation to amounts advanced under the facility.

The loan was given by Bushveld as a bridge facility to fund the costs incurred by the company and Avalon in respect of the merger transaction and to provide funds for general working capital purposes in the period to the completion of the merger. The agreement between Bushveld and Avalon contemplated that 50% of the proceeds received by Avalon under the loan notes would, in turn, be advanced by Avalon to the company.

On completion of the merger on 1 April 2020, the loan notes together with accrued interest and commitment fees were converted into 302,978,063 ordinary shares in the company that were issued to Bushveld, discharging the company's obligations to Bushveld in full.

12% working capital facility with Avalon

On 1 November 2019, the company entered a loan agreement with Avalon under which US$2.5 million was made available to the company using proceeds received by Avalon related to the convertible loan notes issued by it to Bushveld.

Consistent with the loan instrument entered by Avalon with Bushveld, the purpose of the loan facility advanced to the company by Avalon was to provide funds to satisfy expenses expected to be incurred related to the combination transaction and for general working capital purposes.

The facility bore interest at 12% annually and was secured against the ordinary shares of the company's subsidiaries. At 31 December 2019, the company had drawn US$1,500,000 (GBP£1,142,677) under the facility with the facility fully drawn by the merger date.

On 1 April 2020, the merger between the company and Avalon completed and the loan advanced by Avalon became an intercompany facility as of that date. Accordingly, no balance in respect of the loan facility from Avalon is presented in these consolidated financial statements.

Notes

(forming part of the consolidated historical financial information)

Riverfort Capital/Yorkville Advisors Investment Agreement
On 13 March 2020, the company entered an investment agreement with Riverfort Global Opportunities PCC Limited (Riverfort) and YA II PN Ltd (Yorkville). The investment agreement was amended by deed of variation on 1 July 2020.

Under the investment agreement, three funding tranches of £1,000,000 each were made available to the company to provide additional working capital funding over the merger integration period. The facility carried an implementation fee of £225,000 and bore interest at 12% annually.

The agreement provided that interest would not accrue on advances for a given month if the average daily traded value of the company's shares over the 20-trading day period preceding the month was greater than £100,000.

Amounts drawn under the facility, together with any accrued interest, were convertible at the noteholder's option into ordinary shares in the company. The conversion price was calculated as the lower of (i) 90% of the lowest daily volume-weighted average price for the company's shares measured over the 10-day period prior to the issuance of the conversion notice and, (ii) 130% of the average daily volume weighted average price for the five days immediately before the advance date of the relevant tranche.

In total the company drew two tranches of £1,000,000 each under the investment agreement. Both tranches and associated accrued interest have been converted to equity by the noteholders in the year to 31 December 2020. The implementation fee was settled through the issue of 210,575 €0.50 ordinary shares at £1.0685 per share and based on the subscription price for shares in the April 2020 fundraise.

Had the two tranches drawn under the facility not been converted to equity by the noteholders then the company had two options to settle amounts drawn under the facility.

Each tranche together with any accrued interest would have become repayable in cash 24 months after the date of the initial drawdown and calculated separately for each tranche drawn. The company also had the option to prepay each tranche drawn at any time provided that certain conditions related to VWAP were satisfied. The prepayment option was on a tranche-by-tranche basis with any prepaid tranche being repaid in full including accrued interest and subject to a 10% prepayment fee.

Neither of these options were exercised by the company.

In addition, the company issued warrants to Riverfort and Yorkville for a total of 1,818,818 ordinary shares in the company at a subscription price of £1.0725 per €0.50 ordinary share. The warrants were issued under a warrant deed that is separate to the investment agreement that allowed each of Riverfort or Yorkville to exercise warrants granted to them over a period not exceeding 48 months from the date of grant.

In total, 909,091 warrants were issued to Riverfort with the remaining 909,090 issued to Yorkville. All of the warrants issued to Yorkville have been exercised. The warrants issued to Riverfort remain outstanding.

Notes

(forming part of the consolidated historical financial information)

29 Issued share capital and reserves

	Number '000	Share capital £'000	Share premium £'000
Restated			
Authorised, at 31 December 2019			
Ordinary shares of €0.50	1,250,000	–	–
Issued and fully paid			
At 1 January 2019	791,219	6,777	99,473
Issued in the year	160,031	1,380	1,822
Transaction costs on issue of shares	–	–	(260)
At 31 December 2019	951,250	8,157	101,035

	Number '000	**Share capital £'000**	**Share premium £'000**
Authorised, at 31 December 2020			
Ordinary shares of €0.50	**25,000**	**–**	**–**
Issued and fully paid			
At 1 January 2020	**19,025**	**8,157**	**101,035**
Issued in the year	**66,875**	**29,713**	**25,157**
Transaction costs on issue of shares	**–**	**–**	**(1,647)**
At 31 December 2020	**85,900**	**37,870**	**124,545**

On 1 April 2020 the Company consolidated each ordinary share of €0.01 nominal value on a 50 to 1 basis, such that every 50 ordinary shares consolidated into one ordinary share of €0.50. The closing balance of shares at 31 December 2020 equated to 19,025,008 consolidated shares. The number shares outstanding and issued during the year ended 31 December 2019 have been restated to give effect to the April 2020 share consolidation.

The holders of ordinary shares are entitled to receive dividends as may be declared from time to time and are entitled to one vote per share at meetings of the company.

Subsequent to the year-end Yorkville Advisors exercised 909,090 warrants to subscribe for ordinary shares in the company. A total of 909,090 new ordinary shares were issued to Yorkville Advisors in return for total subscription proceeds of £972,726.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Share-based payment reserve
The share-based payment reserve comprises the equity component of the Company's share-based payments charges.

Translation reserve
The translation reserve comprises foreign currency differences arising from the translation of the financial statements of foreign operations.

Other reserve
Other reserve comprises the portion of the consideration paid for redT energy Holdings (Ireland) Ltd's minority interests over the fair value of the shares purchased.

Notes

(forming part of the consolidated historical financial information)

30 Financial risk management

This note explains the group's exposure to financial risks and how these risks could affect the group's future financial performance. Current year profit and loss information has been included where relevant to add further context

Risk	Exposure arising from	Measurement	Management
Market risk – foreign exchange	Future commercial transactions Recognised financial assets and liabilities not denominated in pounds sterling.	Cash flow forecasting. Sensitivity analysis.	Cash is held in sterling and remitted to subsidiaries based on short term cashflow analysis of needs.
Market risk – commodity price risk	Purchases of vanadium to be used in the construction of batteries.	Quoted market prices for vanadium.	Forward purchases made on closing of customer orders. Strategic supply arrangement.
Credit risk	Cash and cash equivalents, trade receivables and contract assets.	Aging analysis. Credit ratings.	Monitoring accumulation of bank balances. Credit risk assessment for customers.
Liquidity risk	Borrowings and other liabilities.	Rolling cashflow forecasts	Access to capital markets for equity or debt funding.

Market risk – foreign exchange risk

The group is primarily exposed to foreign exchange risk related to bank deposits, receivables or payables balances and other monetary working capital items that are denominated in a currency other than the company's functional currency which has been determined to be pounds sterling.

The group operates a policy of not speculating on foreign exchange and aims to mitigate its overall foreign exchange risk by holding currency in line with regional operating expenses, providing and element of natural hedge against adverse foreign exchange movement.

Notes

(forming part of the consolidated historical financial information)

The group's exposure to foreign exchange risk at the end of the reporting period, expressed in pounds sterling was as follows:

31 December 2020	**Sterling £'000**	**Euro £'000**	**Canadian dollar £'000**	**US dollar £'000**
Cash and cash equivalents	**19,536**	**136**	**1,122**	**929**
Trade receivables	**4**	**–**	**–**	**29**
Other current assets	**10**	**63**	**9**	**26**
Trade and other payables	**(933)**	**(208)**	**(424)**	**(750)**
Lease liabilities	**–**	**–**	**(548)**	**(178)**
Net exposure	**18,617**	**(9)**	**159**	**56**

31 December 2020 (cont.)	**Chinese Yuan £'000**	**South African ZAR £'000**	**Australian dollar £'000**	**Total £'000**
Cash and cash equivalents	**82**	**8**	**140**	**21,953**
Trade receivables	**–**	**–**	**–**	**33**
Other current assets	**–**	**5**	**–**	**113**
Trade and other payables	**–**	**(7)**	**(146)**	**(2,468)**
Lease liabilities	**–**	**(30)**	**–**	**(756)**
Net exposure	**82**	**(24)**	**(6)**	**18,875**

31 December 2019	Sterling £'000	Euro £'000	Canadian dollar £'000	US dollar £'000
Cash and cash equivalents	662	17	–	473
Trade receivables	28	–	–	
Other current assets	47	–	–	156
Trade and other payables	(1,178)	(150)	–	(186)
Borrowings	–	–	–	(1,143)
Lease liabilities	(36)	–	–	–
Net exposure	(477)	(133)	–	(700)

31 December 2019	Chinese Yuan £'000	South African ZAR £'000	Australian dollar £'000	Total £'000
Cash and cash equivalents	55	28	8	1,243
Trade receivables	–	–	35	63
Other current assets	–	5	–	208
Trade and other payables	–	(7)	(2)	(1,523)
Borrowings	–	–	–	(1,143)
Lease liabilities	–	(16)	–	(52)
Net exposure	55	10	41	(1,204)

Notes

(forming part of the consolidated historical financial information)

Sensitivity – exchange rates
The sensitivity of profit or loss to changes in quoted exchange rates for currencies that the group is exposed to is as follows, based on each relevant exchange rate strengthening (or weakening) by 5%.

There is no impact on other components of equity as the group is not party to any derivative financial instruments, such as hedging instruments, where currency gains and losses would be recognised in other comprehensive loss.

At 31 December; +/- 5%	2020 £'000	Restated 2019 £'000
Euro	**4**	7
Canadian dollar	**(8)**	–
US dollar	**(3)**	23
Chinese Yuan	**(4)**	(3)
South African ZAR	**2**	–
Australian dollar	**–**	(2)
	(9)	25

Market risk – commodity price risk
The group's batteries use vanadium as the key component of their electrolyte. Vanadium is an elemental metal and is used primarily to toughen steel, particularly for the construction industry. Whilst it is not a market traded commodity, such that one can buy forward or derivative contracts, market prices for vanadium pentoxide (V_2O_5) at 98% purity are quoted in US dollars per pound.

Vanadium forms about two-thirds of the value of the electrolyte, which in turn forms about a quarter of the cost of a battery, and so a fluctuation in the price of vanadium will impact the profitability of battery sales An increase or decrease in the market price of vanadium of 5% would cause the value of the electrolyte component of a battery to increase or decrease by approximately 3%.

The group has granted a right of first refusal (ROFR) to Bushveld Minerals for the supply of vanadium until November 2021.

Credit risk – cash held on deposit with banks
Credit risk arises from cash and cash equivalents and deposits with banks and other financial institutions.

Credit risk related to holdings with financial institutions is managed by only maintaining bank accounts with reputable financial institutions. The group aims only to place funds on deposit with institutions with a minimum credit rating of B2 Moody's.

The group's cash at bank and short-term deposits are held with institutions with credit ratings as follows:

At 31 December	2020 £'000	2019 £'000
Aa2	**1,531**	–
A2	**20,221**	1,243
Ba2	**8**	–
B2	**193**	–
Total cash and short-term deposits	**21,953**	1,243

Notes

(forming part of the consolidated historical financial information)

Credit risk – trade and other receivables

Past due but not impaired

The group's credit risk from receivables encompasses the default risk of its customers and other counterparties.

Its exposure to credit risk is influenced mainly by the individual characteristics of each customer or counterparty. The creditworthiness of potential and existing customers is assessed prior to entering each new transaction. A credit analysis is performed, and appropriate payment terms implemented that may include increased level of upfront deposits for the purchase of battery units.

Notwithstanding the above, the group's standard terms of trade provide that up to 90% of the sales price of a battery unit is paid prior to shipping.

Receivables are considered for impairment on a case-by-case basis when they are past due or where there is objective evidence that the customer or counter party may be a default risk. The group takes into consideration the customer or counter party payment history, its credit worthiness together with the prevailing economic environment in which it operates to assess the potential impairment of receivables.

On an ongoing basis, receivable balances attributable to each customer or other counterparty are monitored and appropriate action is taken when the relevant balance becomes or is considered likely to become overdue. The maximum exposure to loss arising from receivables is equal to invoiced value.

The ageing of trade receivable balances was:

At 31 December	2020 £'000	2019 £'000
Current	–	–
Past due – less than 30 days	–	–
Past due – more than 30 days	33	62
Total trade and other receivables	**33**	62

Of the past due amounts at 31 December 2020, £nil was considered to be impaired and related to three customers (2019: £nil, five customers).

Liquidity risk

Liquidity risk relates to the group's ability to meet its obligations as they fall due.

The group generates cash from its operations that are principally related to the manufacture and installation of vanadium flow batteries. The market for reliable and flexible storage solutions for energy generated from renewable sources is growing and the technology continues to develop.

The development of new and enhanced storage technologies can be capital intensive and the group has funded development and early-stage commercial activity primarily from equity investment but also using cash from operations and loan funding.

The group forecasts cash generation using a comprehensive company financial model and monitors the timing and quantum of its payment obligations.

The following table shows the group's financial liabilities by relevant maturity grouping based on contractual maturities. The amounts included in the analysis are contractual, undiscounted cashflows.

Notes

(forming part of the consolidated historical financial information)

31 December 2020	**Less than 1 year £'000**	**Between 1 and 2 years £'000**	**Between 2 and 5 years £'000**	**Over 5 Years £'000**	**Total contracted cash flows £'000**	**Carrying amount £'000**
Trade and other payables	**2,468**	**–**	**–**	**–**	**2,468**	**2,468**
Lease liabilities	**190**	**179**	**314**	**155**	**838**	**756**
Total financial liabilities	**2,658**	**179**	**314**	**155**	**3,306**	**3,224**

31 December 2019	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 Years £'000	Total contracted cash flows £'000	Carrying amount £'000
Trade and other payables	1,523	–	–	–	1,523	1,523
Lease liabilities	52	–	–	–	52	52
Borrowings	1,177	–	–	–	1,177	1,143
Total financial liabilities	1,575	–	–	–	2,754	2,718

Capital management

The group currently has no debt and is currently funded by proceeds raised through equity fundraises during 2020 and proceeds from the conversion of warrants in 2021.

Given the development stage nature of the group's activities it has historically used a combination of equity and convertible debt funding and is expected to continue to do so whilst it remains a development stage company.

The board regularly reviews the group's cash requirements and future projections to monitor cash usage and assess the need for additional funding. At 31 May 2020, the group had £14.3 million of cash on hand.

31 Related parties

The only related parties of the company are the key management of the group. Key management has been determined as the CEO and his direct reports.

The Oak Group provides company secretarial services to the company. Until 31 May 2019, Michael Farrow was a Director of the Oak Group. In 2019, the company incurred administrative charges of £8k related to services provided by the Oak Group.

The Oak Group has not been considered to be a related party since 31 May 2019.

Key management compensation is disclosed in note 15, staff costs and headcount.

Related party transactions – 2019

On 5 April 2019, Camco International Group Inc. (CIG) was sold to an entity controlled by Jim Wiest, Managing Director of CIG therefore the divestment constituted a related party transaction under the AIM Rules – See note 9.

Notes

(forming part of the consolidated historical financial information)

32 Events occurring after the report period

Joint Development and Commercialisation Agreement with Gamesa Electric S.A.U.

On 11 May 2021, the company announced it had entered a Joint Development and Commercialisation Agreement (JDCA) with Gamesa Electric S.A.U. (Gamesa Electric), a wholly owned subsidiary of Siemens Gamesa Renewable Energy (SGRE).

The objective of the agreement is threefold:

- to jointly develop a grid-scale vanadium flow battery (VFB) using Invinity's proven technology and incorporating advanced power conversion systems developed by Gamesa Electric;
- to cooperate in the manufacture of the grid-scale VFB following completion of the development phase that will culminate in a jointly validated design for the VFB; and
- to use the established sales and marketing channels of both the group and Gamesa Electric to jointly market and commercialise the VFB.

The detailed development programme for the next generation VFB is expected to take approximately two years to reach commercialisation. Gamesa Electric has agreed to fund an aggregate of up to US$4.62 million of the company's activities within the joint development programme and based on milestones achieved. The JDCA may be terminated by Gamesa Electric if predetermined development activities and milestones are not achieved.

Concurrent with the JDCA, Invinity and Gamesa Electric entered an option agreement under which Gamesa Electric was granted an option to acquire new shares in Invinity in an amount equivalent to it having held a 9.99% interest in the ordinary share capital of the company at 11 May 2021. The subscription price for new shares under the option agreement is £1.75 per ordinary share and is set at the same price achieved by the company in the December 2020 placing and open offer.

Should the option be exercised, Gamesa Electric, or its nominee, would have the right to appoint a director to the company's board of directors, subject to minimum 5% shareholding in the Company being held by Gamesa Electric or its nominee. Notwithstanding, the exercise of the option is subject to shareholder approval.

0.5 MWh sale in California, United States

On 17 May 2021, the company announced that it had concluded contracting on another project awarded funds by the California Energy Commission (CEC). This follows the company's announcement in Q4 2020 that it has been selected for a number of projects funded by the CEC, California's primary energy policy and planning agency.

Invinity has entered into a contract with Webcor, a leading Californian construction firm, to provide a vanadium flow battery (VFB) for a project developed by Indian Energy LLC, a 100% Native American-owned utility-scale and microgrid development and systems integration firm with approximately 4 GW of solar PV and wind and 6 GWh of energy storage projects under development.

The project, located on a US Marine Corps base in Southern California, will couple three of Invinity's VS3 vanadium flow batteries with solar PV to provide resilience and energy security in the case of Public Safety Power Shutoff (PSPS) events, wildfires or other outages. The Invinity system will apply recent technological advancements developed by Invinity's team to extend battery storage duration to up to ten hours with an option to operate in either grid-connected or off-grid modes. This ensures round-the-clock energy resiliency for the site while reducing overall energy costs through demand shaving and Time of Use (TOU) energy shifting.

The 0.5 MWh system is expected to be delivered during Q4 2021 and to contribute revenue of approximately £450,000 to the Company, relating to the Invinity VS3 vanadium flow battery, ancillary components and associated services.

Notes

(forming part of the consolidated historical financial information)

33 Group entities

Direct subsidiary undertakings	Country of incorporation	Registered office	Principal activity	Ownership % 2020	Ownership % 2019
Camco Holdings UK Limited	England	Unit 4.12 Clerkenwell Workshops 27-31 Clerkenwell Close London EC1R 0AT United Kingdom	Holding company	100%	100%
Camco Services (UK) Limited	England	Unit 4.12 Clerkenwell Workshops 27-31 Clerkenwell Close London EC1R 0AT United Kingdom	Support services	100%	100%
Camco (Mauritius) Limited	Mauritius	24 Dr Joseph Rivière Street 1st Floor, Felix House Port Lewis, Mauritius	Holding company	100%	100%
Invinity Energy Systems (US) Corporation	United States of America	1201 Orange St. #600 Wilmington, DE USA 19899	Energy storage	100%	–
Invinity Energy Nexus Limited	England	Unit 4.12 Clerkenwell Workshops 27-31 Clerkenwell Close London EC1R 0AT United Kingdom	Energy storage	100%	100%

Notes

(forming part of the consolidated historical financial information)

Indirect subsidiary undertakings	Country of incorporation	Registered office	Principal activity	Ownership % 2020	Ownership % 2019
redT Energy Holdings (UK) Limited	England	Unit 4.12 Clerkenwell Workshops 27-31 Clerkenwell Close London EC1R 0AT United Kingdom	Research and consultancy	100%	100%
Re-Fuel Technology Limited	England	Unit 4.12 Clerkenwell Workshops 27-31 Clerkenwell Close London EC1R 0AT United Kingdom	Energy storage	99%	99%
Invinity Energy (UK) Limited	England	Unit 4.12 Clerkenwell Workshops 27-31 Clerkenwell Close London EC1R 0AT United Kingdom	Energy storage	99%	99%
redT Energy Holdings (Ireland) Limited	Ireland	22 Northumberland Road Ballsbridge, Dublin 4	Energy storage	99%	99%
Invinity Energy Systems (Ireland) Limited	Ireland	22 Northumberland Road Ballsbridge, Dublin 4	Energy storage	99%	99%
redT energy (Australia) (Pty) Ltd	Australia	RSK Advisory, Level 2, Suite 7 66 Victoria Crescent Narre Warren, Victoria 3805 Australia	Energy storage	99%	99%
Vanadium Electrolyte Rental Limited	England	Unit 4.12 Clerkenwell Workshops 27-31 Clerkenwell Close London EC1R 0AT United Kingdom	Vanadium procurement	50%	–
Invinity Energy (South Africa) (Pty) Ltd	South Africa	1st Floor, Kiepersol House Stonemill Office Park 300 Acacia Road Darrenwood Randburg 2194	Business Services	100%	100%

Notes

(forming part of the consolidated historical financial information)

Indirect subsidiary undertakings – continued	Country of incorporation	Registered office	Principal activity	Ownership % 2020	Ownership % 2019
Camco International Carbon Asset Information Consulting (Beijing) Co. Limited	The People's Republic of China	Room 1408, Tower A, Lucky Tower No.3 North Road East Third Ring Chaoyang District PRC, Beijing	Business Services	100%	100%
Invinity Energy Systems (Canada) Corporation	Canada	2900-550 Burrard Street Vancouver, BC Canada V6C 0A3	Energy storage	100%	–
Suzhou Avalon Battery Company Limited	The People's Republic of China	1809 Building 4 no.11888 East Taihu Avenue, Songling Town, Wujiang District, Suzhou City	Business Services	100%	–

The following entities which were subsidiary undertakings at 1 January 2019 were either sold or wound up during 2019:

Direct subsidiary undertakings	Country of incorporation	Registered office	Principal activity
Camco International Group, Inc.	USA	2421 Tangley Street Houston, Texas 77005 USA	Business services
CI (Cyprus) Limited	Cyprus	Gr. Xenopoulou 17 3106 Lemesos, Cyprus	Consultancy

Officers and advisers

Officers

Neil O'Brien	Chairman
Larry Zulch	Chief Executive Officer
Matt Harper	Chief Commercial Officer
Peter Dixon-Clarke	Chief Financial Officer
Jonathan Marren	Non-Executive Director
Rajat Kholi	Non-Executive Director
Michael Farrow	Non-Executive Director

Advisers

Registered address	3rd floor Standard Bank House 47–49 La Motte Street St. Helier Jersey JE2 4SZ
Jersey company number	92432
Nominated adviser and joint broker	Cannacord Genuity Limited 88 Wood Street London EC2V 7QR
Joint broker	VSA Capital New Liverpool House 15–17 Eldon Street London EC2M 7LD
Registrar	Computershare Investor Services (Jersey) Limited Queensway House Hilgrove Street St. Helier Jersey JE1 1ES
Financial PR	Hudson Sandler 25 Charterhouse Square London EC1M 6AE
Company secretary	Oak Securities (Jersey) Limited 3rd floor Standard Bank House 47–49 La Motte Street St. Helier Jersey JE2 4SZ

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Designed and produced by JacksonBone Limited.

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