



**SIMEC ATLANTIS  
ENERGY**

SIMEC ATLANTIS ENERGY LIMITED

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# ANNUAL REPORT 2019



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GHR site survey



AR1500



SIMEC Uskmouth power station



Subsea tidal turbine connection hub



GHR - Loch Eilde Mor



GHR Highland sunset

# ABOUT US

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**SIMEC Atlantis Energy Limited (“Atlantis”)**, formerly known as Atlantis Resources Limited, is a pioneering global developer and operator of sustainable energy projects. Atlantis has three energy divisions: marine, waste-to-value and hydro, and in each division brings world leading expertise, innovation and delivery.

Our pioneering projects range from the record breaking MeyGen tidal power array in Caithness, Scotland to the innovative Uskmouth conversion project in Newport, Wales. Our 100% owned subsidiary, Green Highland Renewables, has successfully delivered more than 65 hydro projects across the UK and currently operates, maintains and manages more than 45 hydro schemes.

In 2018, Atlantis formed a strategic partnership with SIMEC Energy, a member of the GFG Alliance. This partnership has already helped deliver significant benefits and continues to provide access to a range of investment and development opportunities.

The Uskmouth conversion project has the potential to profoundly impact the way end-of-life waste is treated. The production of commercial quantities of waste-derived fuel coupled with the successful large-scale combustion testing recently completed with Mitsubishi Hitachi Power Systems in Japan were two major technical milestones completed during the period. Post conversion, Uskmouth will become the prototype for further coal fired power station conversions, globally.

We have also been pioneering solutions to the new demand for much closer partnerships between energy user and generator. The benefits for high energy users to be able to directly access sustainable and predictable power is driving huge interest, especially in one of the fastest growing and critical sectors, data. Atlantis is exploring opportunities to establish private wire power supply with owners and operators of data centres and so play our part at the vanguard of sustainable hyperscale data centre power supply solutions.

## **TIM CORNELIUS, CHIEF EXECUTIVE OF ATLANTIS, COMMENTED:**

“2020 has presented the world with significant challenges and raised real questions around the type of society and economies that we want as we step towards a post COVID recovery. The answer from almost every corner has been clear that we must use this opportunity to drive forward on our carbon neutral journey and see the much talked about green shoots begin to reach up. With our pioneering people, projects and resources we are embracing our role as leaders in the energy transition.”

# HIGHLIGHTS

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## FINANCIAL HIGHLIGHTS

- ▶ The consolidated Group cash position at 31 December 2019 was £4.5 million (2018: £9.3 million), including £1.8 million held in MeyGen PLC (2018: £2.4 million).
- ▶ The MeyGen project generated revenues of £4.1 million from the sales of power and Renewables Obligations Certificates.
- ▶ GHR's hydro division O&M and project management contributed £0.5 million revenue from the date of acquisition.
- ▶ Overall Group losses for the year were £35.4 million (2018: £24.0 million). The increase in this loss is primarily attributable to a £16.1 million non-cash disposal of seabed options for five development sites.

Additionally, the increased loss in the year reflects the full year results of significant changes to the Group during 2018, being the acquisition of SIMEC Uskmouth Power Ltd ("SUP") in June 2018 and the results of MeyGen becoming operational in April 2018. Included in the 2019 results is a £2.9 million non-cash gain on bargain purchase as a result of fair value calculation on the acquisition of Green Highland Renewables.

- ▶ Group total equity at 31 December 2019 was £94.0 million (2018: £119.6 million).
- ▶ In March 2019, Atlantis raised over £5.0 million, before expenses, through an equity fundraising to secure funding for the acquisition of GHR and an associated portfolio of hydro projects. As a result of the revised transaction the net proceeds were used for the Company's general corporate purposes.

## OPERATIONAL HIGHLIGHTS

- ▶ 2019 saw Phase 1 of the Group's flagship MeyGen tidal energy project continue to break records, and has now delivered over 31GWh of clean and predictable electricity to the grid.
- ▶ In October 2019, Atlantis acquired the entire issued share capital of SIMEC GHR Ltd ("GHR") from SIMEC GHR Acquisitions Topco Limited a subsidiary of SIMEC Energy ("SIMEC"), a member of the GFG Alliance. The acquisition was undertaken to further diversify the Atlantis energy platform and combine the project management and delivery expertise of the two companies whilst bringing positive revenue streams to the Group. Consideration for the purchase was £1.
- ▶ In July 2019, the Group successfully decommissioned the SeaGen tidal support structure in Strangford Narrows, Northern Ireland, marking the completion of the 1.2MW project which set a benchmark for the early days of the tidal industry.
- ▶ In July 2019 Atlantis entered into a joint venture agreement with regional investment fund Normandie Participations and local engineering and manufacturing business Efinor. The joint venture, Normandie Hydroliennes, has been established with the objective of developing tidal projects in the fast flowing waters off the coast of Normandy.
- ▶ Atlantis announced in October 2019 that it is had awarded the contract for combustion system design for SUP to Mitsubishi Hitachi Power Systems Europe GmbH ("MHPS Europe"). The contract included completion of industrial scale milling tests on the fuel pellets; completion of industrial scale combustion tests on the fuel; and completion of Uskmouth furnace burner system designs.
- ▶ Atlantis announced in October 2019 that it is had signed a contract to supply tidal generation equipment and offshore construction services to Japan's Kyuden Mirai Energy ("KME") for a demonstration project in Japan. The project, located in the straits of Naru Island within the southern Japanese Goto island chain, has a total budget of 1,800m¥.

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## POST YEAR END HIGHLIGHTS

### *Tidal Stream Highlights*

- ▶ In February 2020 Atlantis announced it had opened an office in Nagasaki, Japan as a base for the Group's newest entity, Atlantis Operations Japan ("AOJ"). The Nagasaki office will be the base for managing the construction works for the Group's utility client, KME.
- ▶ In March 2020, the MeyGen project was awarded £1.5 million in grant funding from the Scottish Government's Saltire Tidal Energy Challenge Fund to develop a subsea tidal turbine connection hub for the next phase of development of the MeyGen tidal power array.
- ▶ In June 2020 Atlantis announced that the local prefecture had approved the transfer of the rights to a tidal project site in the Raz Blanchard from original developer ENGIE to Normandie Hydroliennes.

### *SIMEC Uskmouth Power*

- ▶ In February 2020, Atlantis raised over £3.8 million, before expenses, through the Abundance ethical investment platform to further the successful delivery of the SUP conversion.
- ▶ In March 2020, Atlantis announced the successful production of 100 tonnes of fuel pellets for large scale combustion testing and successful completion of large scale milling tests on the 100% waste derived fuel pellets to be used at the Uskmouth power station post conversion.
- ▶ In June 2020, Atlantis announced the successful completion of the combustion testing as a significant milestone for the project. The test conclusively proves that a pulverised fuel burner based on MHPS's DS® Ultra Low NOx burner can be used to stably combust the waste derived fuel unsupported (i.e. without any oil or gas support firing). The burner was able to operate continuously at 25MW thermal power using the fuel and is comparable in rating to the burners required for the Uskmouth conversion project.
- ▶ On 6 August 2020, the Company announced a placing which has raised gross proceeds of £6.5 million through the issue of 54,166,666 new ordinary shares at 12 pence per share and a further £1 million through the issue of 8,333,333 new ordinary shares at 12 pence per share. In aggregate, the fundraising has raised gross proceeds of £7.5 million and will result in the issue of 62,499,999 new capital and an intended investment in a new fuel production joint venture.

# CHAIRMAN'S STATEMENT



Chairman

**John Neill**

Coronavirus has provided a stark reminder of what happens when humanity's relationship with nature breaks down. As we recover economically, we have an opportunity to protect and restore nature, reducing our exposure to the impact of climate change. We note that governments around the world are prioritising investment into green and digital technologies and that is positive news for Atlantis given our knowledge and experience built up over many years.

During 2019, we took great strides towards consolidating our position as a leader in the renewable and sustainable energy generation sector. We delivered clean electricity to the grid at MeyGen, continued our important development work on the Uskmouth conversion project and diversified our portfolio through the acquisition of Green Highland Renewables.

MeyGen delivered the longest ever period of uninterrupted generation from a multi-megawatt tidal turbine installation in the world. MeyGen has now produced over 31GWh of electricity, equivalent to the annual consumption of some 12,000 UK households. At the other end of the life-cycle, the Group demonstrated its commitment to corporate responsibility and sustainability by successfully decommissioning the SeaGen tidal turbine support structure in Strangford Narrows, Northern Ireland. This globally significant installation, which delivered more than 10GWh of generation into the grid over its lifetime, provided lessons which have underpinned development of tidal turbine development worldwide.

The Uskmouth conversion project, commenced in 2018, has continued to complete significant milestones in its development. The Front End Engineering and Design ("FEED") contract awarded in November 2018 was successfully completed in July 2019. The contract issued to Mitsubishi Hitachi Power Systems Europe GmbH ("MHPS Europe") in October 2019 delivered successful industrial-scale combustion testing of the waste derived fuel pellets.

To put this in context, successfully operating a converted coal-fired power plant on 100% waste-derived fuel pellets requires a bespoke pellet with specific combustion capabilities and an emissions profile that conforms with strict regulatory

requirements. Delivering such a pellet has required a significant amount of development and engineering work from our team and our dedicated group of world leading consultants, advisors and strategic partners.

In early 2019, the Uskmouth fuel pellet development team carried out a series of 'medium-scale' combustion tests, at 300kW (generating the level of energy that would be required to boil 150 kettles) combusting 0.5MT milled Subcoal pellets per hour at IFK Stuttgart (Stuttgart University, Institute of Combustion and Power Plant Technology). These tests demonstrated that a self-sustaining, stable flame could be achieved.

On 23 June 2020, SAE announced that it had successfully completed 'large-scale' combustion testing, running on its bespoke Subcoal waste-derived fuel pellets at Mitsubishi Heavy Industries' Research & Innovation Centre in Nagasaki, Japan. This is a positive and significant milestone for the Uskmouth conversion project and the culmination of more than two years of bespoke fuel pellet work.

These tests conclusively proved the principle and the practical operating rationale underpinning the Uskmouth project also demonstrating the efficacy of the technology behind the waste procurement and fuel pelleting process. In parallel with the development of the technology behind this project, the planning and permitting required for the change of use from coal fired to pellet fired power generation has also continued apace. The Pre Application Consultation (PAC) was completed on 29 June 2020 and the process now continues through to full planning application. The statutory timescale for this type of planning application determination is 16 weeks and therefore the Group expects a determination from Newport City Council in Q4 2020.

In continuing to pursue the objective of geographic and asset class diversity, the Group saw the continued development of the Normandie Hydroliennes ("NH") joint venture which was established in 2019 between Atlantis, the Development Agency for Normandy, the regional agency for economic development in Normandy, the regional investment fund Normandie Participations and local industrial group Efnor in France. This year NH has announced a decarbonisation agreement between NH

# CHAIRMAN'S STATEMENT

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and Alderney Electricity Limited and the launch of the Tidal Stream Industry Energiser Project known as TIGER, an ambitious €46.8 million project, which aims to drive the growth of the tidal energy industry by installing up to 8MW of new tidal capacity at sites in and around the Channel region. Most recently, NH announced that the Prefecture de la Manche has approved the transfer of the lease to develop a tidal power project in Raz Blanchard, in France, from ENGIE to NH. This finalised the relevant approvals for the transfer for what will be the first stage of a potential multi-hundred-megawatt marine energy project in Raz Blanchard.

The Group has continued to seek out export sales opportunities for our marine energy products and services. It was heartening to see one of these opportunities come to fruition with the announcement in October 2019 of a contract to supply tidal generation equipment and offshore construction services (with a total project budget of 1,800m JPY) to Japan's Kyuden Mirai Energy for a demonstration project in Japan. Atlantis expects to deliver and install the tidal generator by late Q3 2020, with completion of the demonstration in Q1 the following year. A successful first phase could lead to a subsequent phase with an increase in installed capacity.

During 2019, we were delighted to welcome Green Highland Renewables ("GHR") into the Group when we completed the acquisition of this experienced development team in November. This acquisition brought with it a stable stream of long-term income from operations and maintenance contracts for a portfolio of hydroelectric assets throughout Scotland as well as an experienced project and business development team with highly transferable skills.

The 2019 results reflect the continued expenditure and investment we have made in the core project development activities of the Group – particularly the flagship Uskmouth project which is making excellent progress towards financial close. Once these development assets are built and commissioned, they are expected to be significant revenue generating assets for the Group. Whilst I am pleased to report an increase in annual revenues, in line with prudent accounting treatment, the Group

has written off the carrying values of tidal development leases that are no longer considered to have long term benefit when compared to other development opportunities across our existing portfolio, and whilst these are non-cash items, this has significantly increased the underlying loss reported for 2019.

The challenge of COVID-19 was met with a measured and calm response; the whole team took voluntary pay reductions whilst maintaining momentum on all our key projects. Our strong internal technology infrastructure allied with robust and resilient supply chains and a flexible and agile business framework stands us in good stead should the virus see further peaks.

We recognise and thank all our stakeholders for their contribution, commitment and support which have been instrumental in enabling Atlantis to successfully overcome the many challenges that we have faced this year.

## ANNUAL GENERAL MEETING

Our Annual General Meeting will be held on Friday 28 August 2020. Details of the resolutions to be proposed are set out in a separate Notice of Annual General Meeting, which accompanies this report for shareholders receiving hard copy documents, and which is available at [www.simecatlantis.com](http://www.simecatlantis.com) for those who elected to receive documents electronically.



**John Neill**  
*Chairman*

11 August 2020

# CHIEF EXECUTIVE OFFICER'S STATEMENT



Chief Executive Officer

**Timothy Cornelius**

The continued focus on the transition to a carbon neutral economy has received fresh impetus as a result of the impact of COVID-19 and countries around the world are looking at the opportunities presented by a move to a carbon free economy as a way to grow our economies, create jobs and generate sustainable prosperity. Atlantis is a true pioneer in the field of renewable energy and our flagship projects have the potential to have a profound impact on the way we approach renewable and sustainable power generation globally.

MeyGen, the flagship of our marine energy division, delivered the longest ever period of uninterrupted generation from a multi-megawatt tidal turbine installation during 2019. The array, which is located in Scotland, continues to break world records and has now exported over 31GWh of electricity to the grid. To put that in context, that is enough electricity to fully charge more than 750,000 electric vehicles.

The Uskmouth conversion project is a pioneering, flagship project to re-purpose a coal-fired power station located in Newport, Wales. The station which once operated 100% on coal, will operate 100% on bespoke waste-derived fuel pellets made entirely from waste which is unsuitable for recycling. Half of the constituent waste comes from biomass sources, like paper and card, and half comes from high energy wastes like plastics.

Following full conversion, the power station is expected to generate 220MW of baseload, sustainable electricity – enough power for 220,000 homes. The conversion process is expected to take approximately 18 months following financial close. Once operating, the power station is designed to have a lifespan of 20 years. Initially there will be 110MW of power generation output from one unit in the power station. Subsequently a second 110MW unit is expected to be converted, enabling the power station to deliver 220MW of net electricity generating output.

The Uskmouth conversion project shows that power stations can be reused. The aim is to continue to use these assets to generate electricity, – but to do it in a way that is fit for purpose in a world where global warming needs solutions to mitigate emissions of large amounts of carbon into the atmosphere and where generation of baseload electricity must be done in a sustainable

manner. To demolish and build new power stations would be enormously expensive and value destructive. To continue to burn coal is not sustainable.

The power station conversion aims to use the physical buildings of the power station and much of the other infrastructure and equipment, where feasible. Equipment and infrastructure will be replaced or upgraded where necessary to facilitate combustion of the new pellet fuel and for control of emissions to uphold and maintain the most up to date environmental permit limits.

Uskmouth is a project that has the potential to demonstrate a pathway to a solution to help pressing challenges faced by countries around the world. These include weaning ourselves off coal as a source of electricity generation thereby reducing carbon emissions, in order to help slow an increase in global warming; maintaining a level of baseload electricity generation, as increasing amounts of intermittent renewable energy capacity (wind/solar) come into the energy mix; and finding a solution to deal with an ever-increasing amount of non-recyclable plastic waste that does not involve sending it to landfill and ensuring it does not end up in the world's oceans.

During 2019, we acquired Green Highland Renewables (“GHR”), a market leading developer of mini-hydro projects in the UK. The completion of this transaction secured a best-in-class development team which added a stable stream of annual income generated by a growing operations and maintenance (“O&M”) business providing 24 hour monitoring as well as reactive and planned maintenance to over 45 hydroelectric schemes in Scotland. In addition, this acquisition brought to Atlantis a strong and experienced business development and project management team with highly transferable skills – this team is already bringing added value to the pipeline of projects within the Atlantis Group.

The developments and achievements of 2019, in a challenging environment, were only possible with the blend of amazingly supportive and dedicated stakeholders that Atlantis is fortunate enough to be able to draw on. This includes our great team of dedicated engineers, project managers, operations and administrative support staff. Our ability to adapt quickly in the face of new challenges and remain resilient and productive has never



# CHIEF EXECUTIVE OFFICER'S STATEMENT

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been more evident than during the unprecedented events of early 2020. I am proud to lead this team and relish the next high growth phase of our journey. I look ahead with genuine excitement. Atlantis has become a world leader in energy, with tidal stream, energy pellets and hydro. We have the team, the projects and the ambition to continue to drive forward and I have no doubt that we will continue to lead the way and help regrow a greener and brighter economy.

## 2019 PERFORMANCE

In our final full year of project development activities at Uskmouth pre financial close, the Group recorded a loss after tax of £35.4 million for the year ended 31 December 2019, compared with a £24.0 million loss in the prior year. The increase in this loss is primarily attributable to a £16.1 million non-cash disposal of seabed options for five development sites (Sound of Islay, Ness of Duncansby, Mull of Galloway (Scotland), Strangford Lough (Northern Ireland), and Portland Bill (England)). This was partially offset by increased revenue from MeyGen (£2.0 million) as well as the non-cash adjustment of £2.9 million arising from the acquisition of GHR late in 2019.

Group revenue increased by 120% to £4.9 million for the year (2018 – £2.2 million) with an increase of £2 million from power sales from the MeyGen tidal power project and £0.5 million (2018 Nil) from GHR hydro division O&M and project management contract revenue. Contract revenues from our Atlantis Turbines and Engineering Services Division (“ATES”) for works completed in Japan on the KME contract will not be recognised until next fiscal year.

The loss on disposal of intangible seabed options of £16.1 million is as previously described while the £2.9 million non-cash purchase gain relates to fair value calculations on the acquisition of GHR in November 2019.

Total operating expense before non-recurring items for the year were £26.1 million (2018: £24.3 million). The increase of £1.8 million relates to a full year's depreciation for SUP (2018 only depreciated from June onwards) offset by reductions in acquisitions costs (2018 received the SUP acquisitions cost whilst 2019 saw much smaller GHR acquisition costs).

The Group's closing net asset balance was £94.0 million (2018: £119.6 million). The decrease is mainly in relation to the £16.1 million seabed options value write-off.

In March 2019, Atlantis raised £5.0 million, before expenses, from new and existing shareholders. In January 2020, Atlantis raised £3.8 million via a bond issued on the Abundance ethical investment platform. The bond has a coupon of 8%, payable semi-annually and matures in 2024. The proceeds continue to be deployed to further the successful delivery of our world leading portfolio of renewable and sustainable energy projects.



**Timothy Cornelius**  
Chief Executive Officer

11 August 2020

# BOARD OF DIRECTORS

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## **JOHN MITCHELL NEILL CBE, Non-Executive Chairman**

John Neill became a Director and non-Executive Chairman of the Company on 11 December 2013. John joined the Unipart group of companies from General Motors in 1974 and set out to establish a more independent and broad based role for what was then British Leyland's Parts Division. In 1987, he led the management buyout of the Company, of which he remains the Chairman and CEO. He has served as a non-Executive Director of Rolls-Royce plc, a Director of the Court of the Bank of England and a non-Executive Director of the Royal Mail and Charter International plc.



## **TIMOTHY JAMES CORNELIUS, Chief Executive Officer**

Timothy Cornelius became Chief Executive Officer of the Company in 2006 and joined the Board on 11 December 2013. Prior to joining the Company, Timothy worked in the subsea, offshore construction and oil and gas sectors with Submarine Escape and Rescue Service (Australia), Subsea Offshore, Halliburton Subsea and Subsea 7. He remains a certified submersible engineer and subsea ROV pilot and has experience in the power generation and shipping sectors. Timothy has a BSc in Marine Biology from Flinders University and an MBA from Bond University.



## **ANDREW LUKE DAGLEY, Executive Director - Corporate Finance**

Andrew Dagley joined the Company in early 2014 from IFM Investors, a global fund manager with over A\$100 billion under management, having previously worked with a range of superannuation infrastructure investors, renewable energy project developers and Flinders Corporate Finance, a boutique investment bank. Andrew was the Chief Financial Officer of Atlantis from August 2017 to February 2020, and since this date he has been dedicated to Corporate Finance aspects of the Group. Andrew has over 14 years of experience in infrastructure investment with an emphasis on renewable energy, having worked on a range of renewable and sustainable energy projects across Asia Pacific and the UK. He has a Bachelor of Commerce (Hons) Finance from the University of Melbourne.



## **MARK EDWARD MONCKTON ELBORNE, Non-Executive Director**

Mark Elborne was President and Chief Executive Officer at GE UK and Ireland, General Electric Company, from 2009 until his retirement in 2018. Mark's key focus was leading GE's businesses in the energy, aviation, oil and gas and healthcare sectors. Mark joined GE in 2004 as Executive Vice President and General Counsel of GE Insurance Solutions. From 2006 to 2009, he was General Counsel and Head of Regulatory in EMEA. Mark was a partner at CMS Cameron McKenna (now CMS Cameron McKenna Nabarro Olswang LLP) from 1988 to 2004. He qualified as a solicitor in 1983 after gaining a degree in History and Politics from the University of Exeter, and was admitted to the Missouri Bar in 2004. Mark is a Director and Chairman of the Board at GE Pension Trustees Limited and at GEAPS Pension Trust Limited. Mark is a nominated Board representative of the Company's major shareholder, SIMEC, and joined the Board on 15 June 2018.

# BOARD OF DIRECTORS

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## **GEORGE JAY HAMBRO**, Non-Executive Director

Jay Hambro is currently Chief Investment Officer of the GFG Alliance and heads the Aluminium, Mining and Energy businesses. Jay leads the GFG Alliance's global investment and development programme and sits on the GFG ExCo. After graduating in business management, Jay worked in resource finance with NM Rothschild & Sons, HSBC, and latterly with Petropavlovsk plc group. In 2016, he assumed the position at the GFG Alliance. Jay has held a number of other board positions both within the GFG Alliance and externally. He is a Fellow of the Institute of Material, Mining and Metallurgy and a Liveryman of the Worshipful Company of Goldsmiths. Jay is a nominated Board representative of the Company's major shareholder, SIMEC, and joined the Board on 15 June 2018.



## **IAN RAYMOND WAKELIN**, Non-Executive Director

Ian Wakelin joined the Board on 22 January 2019. Ian was previously Chief Executive Officer of Biffa plc, one of the UK's largest waste management businesses, and led the IPO of the business in 2016. He was previously co-founder and Chief Executive Officer of Greenstar UK, a waste management and recycling business which was acquired by Biffa plc in 2010. Ian trained as a Chartered Accountant at Arthur Andersen after graduating with a degree in Accounting and Finance. On the 27 July 2020, the Company announced that Ian has resigned from the Board of Atlantis having accepted the role of Chairman of Viridor Group, a British waste company. Ian will leave the Company's Board in October and will in the interim assist the transition of the Audit Committee to a new chair.



## **JOHN ANTHONY CLIFFORD WOODLEY**, Non-Executive Director

John Woodley joined the Board on 22 September 2008. He was at that time co-head of the power-and gas- related commodity business for Europe and Asia at Morgan Stanley. He founded the very successful US electricity trading operations for Morgan Stanley in New York in 1994, having worked as a power plant operator and then as an industrial marketing engineer for electric utilities. After ten years with Morgan Stanley in New York, John moved to London to help build the electricity and electricity-related energy business outside the US. John is now based in Switzerland and acts as a senior adviser to Morgan Stanley. John has a BSc Eng (Elec) from Wits University, Johannesburg, an MBA from Valdosta State University and an MS in Finance from Georgia State University.

# DIRECTORS' REPORT

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The Directors are pleased to present their report and the consolidated audited financial statements of the Company and the Group for the year ended 31 December 2019.

## CORPORATE GOVERNANCE

The corporate governance statement on pages 13 to 20 forms part of the Directors' report.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

During 2019, the Group completed the acquisition of GHR, adding to their portfolio of as a global developer of renewable and sustainable energy projects. The acquisition is described in more detail on page 71. The Group holds equity positions in a diverse portfolio of power projects in various stages of development which includes the world's flagship tidal stream project, MeyGen and the Uskmouth power station that is being converted to use waste derived fuel pellets. Further information on the Group's activities is contained in the Chief Executive Officer's Statement on pages 6 to 7.

A review of the business during the year is contained in the Chairman's Statement and Chief Executive Officer's Statement on pages 4 to 7.

## DIRECTORS

The Directors who served in office during the year ended 31 December 2019 were as follows:

**John Neill** – *Independent Non-Executive Chairman*

**Timothy Cornelius** – *Chief Executive Officer*

**John Woodley** – *Independent Non-Executive Director*

**Andrew Dagley** – *Executive Director*

**Mark Elborne** – *Non-Executive Director*

**Jay Hambro** – *Non-Executive Director*

**Ian Wakelin** – *Independent Non-Executive Director – appointed 22 January 2019*

**Ian Macdonald** – *Independent Non-Executive Director – resigned with effect from 22 January 2019*

Their biographies are shown on pages 8 to 9.

On 28 February 2020 Andrew Dagley stood down as Chief Financial Officer ("CFO") but remains an Executive Officer. Stephen Hutt was appointed as CFO with effect from 1 March 2020 but is not a Director at this time.

Further detail of the Board changes can be found in the Corporate Governance Report on pages 13 to 20.

## DIRECTORS' REMUNERATION

The report on Directors' remuneration is set out on pages 24 to 28.

## DIRECTORS' INTERESTS IN SHARES

The interests of Directors in shares of the Company are disclosed in the Remuneration Report on pages 24 to 28.

# DIRECTORS' REPORT

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## ANNUAL GENERAL MEETING

The Company's Annual General Meeting will take place on Friday, 28 August 2020 at 11.00 am. Further details regarding the AGM can be found within the separate Notice of Annual General Meeting available at [www.simecatlantis.com](http://www.simecatlantis.com).

This report was approved by the Board on 11 August 2020 and signed on its behalf.

*By order of the Board of Directors*



**John Neill**  
*Chairman of the Board*

11 August 2020



**Timothy Cornelius**  
*Chief Executive Officer*

11 August 2020

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Atlantis AR1500



# CORPORATE GOVERNANCE REPORT

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The Company was incorporated in Singapore under the Singapore Companies Act on 19 December 2005 and has been listed on AIM since 20 February 2014.

The Directors recognise the importance of sound corporate governance and the Board is committed to maintaining high standards of corporate governance in line with an effective and efficient approach to management. The Board has taken into consideration the Corporate Governance Code for Small and Mid-Size Quoted Companies produced by the Quoted Companies Alliance ("QCA Code") and has taken steps to comply with the principles of the QCA Code in so far as they can be applied practically, given the size of the Group, its stage of development, resources and the nature of its operations.

The QCA Code adopts key elements of the UK Corporate Governance Code, as well as other relevant guidelines and tailors these to the needs and particular circumstances of small and mid-size quoted companies on a public market. Further details of the Company's application of the QCA Code are set out in this report or on the Company's website. Where we do not comply with the QCA Code, this is set out in further detail on our website.

## THE BOARD OF DIRECTORS

During 2019, the Board comprised seven Directors. The Board comprises an independent Non-Executive Chairman, two independent Non-Executive Directors, two non-independent Non-Executive Directors and two Executive Directors: the Chief Executive Officer and the Corporate Finance Executive.

The following Directors of the Company were in office during the whole of the year ended 31 December 2019:

**John Neill** – *Independent Non-Executive Chairman*

**Timothy Cornelius** – *Chief Executive Officer*

**Andrew Dagley** – *Executive Director – Corporate Finance*

**John Woodley** – *Independent Non-Executive Director*

**Mark Elborne** – *Non-Executive Director*

**Jay Hambro** – *Non-Executive Director*

On 22 January 2019, Ian Macdonald resigned from the Board; whilst Ian Wakelin joined the Board on that date as an independent Non-Executive Director and Chairman of the Audit Committee. On the 27 July 2020, the Company announced that Ian Wakelin has resigned from the Board of Atlantis having accepted the role of Chairman of Viridor Group, a British waste company. Mr Wakelin will leave the Company's Board in October and will in the interim assist the transition of the Audit Committee to a new chair.

Director biographies illustrating their relevant skills and experience can be found on pages 8 and 9.

## THE CHAIRMAN

The Chairman, John Neill, is deemed by his fellow Directors to be independent and to have no conflicting relationships.

The Chairman is responsible for providing leadership for the Board and ensuring its effectiveness in all aspects of its role, ensuring that Directors have sufficient resources available to them to fulfil their statutory duties. The Chairman is responsible for running Board meetings, ensuring there is sufficient challenge from Non-Executive Directors and a particular focus on strategic issues. The Chairman promotes a culture of openness and debate by facilitating the effective contribution of Non-Executive Directors in particular, and by encouraging a constructive relationship between Executive and Non-Executive Directors. Board members are encouraged to openly and constructively challenge proposals made by executive management. Board agendas are reviewed and agreed in advance to ensure each Board meeting utilises the Board's time most efficiently. The Board and its Committees are provided with information on a timely basis in order to ensure proper assessment can be made of the matters requiring a decision or insight.

# CORPORATE GOVERNANCE REPORT

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## THE BOARD

The Board is collectively responsible for the effective oversight and long-term success of the Company. It has responsibility for formulating, reviewing and approving the strategic direction and governance structure to achieve the long-term success of the Company and deliver shareholder value.

In addition to setting the strategy, the Board takes the lead in areas such as financial policy and making sure the Company maintains a sound system of internal control. The Board's responsibilities are set out in a formal schedule of matters reserved for the Board. This schedule is reviewed and updated by the Board where considered appropriate.

The Board receives appropriate and timely information prior to each meeting. A formal agenda is produced for each meeting, and Board and Committee members are given a sufficient period of time to review these prior to the meetings taking place. Directors are encouraged to attend all Board meetings and meetings of Committees of which they are members.

The Board delegates authority to its Committees to carry out certain tasks on its behalf, so that it can operate efficiently and give an appropriate level of attention and consideration to relevant matters. The composition and role of each Committee is summarised below and on pages 16 to 18.

The role of the Chairman and the Chief Executive Officer are separate with a distinct division of responsibilities.

Jay Hambro and Mark Elborne are considered Non-Independent Directors as a result of their relationship with SIMEC, the Company's largest shareholder. Although John Woodley's material relationship with the Company's share holder, Morgan Stanley, may have lead to him being designated as a Non Independent director, the Board has considered his Independence and concluded that John discharges his duties in an independent manner.

Notwithstanding that John Neill holds Company's ordinary shares (as detailed on page 24), the Board has considered his independence and has concluded that John has demonstrated the utmost regard for his independence, appropriately challenging the Board during his tenure as Chairman and maintains high standards of corporate governance on the Board. Furthermore, the Board considers that John has not served as a Non-Executive Director for an undue length of time.

In accordance with the QCA code, the Board consists of at least two Independent non-Executive Directors.

The Board is aware of the other commitments and interests of its Directors and effective procedures are in place to deal with any conflicts of interest which may arise. Any changes to these commitments and interests are reported to the Board at the earliest opportunity. Atlantis and SIMEC have entered into a relationship agreement to ensure that the Company can continue to operate independently of the SIMEC Group and the GFG Alliance.

As well as the support of the Company Secretary, there is a procedure in place for any Director to take independent professional advice at the Company's expense in the furtherance of their duties, where considered necessary.

## BOARD DIVERSITY

While the Board is comprised entirely of males, we consider that, as a whole, it is diverse in respect of its range of culture, nationality and international experience. The Nomination Committee is aware that the lack of female representation requires focus and attention. Gender diversity is important to the Board of Directors and the Executive Team and subject to identifying appropriate candidates(s), future vacancies will be filled by individuals with the best possible credentials, without gender bias. Further information about our approach to equality and inclusion can be found in the Our People section on page 19 and on our website [www.simecatlantis.com](http://www.simecatlantis.com).



# CORPORATE GOVERNANCE REPORT

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## BOARD OPERATION

The Directors meet at regular Board meetings, held at least four times a year, with additional meetings arranged as necessary. During the year to 31 December 2019, the number of scheduled Board meetings attended by each Director was as follows:

	Attended
John Neill	5/5
Timothy Cornelius	5/5
Andrew Dagley	5/5
John Woodley	5/5
Mark Elborne	5/5
Jay Hambro	5/5
Ian Wakelin *	5/5
Ian Macdonald *	-

\* Ian Macdonald resigned on the 22 January 2019 and was immediately replaced by Ian Wakelin. As such, he was not a director at the time of any scheduled meetings.

Additional Board meetings were also held as required during the year and were attended by those Directors available at the time.

The Group has a detailed Delegated Authority Matrix which is reviewed by, and approved by, the Board on at least an annual basis, or more frequently as may be required. The Delegated Authority Matrix provides an overview of the thresholds of approval that senior management and the subcommittees of the Board can operate to. It is intended to ensure that the day-to-day operation of the business can operate in accordance with Board approved budgets while ensuring that any deviations are appropriately escalated.

A third party advises newly appointed Directors of their responsibilities in connection with becoming a director of an AIM company. All Directors, including those newly appointed, receive advice, where applicable, from the Company's nominated adviser and external lawyers.

## BOARD EVALUATION

The Directors are aware that they need to continually monitor and improve performance and recognise this can be achieved through regular Board evaluation, which provides a valuable feedback mechanism for improving Board effectiveness.

Given the changes to the Board in 2018, the Nomination Committee delayed the Board evaluation to June 2019. A full evaluation was carried out by the Head of Human Resources and an action plan put in place which was delivered during the remainder of the year.

The Board is satisfied that all of the current Directors contribute effectively and have the appropriate balance of skills and experience relevant to the leadership and direction of the Company. The Board is also satisfied that it has suitable levels of experience and independence to allow the Directors to discharge their duties and responsibilities effectively. The Board further concluded that the Chairman remained independent and his performance was satisfactory, with strong leadership capability.

Succession planning is given consideration by the Nomination Committee on an annual basis.

## SENIOR INDEPENDENT DIRECTOR

The Company has not identified a Senior Independent Director of the Company in view of the size of the Board, and the Company's stage of development.

# CORPORATE GOVERNANCE REPORT

## DIRECTORS' ELECTION/RE-ELECTION

Under the Company's Articles of Association, Directors are required to stand for election at the first Annual General Meeting ("AGM") after their appointment. All Directors thereafter are obliged by the Articles of Association to retire on a rotating basis and are subject to re-election at the AGM, which will be applied at the 2020 AGM.

Accordingly, Andrew Dagley, Jay Hambro and Mark Elborne will stand for re-election at the forthcoming AGM.

With regard to those Directors who are offering themselves for election and re-election at the next AGM, the Board believes that they will continue to make effective and important contributions to the Company's success and that Shareholders should support their election and re-election.

## BOARD COMMITTEES

The Board delegates authority to four Committees, including three Committees recommended by the QCA guidelines: the Nomination Committee, the Remuneration Committee and the Audit Committee, as well as an additional Technology Committee.

These Committees operate within a scope and remit defined by specific terms of reference, as determined by the Board. The Committees' full terms of reference are available on the company's website, [www.simecatlantis.com](http://www.simecatlantis.com). These terms of reference have been reviewed and updated during 2019.

Each Committee is responsible for reviewing the effectiveness of its own terms of reference and for making recommendations to the Board for changes when necessary. Executive Directors are not members of the Board Committees, although they may be invited to attend meetings.

Directors' attendance at Committee meetings (in their capacity as members of each Committee) held during 2019 is provided in the table below:

Member/Committee:	Audit Committee Attended	Remuneration Committee Attended	Nomination Committee Attended	Technology Committee Attended
John Neill	-	7/7	2/2	-
John Woodley	6/6	7/7	-	3/3
Ian Wakelin	6/6	-	2/2	3/3
Mark Elborne	6/6	7/7	-	3/3
Jay Hambro	-	-	1/2	-

Outside of statutory membership of the above Committees, the Chairman, in agreement with the Chairs of each Committee, encourages all Board Directors to attend any Committee meeting as observers, as appropriate. Timothy Cornelius and Andrew Dagley in their positions as Executive Directors are not formal members of any Committee, however attend meetings as deemed appropriate by the Committee Chairs.

# CORPORATE GOVERNANCE REPORT

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## AUDIT COMMITTEE

**Chairman:** Ian Wakelin (Prior to 22 January 2019: Ian Macdonald)

**Members:** Mark Elborne and John Woodley

The Audit Committee has primary responsibility for monitoring the quality of internal controls and ensuring that the financial performance of the Group is properly measured and reported. It receives and reviews reports from the Chief Financial Officer and auditor relating to interim and annual accounts, and the accounting and internal control systems in use throughout the Group.

The current Chairman of the Audit Committee is a Chartered Accountant and has held senior positions in other listed companies. The Board is satisfied that he has recent and relevant financial experience. The Chairman of the Audit Committee attended all scheduled meetings throughout the year under review.

The Audit Committee is required to meet not less than three times a year at appropriate times in the financial reporting and audit cycle and whenever otherwise necessary to fulfil its responsibilities.

The Audit Committee's role is to assist the Board in discharging its responsibilities with regard to monitoring the integrity of financial reporting, overseeing the relationship with the external auditor, making recommendations to the Board regarding the appointment of the external auditor, and reviewing the adequacy and effectiveness of the Company's internal controls and risk management systems. The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the half-yearly reports remains with the Board.

The Audit Committee met six times during the course of 2019 and four times post year end. It has subsequently advised the Board that this Annual Report and Accounts, taken as a whole, is fair, balanced and understandable for shareholders to assess the Company's performance, strategy and business model.

The report from the Audit Committee is set out on pages 21 to 23.

## REMUNERATION COMMITTEE

**Chairman:** Mark Elborne

**Members:** John Neill and John Woodley

The Remuneration Committee is required to meet at least twice a year and whenever otherwise necessary to fulfil its responsibilities.

The Remuneration Committee is responsible for reviewing the performance of the Executive Directors and setting the remuneration policy for Executive Directors. The objective of the policy is to attract, retain and motivate executive management of suitable calibre without paying more than necessary, having regard to the views of shareholders and stakeholders. The Remuneration Committee monitors and makes recommendations to the Board on matters relating to level and structure of executive management remuneration.

The Remuneration Committee will also make recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any share option scheme or equity incentive scheme in operation from time to time.

The Remuneration Committee met on seven occasions during the course of 2019.

The Directors' Remuneration Report from the Remuneration Committee is set out on pages 24 to 28.

# CORPORATE GOVERNANCE REPORT

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## NOMINATION COMMITTEE

**Chairman:** John Neill

**Members:** Ian Wakelin and Jay Hambro (Prior to 22 January 2019: Timothy Cornelius)

The Nomination Committee is required to meet at least twice a year and whenever otherwise necessary to fulfil its responsibilities.

The role of the Nomination Committee is to assist the Board in determining its composition, and that of the Committees of the Board. It is also responsible for periodically reviewing the Board's structure and identifying potential candidates to be appointed as directors as the need arises. The Nomination Committee is responsible for evaluating the balance of skills, knowledge, experience and diversity of the Board and keeps under review the leadership needs of the Company. It makes appropriate recommendations to the Board on such matters.

The Nomination Committee met twice during the year. No external consultants were engaged during this period. The Nomination Committee is mindful of the need to maintain an appropriate balance of skills, experience and personalities to shape the direction of the Company going forward. Building a diverse Board that is reflective of our Company as a whole is one of the factors that will be taken in consideration when appointing new directors.

An evaluation of the effectiveness and performance of the Board and its Committees will be carried out on an annual basis with leadership from the Nomination Committee.

## TECHNOLOGY COMMITTEE

**Chairman:** John Woodley

**Members:** Mark Elborne and Ian Wakelin

The Technology Committee is responsible for monitoring the integrity of the regular internal reporting on the status of technology development within the Company and for sanctioning the external reporting of key technology milestones. The Technology Committee also keeps under review the adequacy and effectiveness of the Company's internal engineering, internal management controls and risk management systems and ensures that core technology is being developed to plan and within agreed risk parameters.

The Technology Committee met three times during the year.

## DISCLOSURE AND ETHICS COMMITTEE

In addition to the formal Committees of the Board, the Company has established a Disclosure Committee, which is chaired by Timothy Cornelius with Andrew Dagley and Jay Hambro as members.

On an ad hoc basis, the role of this committee is to determine, in accordance with the Company's disclosure policy, whether specified information is inside or price sensitive information which should be disclosed to the market as well as to monitor the Group's procedures for communicating with the market, review the Company's arrangements for the control of inside information, assess training needs regarding the control of inside information, and various other specified matters.

During 2019, the Company established an Ethics Committee, which is chaired by Mark Elborne. Other members were the Group Legal Counsel, and Head of Human Resources. This is not a formal Committee of the Board. Its primary responsibility is the ongoing review of the Company's Business Ethics & Compliance Policy and to support the business in creating a culture of compliance.

The Company's Business Ethics Policy was created to provide a framework and guidance on its approach to achieving and maintaining good business behaviour by means of sound ethical conduct. It serves to ensure that all employees are aware of their individual and collective responsibilities with regards to the Company's ethics, and to emphasise employees' and customers' expectations to being treated fairly and in accordance with good business practices. The Company is committed to protecting employees, business partners and suppliers from illegal or damaging actions by individuals, either knowingly, or unknowingly.

# CORPORATE GOVERNANCE REPORT

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## INTERNAL CONTROLS AND RISK MANAGEMENT

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. With the active involvement of the executive management team, it approves all aspects of the overall risk management framework, including the strategic direction of the business, annual budgets and business plans, the risk management policy and delegations of authority. There is an agreed risk tolerance which is reflected in the Group's strategy and risk management activities are geared towards achieving business plans whilst safeguarding the Group's assets.

This system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, loss and the prevention and detection of fraud and other irregularities.

The Group's system of internal control includes an on-going process of identifying, monitoring and managing risks by executive management, who ensure that adequate systems, processes and controls are in place. Reports are provided by management to the Audit Committee on internal control and risk management policies, and the Board monitors risk exposures, risk management activities and the effectiveness of controls. In particular, Health and Safety ("H&S") has been identified as a key area of risk to the business. The Company maintains a CEO Safety Committee to monitor the systems used by the Company to manage H&S across all aspects of the business, as well as promoting strategic health, safety and environment issues throughout the Company.

The Group's internal financial control procedures and monitoring systems include:

- ▶ financial policies and approval procedures with proper authorisation level and segregation of duties for financial management;
- ▶ maintenance policies and approval procedures with proper authorisation level and segregation of duties for financial management;
- ▶ an annual budgetary process to set the appropriate target for monitoring the progress of the Group;
- ▶ a detailed monthly financial reporting system that reports on operating results, cash flows, assets and liabilities;
- ▶ reporting on any non-compliance with internal financial controls and procedures; and
- ▶ review of the audit findings report issued by the external auditor.

In addition, the Board carries out an assessment of the principal risks facing the Company, as maintained in the Company's Risk Register.

## OUR PEOPLE

Our people are integral to our success and their fulfillment and development is core to our people proposition. 2019 saw us welcome our new colleagues from Green Highland Renewables (GHR) into the group. The GHR team brought complimentary skills to our team of extremely talented and dedicated engineers, project managers, administration and support staff.

We focused throughout the year on maximizing the use of transferable skills across the company. This saw our colleagues in the tidal and hydro businesses come together with the Uskmouth conversion team to drive the planning and permitting process as well as input into the design and engineering of the project. This allowed us to further demonstrate our commitment to the on-going development of our staff, providing new opportunities to share learning and develop new skills.

In this vein we introduced core competencies across the group to support our people with their professional development and to further embed our Company values of Safety, Environment, Tenacity, Innovation and Respect. These competencies also underpin our approach to recruitment where we continue to adopt recruitment best practice, focusing on an inclusive and equitable process.

2019 also saw us maintain momentum on STEM with a focus on improving underrepresented groups' participation in the sustainable energy and engineering sectors. Our people continued to run high school visits during the year allowing us to be actively involved in the communities in which we operate. We also launched the STEM Ambassadors program which focuses on inspiring the next generation of STEM professionals whilst also offering excellent learning opportunities for our staff.

We want our people to feel motivated to do their best every day. In support of this aim, we launched a new company share option offering in August 2019 ensuring our employees have a vested interest in the performance and growth of the company. We also introduced a number of enhancements to our employee benefits such as a cycle to work scheme and improvements to our pension offering, as well as maintaining our culture of flexible working, in order to ensure we continue to attract and retain the very best.

# CORPORATE GOVERNANCE REPORT

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## SHAREHOLDER AND SOCIAL RESPONSIBILITIES

The Directors are aware of the importance of considering the Company's impact on its wider stakeholders. Where appropriate, the Company endeavours to take account of feedback received from stakeholders.

The Company has developed and implemented a Business Ethics Policy which provides a framework and guidance on its approach to achieving and maintaining good business behaviour by means of sound ethical conduct. Oversight of this policy is by the Ethics Committee, see page 18 for further information.

## SHAREHOLDER ENGAGEMENT

The Company is committed to ensuring that there is effective and regular communication with shareholders on matters such as governance and strategy so that the Board understands the views of large shareholders on these issues and that shareholders receive a balanced and consistent view of the Company's performance. Communication has historically been primarily through the AGM which provided an opportunity for shareholders to meet and ask questions of Directors and management. Due to government guidance and COVID-19 restrictions the CEO will release a detailed presentation to shareholders digitally as a replacement to the CEO presentation normally provided at the Company's AGM. The Company continues its dialogue with investors by periodical public correspondence between the management and the shareholders, via the use of the Company website and social media.

A range of corporate information is also available to shareholders, investors and the public on the Company's website [www.simecatlantis.com](http://www.simecatlantis.com). All shareholders will receive a copy of the audited financial statements, either via hardcopy or the website. The Company's Annual Report and Accounts are made available on the Company's website.

The Company's website is regularly updated and announcements or details of presentations and events are posted onto this website.

## MAJOR SHAREHOLDER AND SHAREHOLDER ARRANGEMENT

On 21 May 2018, the Company and SIMEC, which holds 49.9% of the Company's share capital, entered into a relationship agreement, the principal purpose of which is to ensure that the Company is capable at all times of carrying on its business independently of SIMEC and its connected persons and to ensure all transactions and relationships between them and the Group are conducted at arm's length and on normal commercial terms. The relationship agreement includes restrictions on Board voting rights of the two SIMEC representative Directors on SIMEC related matters.

*By order of the Board of Directors*



**John Neill**  
*Chairman of the Board*

11 August 2020

# AUDIT COMMITTEE REPORT

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The Board has delegated responsibility to the Audit Committee to oversee financial reporting, including the finance function, internal control and risk management and the effectiveness of the audit process. The Audit Committee provides independent oversight of both the senior management team and the external auditors. It regularly reports to the Board on the execution of its duties and responsibilities.

The Audit Committee comprises three Non-Executive Directors (the “Members”), appointed by the Board. All Members of the Audit Committee are considered to have relevant experience in the industry in which the Company operates. The Board is also satisfied that at least one Member of the Audit Committee has recent and relevant financial experience. Further details on the Audit Committee’s membership and attendance records can be found in the Corporate Governance Report on pages 17.

No individual who is not a Member of the Audit Committee is entitled to attend or to vote at its meetings. The Company’s Chief Executive Officer and Chief Financial Officer may attend meetings by invitation and other members of the senior management team attend as required. The audit partner and audit manager from the Company’s external auditor are invited to attend meetings on a regular basis.

## ROLE OF THE AUDIT COMMITTEE

The principal duties of the Audit Committee, which reports its findings to the Board, are to:

- ▶ monitor the integrity of the Company’s financial reporting and significant financial accounting policies and judgements;
- ▶ review the content of the Annual Report and audited financial statements where requested by the Board, and advise on whether it is fair, balanced, understandable and provides the information necessary for shareholders to assess the Company’s performance, business model and strategy;
- ▶ monitor the effectiveness of the Company’s internal controls and risk management framework;
- ▶ consider annually whether the Company should initiate an internal audit function and make a recommendation to the Board accordingly;
- ▶ consider and make recommendations to the Board, to be put to shareholders for approval at the Company’s AGM, in relation to the appointment, re-appointment and removal of the Company’s external auditor;
- ▶ advise the Board on the appointment, terms of engagement and remuneration of the external auditor and monitor their independence and effectiveness;
- ▶ review the effectiveness of the Company’s systems for the detection of fraud and the prevention of bribery; and
- ▶ review the adequacy and security of the Company’s arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

The Audit Committee works closely with the Chief Financial Officer and senior management to ensure the Committee is provided with the necessary information it requires to discharge its duties. The Audit Committee’s meeting agendas are based on annual reporting requirements and other ad-hoc issues which arise during the course of the year.

# AUDIT COMMITTEE REPORT

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## MATTERS CONSIDERED DURING THE YEAR

The Audit Committee met on six occasions during the year and four times post year end until the date of this report. At these meetings, the Audit Committee has considered the following:

- ▶ Group operational risks;
- ▶ Internal controls and risk management;
- ▶ Group tax considerations;
- ▶ Going concern and cash flow projections;
- ▶ Financial statements and key assumptions;
- ▶ Review of related party transactions;
- ▶ Review of the audit plan and fees;
- ▶ Review of external audit services;
- ▶ External auditor's report to the Committee;
- ▶ The effectiveness of the audit process;
- ▶ External auditor reappointment;
- ▶ Assessment of the need for an internal audit function; and
- ▶ Terms of Reference of the Audit Committee.

## INSIGHTS INTO THE AUDIT COMMITTEE'S ACTIVITIES DURING THE YEAR

The Audit Committee has considered the accounting considerations relating to the acquisition of GHR. The Company's auditor EY has reviewed the Company's accounting treatment of the GHR acquisition and was satisfied with the Company's assessment, the consideration paid and the assessment and identification of other intangible assets. The Audit Committee maintained oversight of the integration of GHR into the Group.

The Audit Committee has reviewed, analysed and challenged the significant assumptions within the audited financial statements with an independent mind-set. It has considered the application of materiality, the auditor's assessment of risks of material misstatements and how management has been responsive to the audit. No significant accounting issues have been identified during the reporting period.

The Audit Committee considers the three most significant judgement areas within the 2019 financial statements to be the carrying value of tangible and intangible assets, the going concern assumptions and the accounting treatment of the GHR acquisition. The Audit Committee reviewed the Group valuation review of assets undertaken during the year, and related assumptions, and has satisfied itself that the parameters and justifications in respect of the valuations fall within a reasonable range.

In relation to going concern, the Audit Committee has considered the financial forecasts prepared for the period of more than one year subsequent to the date of signing of the financial statements. The Group must operate within its available cash resources to meet its liabilities as they fall due. As set out in note 2, the Group's financial statements show that this can be achieved. The Audit Committee debated the cash flow forecasts, including the key assumptions and sensitivities, and was satisfied that it is appropriate for the Company to prepare the financial statements on a going concern basis.



# AUDIT COMMITTEE REPORT

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## AUDIT TENDER

During the first half of 2019, the Audit Committee conducted an audit tender process.

As a result of this process, and subsequent approval by Board and shareholders, Ernst & Young LLP ("EY") succeed KPMG LLP as the Company's auditor. The Audit Committee would like to thank KPMG for their audit work and assistance to the Company.

## INTERNAL AUDIT FUNCTION

The Audit Committee considered the need for an internal audit function and has determined that there is no current need given the limited size of the Company and the Company's internal controls. It has been agreed that the Audit Committee will consider the need for an internal audit function on at least an annual basis, or more frequently as may be appropriate.

## AUDITOR OBJECTIVITY AND INDEPENDENCE

The Audit Committee monitors and reviews the effectiveness of the external audit process, including a review of the audit plan and the audit results report. The Audit Committee has assessed the performance of the auditor in respect of the 2019 audit. No concerns were raised in respect of the year ended 31 December 2019.

The Audit Committee has satisfied itself that safeguards were in place to protect the objectivity and independence of the auditor.

Following the consideration of the above matters and its detailed review, the Audit Committee was of the opinion that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

## TERMS OF REFERENCE

The Audit Committee keeps its terms of reference under review and makes recommendations for changes to the Board.

The full terms of reference are available on the Company's website at [www.simecatlantis.com](http://www.simecatlantis.com).



**Ian Wakelin**

*Chairman of the Audit Committee*

11 August 2020

# DIRECTORS' REMUNERATION REPORT

This report includes details of the Directors' remuneration in 2019. Shareholders will be asked to approve the Directors' Remuneration Report at the forthcoming AGM.

## REMUNERATION COMMITTEE

The members of the Remuneration Committee and the Remuneration Committee's role are set out on page 17.

## REMUNERATION FRAMEWORK

The overall aim of the Company's remuneration framework is to provide appropriate incentives that reflect the Company's performance, culture and values. The Company also attempts to ensure the remuneration guidelines and culture are sustainable, transparent and appropriate. The Company's framework aims to attract and retain high-performing employees and reward both short-term and long-term contributions to the Company.

The Remuneration Committee is satisfied that this framework successfully aligns the interests of executive Directors, senior managers and other employees with the Shareholders' long-term interests, by ensuring that an appropriate proportion of remuneration is directly linked to overall performance, in both the long and short term.

In determining the practicalities of the approach, the Remuneration Committee considers a range of internal and external factors and appropriate market comparisons against other companies of a similar size and nature.

## ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES

During and at the end of the financial year, neither the Company nor any of its subsidiaries was a party to any arrangement whose purpose was to enable the Directors to acquire benefits by acquiring shares in, or debentures of, the Company or any other body corporate, except as disclosed in this report.

## DIRECTORS' INTERESTS IN SHARES

According to the Register of Directors' Shareholdings kept by the Company under Section 164 of the Singapore Companies Act (the "Act"), none of the Directors of the Company holding office at the end of the financial year had any interests in the shares or debentures of the Company and its related corporations, except as follows:

	Shareholdings registered in the name of Directors		Shareholdings in which Director are deemed to have an interest	
	At beginning of the year	At end of the year	At beginning of the year	At end of the year
<b>Ordinary shares</b>				
John Neill	377,501	377,501	–	–
Timothy Cornelius	84,041	84,041	992,065 <sup>(1)</sup>	992,065 <sup>(1)</sup>
Andrew Dagley	–	–	–	–
John Woodley	–	–	–	–
Ian Wakelin	–	–	–	–
Mark Elborne	–	–	–	–
Jay Hambro	–	–	–	–

(1) Shares held by Languedoc Pte Limited, of which Timothy Cornelius is the sole shareholder. These shares are subject to a charge in favour of Morgan Stanley Capital Group Inc as security for a S\$1,500,000 loan to Timothy Cornelius dated 12 November 2008.

## EXECUTIVE DIRECTORS' SERVICE CONTRACTS AND PAYMENTS FOR LOSS OF OFFICE

The Chief Executive Officer and Executive Director - Corporate Finance are employed under a service contract with a fixed period of notice of termination. Their services may be terminated on a maximum of six months' notice by either party.

# DIRECTORS' REMUNERATION REPORT

## NON-EXECUTIVE DIRECTORS' LETTERS OF APPOINTMENT

The Company's Non-Executive Directors are not committed by service contracts to the Company and are engaged by letters of appointment. These provide for a maximum of three months' notice of termination by either party at any time, with no pre-determined amounts of compensation.

## PAYMENTS TO PAST DIRECTORS

There have been no payments to past Directors in the year.

## PAYMENTS FOR LOSS OF OFFICE

There have been no payments made to Directors for loss of office during the year.

## ANNUAL REMUNERATION OF DIRECTORS

The table below sets out the annual remuneration of the Directors for the years ended 31 December 2019 and 31 December 2018. This includes any pension and employer's National Insurance contributions and excludes share-based payments.

Director	Annual Remuneration	
	2019 £'000	2018 £'000
John Neill <sup>(9)</sup>	84	75
Timothy Cornelius <sup>(1)(6)</sup>	321	434
John Woodley <sup>(2)</sup>	41	40
Andrew Dagley <sup>(2)(6)(4)</sup>	173	164
Mark Elborne <sup>(2)(8)(4)</sup>	41	20
Ian Wakelin <sup>(8)</sup>	38	-
Jay Hambro <sup>(5)(4)</sup>	-	-
Ian Macdonald <sup>(2)(7)</sup>	13	40
Duncan Black <sup>(2)(3)</sup>	-	30
Michael Lloyd <sup>(3)</sup>	-	27
Ian Cobban <sup>(3)</sup>	-	27

(1) Timothy Cornelius is employed by Atlantis Operations (UK) Limited.

(2) Ian Macdonald, John Woodley, Duncan Black, Mark Elborne and Andrew Dagley are all remunerated in Singapore dollars. Figures shown above are Great British Pounds equivalents, converted at the prevailing exchange rate.

(3) Duncan Black, Michael Lloyd and Ian Cobban resigned from the Board on 15 June 2018.

(4) Appointed to the Board 15 June 2018.

(5) Jay Hambro is not remunerated by SAE for his services.

(6) 2018 remuneration includes bonus payments of £100,000 and £50,000 to Timothy Cornelius and Andrew Dagley respectively in relation to the completion of the SIMEC Uskmouth acquisition. These bonuses were approved by the Remuneration Committee.

(7) Ian Macdonald resigned from the Board on 22 January 2019.

(8) Ian Wakelin was appointed to the Board on 22 January 2019.

(9) 2019 remuneration includes employer's National Insurance contributions.

# DIRECTORS' REMUNERATION REPORT

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## LONG TERM INCENTIVE PLAN ("LTIP")

On 11 December 2013, it was agreed, contingent on admission of the Company's shares to trading on AIM, that the Company offered certain senior management and Directors options over shares through an LTIP. In 2015, the rules of the LTIP were amended to allow the Board to determine the date on which awards granted under the LTIP can vest. As at the date of this report, there has been no change to vesting dates.

The options granted to Directors are shown below:

Name	Date of grant	Ordinary shares	Nature of award	Exercise price	Vesting period
Timothy Cornelius	30 September 2016	1,000,000	Option	£0.50	1/3 on 11 Dec 2016, 1/3 on 11 Dec 2017 and 1/3 on 11 Dec 2018
Andrew Dagley	05 December 2016	120,000	Option	£0.50	1/3 on each of first, second and third anniversary of grant
Andrew Dagley	21 December 2017	336,000	Option	£0.50	1/3 on each of first, second and third anniversary of grant
Timothy Cornelius	15 June 2018	300,000	Option	£0.35	1/3 on each of first, second and third anniversary of grant
Andrew Dagley	15 June 2018	150,000	Option	£0.35	1/3 on each of first, second and third anniversary of grant

Vested awards for Directors issued up to December 2016 are exercisable up until the fifth anniversary date of the grant. Awards issued after this date are exercisable up to the tenth anniversary of the date of the grant.

During 2019, share options previously awarded to current Director John Neil and former Director Ian MacDonald expired.

Until awards vest or options are exercised, participants have no voting or other rights in the shares subject to the award. ordinary shares issued or transferred pursuant to the LTIP rank pari passu in all respects with the ordinary shares then in issue except that they will not rank for any dividend/distribution of the Company paid or made by reference to a record date falling before the exercise date. The option is not assignable or transferable.

## COMPANY SHARE OPTION PLAN ("CSOP")

On 10 November 2016, the Company established a Company Share Option Plan ("CSOP") to offer share options to employees. Under this programme, holders of the vested options are entitled to purchase shares at the proposed exercise price. The options are fully vested on the third anniversary of the date of the grant, and exercisable up until the tenth anniversary of the date of the grant. The shares acquired on the exercise of the option shall rank pari passu with all other shares then in issue except that they will not rank for any dividend/distribution of the Company paid or made by reference to a record date falling before the exercise date. The option is not assignable or transferable.

# DIRECTORS' REMUNERATION REPORT

## SHARE OPTIONS

### (a) Long Term Incentive Plan

Details of the options granted under the LTIP on unissued ordinary shares of the Company are as follows:

Date of grant/ modification	Balance at 01.01.2019	Granted	Exercised	Cancelled/ lapsed	Balance at 31.12.2019	Exercise price per share	Exercisable period
20.02.2014	2,074,469	-	-	(2,074,469)	-	£0.94	20.02.2014 to 20.02.2019
01.01.2016	350,000	-	-	-	350,000	£0.50	01.01.2016 to 01.01.2026
30.09.2016	700,000	-	-	-	700,000	£0.50	30.09.2016 to 30.09.2026
05.12.2016	970,000	-	-	-	970,000	£0.50	05.12.2016 to 05.12.2026
21.12.2017	336,000	-	-	-	336,000	£0.50	21.12.2017 to 03.08.2020
21.12.2017	300,000	-	-	-	300,000	£0.50	21.12.2017 to 29.09.2020
15.06.2018	621,428	-	-	(21,428)	600,000	£0.35	15.06.2018 to 15.06.2028
15.06.2018	100,130	-	-	(18,650)	81,480	£0.50	15.06.2018 to 15.06.2028
<b>Total</b>	<b>5,452,027</b>	<b>-</b>	<b>-</b>	<b>(2,114,547)</b>	<b>3,337,480</b>		

### (b) Company Share Option Plan

Details of the options granted under the CSOP on unissued ordinary shares of the Company are as follows:

Date of grant/ modification	Balance at 01.01.2019	Granted	Exercised	Cancelled/ (Lapsed)	Balance at 31.12.2019	Exercise price per share	Exercisable period
10.11.2016	357,125	-	-	(57,140)	299,985	£0.70	11.11.2016 to 11.11.2026
19.08.2019	-	3,200,000	-	-	3,200,000	£0.20	19.08.2019 to 19.08.2029
<b>Total</b>	<b>357,125</b>	<b>3,200,000</b>	<b>-</b>	<b>(57,140)</b>	<b>3,499,985</b>		

(c) Other than the above, no option to take up unissued shares of any corporation in the Group was granted and there were no shares of any corporation in the Group issued by virtue of the exercise of an option to take up unissued shares. At the end of the financial year, other than the above, there were no unissued shares of any corporation in the Group under option.

# DIRECTORS' REMUNERATION REPORT

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## SHAREHOLDER VOTE AT THE ANNUAL GENERAL MEETING

The 2019 Directors' Remuneration Report will once again be put to an advisory shareholder vote at the 2020 AGM.

The 2018 Directors' Remuneration Report was approved by shareholders at the Company's AGM held on 26 July 2019.

Approved and signed on behalf of the Board.



**Mark Elborne**

*Chairman of the Remuneration Committee*

11 August 2020

# DIRECTORS' RESPONSIBILITY STATEMENT

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We are pleased to submit this Annual Report to the members of the Company together with the audited financial statements for the financial year ended 31 December 2019.

In our opinion:

- ▶ the financial statements set out on pages 39 to 90 are drawn up so as to give a true and fair view of the financial position and changes in equity of the Group and of the Company as at 31 December 2019 and the financial performance and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and International Financial Reporting Standards; and
- ▶ at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

On behalf of the Board of Directors



**John Neill**  
*Chairman of the Board*

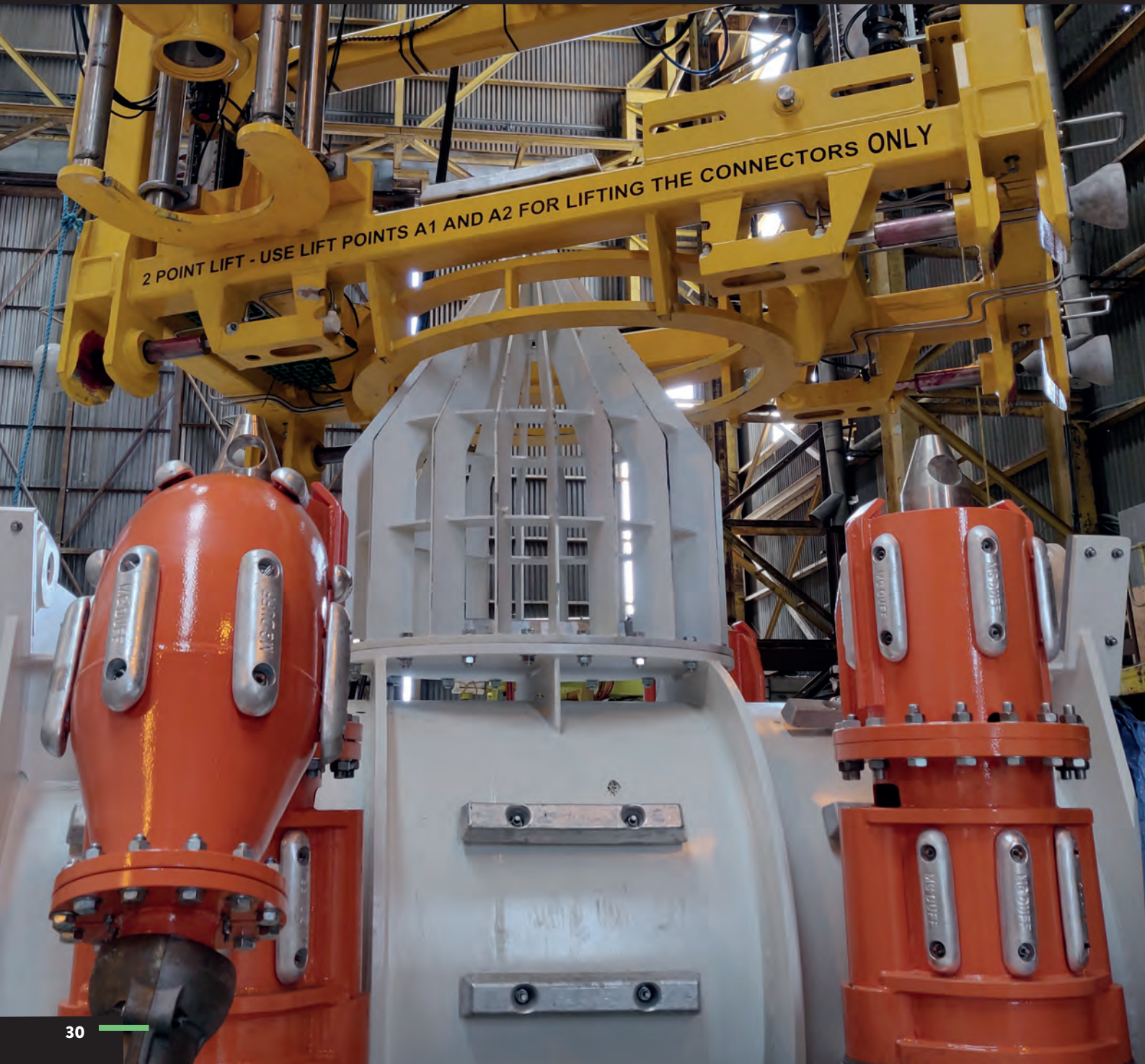
11 August 2020



**Timothy Cornelius**  
*Chief Executive Officer*

11 August 2020

Subsea tidal turbine connection hub





# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SIMEC ATLANTIS ENERGY LIMITED



**Ernst & Young LLP**  
One Raffles Quay,  
North Tower,  
Level 18  
Singapore 048583

<https://www.ey.com>

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### **Opinion**

We have audited the financial statements of SIMEC Atlantis Energy Limited (the Company) and its subsidiaries (collectively, the Group) which comprise:

#### **Group**

Consolidated financial position as at 31 December 2019

Consolidated income statement for the year then ended

Consolidated statement of comprehensive income for the year then ended

Consolidated statement of changes in equity for the year then ended

Consolidated statement of cash flows for the year then ended

Related notes 1 to 33 to the financial statements, including a summary of significant accounting policies

#### **Company**

Financial position as at 31 December 2019

Statement of changes in equity for the year then ended

Related notes 1 to 33 to the financial statements including a summary of significant accounting policies

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act"), Singapore Financial Reporting Standards (International) (SFRS(I)) and International Financial Reporting Standards (IFRS) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2019 and of the consolidated financial performance, consolidated statement of changes in equity and consolidated cash flows of the Group and the statement of changes in equity of the Company for the year ended on that date.

### **Basis for opinion**

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SIMEC ATLANTIS ENERGY LIMITED

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## Overview of our audit approach

Key audit matters

### Group

- Appropriateness of the Going concern basis of accounting
- Accounting for the acquisition of Green Highland Renewables
- Valuation of intangible assets and property, plant and equipment

### Company

- Impairment assessment of interests in subsidiary companies
- We performed an audit of the complete financial information of 14 components.
- Overall group materiality of £0.9 million which represents 1% of Equity.

Audit scope

Materiality

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those 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.

We have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SIMEC ATLANTIS ENERGY LIMITED

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## Risk

### Appropriateness of the Going Concern basis of accounting

Refer to the Directors' Report (page 10);

Audit Committee Report (page 21) and the Accounting policies in Note 1 of the Consolidated Financial Statements.

The Group's financial statements are prepared on the going concern basis of accounting.

The Group incurred a net loss of £35.4 million for the year ended 31 December 2019 (2018: £24.0 million). The group currently has borrowings of £45.2 million (2018: £41.6 million).

In order to assess the ability to continue as a Going Concern the directors are required to assess the adequacy of future cash flows. This assessment involves consideration of future uncertain events, which included an equity raise, the ability to draw down on funding and the group's ability to meet contractual milestones on significant contracts.

Our audit focus has been on the following key areas:

- Consideration of the going concern basis of preparation, focusing on forecasting ranges to reflect downside scenarios and resulting liquidity headroom;
- The adequacy of the disclosures made in the Annual Report and financial statements.

## Our response to the risk

We assessed the going concern assumption adopted by the Directors of Simec Atlantis Energy plc, which included the following procedures:

- We confirmed our understanding of the Going Concern assessment process and challenged management to ensure all key matters were considered in its assessment;
- We obtained management's board approved forecast cash flows covering the period from the date of signing until 31 December 2021;
- We assessed the historical accuracy of management's forecasting to confirm the current year forecasts as a basis to challenge and sensitise;
- We performed reverse stress testing on management's forecasts to understand how severe the downside scenarios would have to be to result in the elimination of liquidity headroom;
- We reviewed management's assessment of plausible controllable mitigations available to the Group to reduce cash flow spend in the going concern period in order to determine whether such actions could be affected;
- We obtained a confirmation from the third-party lender that funds will be available to the entity once conditions precedent in the loan facility agreement are satisfied;
- We reviewed third party documents to support management's assessment that the conditions precedent per the agreement had been satisfied;
- We performed a review of all the borrowing facilities to assess their continued availability to the Group and to ensure completeness of covenants identified by management;
- We checked market data for indicators of contradictory evidence to challenge the Going Concern assessment;
- We agreed proceeds from the 6th August 2020 equity raise to the Group's bank statements;
- We considered whether management's disclosures, within the Annual Report and financial statements, sufficiently capture the impacts of COVID 19 on the going concern assessment.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SIMEC ATLANTIS ENERGY LIMITED

Risk	Our response to the risk
<p><b>Accounting for the Acquisition of Green Highland Renewables ("GHR")</b></p> <p>Refer to the Audit Committee Report (page 21); Accounting policies in Note 1 and Note 13 of the Consolidated Financial Statements.</p> <p>During the 2019 financial year the Group acquired the operations and maintenance business of GHR.</p> <p>The accounting treatment with respect to an acquisition is inherently judgemental and requires the directors to exercise judgement regarding the fair value of the assets and liabilities acquired and the determination of the goodwill or bargain purchase gain to be recognised.</p> <p>Specifically, the risk relates to the following key areas:</p> <ul style="list-style-type: none"><li>- Whether the transaction should be accounted for under IFRS 3 or as a transaction under common control</li><li>- Assessment of the fair value of the assets and liabilities acquired</li><li>- Accounting for the bargain purchase gain of £2.9 million in accordance with IFRS 3</li></ul>	<p>We assessed the accounting for the acquisition of Green Highland Renewables, which included the following procedures:</p> <ul style="list-style-type: none"><li>- We understood and walked through management's process and methodology for the acquisition accounting.</li><li>- We reviewed the GHR acquisition and supplemental agreements. We reviewed agreements relating to guarantees set out in the acquisition contract for any potential unidentified liabilities at acquisition.</li><li>- We reviewed the sale and purchase agreement to confirm no further compensation is payable for the transaction, either based on deferred or contingent terms.</li><li>- In respect of the valuation of intangible assets acquired, we corroborated the inputs used in the discounted cash flow model through agreement back to signed contracts and other supporting evidence.</li><li>- Through the use of our valuation specialists, we evaluated the discount rate used by management to value intangible assets.</li><li>- We evaluated the bargain purchase accounting to ensure this was calculated in accordance with IFRS 3.</li><li>- We assessed the adequacy of the disclosures.</li></ul>
<p><b>Valuation of Intangible Assets and Property, Plant and Equipment</b></p> <p>Refer to the Audit Committee Report (page 21; Accounting policies in Note 1 and Note 10 and Note 11 of the Consolidated Financial Statements.</p> <p>The Group has intangible assets with a carrying value of £17.1 million (2018: £32.7 million) and Property, Plant and Equipment with a carrying value of £136.3 million at 31 December 2019 (2018: £142.2 million).</p> <p>The risk arises due to the significant judgement and estimation involved in preparing the cash flow models which form the basis of the impairment calculations, including key assumptions relating to the financing of the projects, revenue per MWh, forecast operating and maintenance costs and the discount rate applied in the calculation.</p>	<p>We assessed the valuation of Intangible Assets and Property, Plant and Equipment, which included the following procedures:</p> <ul style="list-style-type: none"><li>- We understood and walked through management's process and methodology for the valuation of intangible assets and property, plant and equipment.</li><li>- Through the use of our valuation specialists, we assessed the discount rate, revenue per MWh, capital and operating costs applied to the cash flow forecasts to calculate the value in use.</li><li>- We corroborated the key inputs and assumptions in management's model to supporting documentation (e.g. power price assumptions, consumer price index).</li><li>- We performed sensitivity analysis on the key assumptions used in the model to assess the impact on headroom (discount rate, revenue per MWh, capital and operating costs).</li><li>- We reviewed management's analysis and challenged the underlying calculations to assess whether there was sufficient headroom to support the valuation of the intangible assets and property, plant and equipment.</li><li>- We assessed the adequacy of the disclosures.</li></ul>

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SIMEC ATLANTIS ENERGY LIMITED

## Risk

### Impairment assessment of interests in subsidiary companies (Company)

Refer to the Audit Committee Report (page 21); Accounting policies in Note 1 and Note 13 and Note 15 of the Company Financial Statements.

As at 31 December 2019, in the Company's standalone financial statements its interests in subsidiary companies totalled £76.1 million, and comprised of investments in subsidiary companies of £63.9 million (2018: £62.2 million) and loans to subsidiary companies of £12.2 million (2018: £12.1 million).

The risk arises due to loss-making subsidiaries which could give rise to a risk of impairment in the carrying value of investments or loans receivable.

## Our response to the risk

We assessed the Impairment assessment of interests in subsidiary companies, which included the following procedures:

- We understood and walked through management's process and methodology for the valuation of the loss-making subsidiary companies.
- We reviewed management's process of monitoring the credit risk of subsidiary companies.
- We reviewed management's analysis and challenged the underlying calculations to assess whether there was sufficient headroom to support the valuation of investments in subsidiary companies.
- We evaluated management's determination of whether there has been significant increase in the loans' credit risk since initial recognition.
- We considered the historical and future cash flow generating abilities of the subsidiary companies, adjusted for factors specific to the subsidiary companies and the economic environment from external information sources.
- We also assessed the adequacy of the disclosures related to interests in subsidiary companies in Note 13 and Note 15 to the financial statements.

## Other information

The other information comprises the information included in the annual report set out on pages 1 to 37, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

## Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act, SFRS(I) and IFRS, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Directors' responsibilities include overseeing the Group's financial reporting process.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SIMEC ATLANTIS ENERGY LIMITED

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## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with SSAs 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.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SIMEC ATLANTIS ENERGY LIMITED

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## **Report on other legal and regulatory requirements**

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditors' report is Vincent Weng Sum Toong.



## **Ernst & Young LLP**

Public Accountants and Chartered Accountants

Singapore

11 August 2020





# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2019

	Note	2019 £'000	2018 £'000
Revenue	4	4,859	2,217
Other income	5	1,856	949
Employee benefits expense	6	(6,347)	(5,562)
Subcontractor costs		(4,069)	(4,396)
Depreciation and amortisation	9	(10,479)	(7,299)
Acquisition costs		(1,336)	(4,173)
Other operating expenses		(3,862)	(2,902)
<b>Total operating expenses before non-recurring items*</b>		<b>(26,093)</b>	<b>(24,332)</b>
Loss on disposal of intangible seabed options	11	(16,085)	-
Gain on bargain purchase	13	2,928	-
<b>Results from operating activities</b>		<b>(32,535)</b>	<b>(21,166)</b>
Finance costs	7	(3,648)	(2,998)
		<b>(36,183)</b>	<b>(24,164)</b>
Share of loss of equity-accounted investees	14	(23)	-
<b>Loss before tax</b>		<b>(36,206)</b>	<b>(24,164)</b>
Tax credit	8	787	120
<b>Loss for the year</b>	9	<b>(35,419)</b>	<b>(24,044)</b>
<b>Other comprehensive income</b>			
<b>Items that are or may be reclassified subsequently to profit or loss</b>			
Exchange differences on translation of foreign operations		6	-
<b>Total comprehensive income for the year</b>		<b>(35,413)</b>	<b>(24,044)</b>
<b>Loss attributable to:</b>			
Owners of the Company		(34,872)	(22,579)
Non-controlling interests	13	(547)	(1,465)
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		(34,866)	(22,579)
Non-controlling interests	13	(547)	(1,465)
<b>Loss per share</b>			
Basic and diluted loss per share	27	(0.08)	(0.09)

No dividends were proposed or declared in respect of any of the years presented above.

The accompanying notes form an integral part of these financial statements.

\* Non-recurring items – Items which individually or, if of a similar type, in aggregate need to be separately disclosed by virtue of their nature, size or incidence in order to allow a proper understanding of the underlying financial performance of the Group.

# STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Note	Group		Company	
		2019 £'000	2018 £'000	2019 £'000	2018 £'000
<b>Assets</b>					
Property, plant and equipment	10	136,315	142,247	-	-
Intangible assets	11	17,058	32,753	1,568	1,829
Right of use assets	12	1,436	-	-	-
Investments in subsidiaries	13	-	-	63,975	63,278
Investment in joint venture	14	47	-	-	-
Loans receivable	15	-	-	12,229	12,164
Trade and other receivables	16	-	-	41,381	39,432
<b>Non-current assets</b>		<b>154,856</b>	<b>175,000</b>	<b>119,153</b>	<b>116,703</b>
Trade and other receivables	16	7,830	4,156	4,234	700
Inventory	17	864	986	-	-
Cash and cash equivalents	18	4,521	9,267	121	5,342
<b>Current assets</b>		<b>13,215</b>	<b>14,409</b>	<b>4,355</b>	<b>6,042</b>
<b>Total assets</b>		<b>168,071</b>	<b>189,409</b>	<b>123,508</b>	<b>122,745</b>
<b>Liabilities</b>					
Trade and other payables	19	9,449	8,523	10,258	2,107
Lease liabilities	12	276	-	-	-
Provisions	20	120	1,619	41	41
Loans and borrowings	21	4,559	2,765	119	130
<b>Current liabilities</b>		<b>14,404</b>	<b>12,907</b>	<b>10,418</b>	<b>2,278</b>
Lease liabilities	12	1,091	-	-	-
Provisions	20	14,539	14,282	-	-
Loans and borrowings	21	40,662	38,855	392	377
Deferred tax liabilities	22	3,344	3,802	-	-
<b>Non-current liabilities</b>		<b>59,636</b>	<b>56,939</b>	<b>392</b>	<b>377</b>
<b>Total liabilities</b>		<b>74,040</b>	<b>69,846</b>	<b>10,810</b>	<b>2,655</b>
<b>Net assets</b>		<b>94,031</b>	<b>119,563</b>	<b>112,698</b>	<b>120,090</b>
<b>Equity</b>					
Share capital	23	188,018	178,218	188,018	178,218
Capital reserve	24	12,665	12,665	-	-
Translation reserve	25	7,079	7,073	(227)	(227)
Share option reserve	26	740	3,224	740	3,224
Accumulated losses		(120,786)	(88,479)	(75,833)	(61,125)
<b>Total equity attributable to owners of the Company</b>		<b>87,716</b>	<b>112,701</b>	<b>112,698</b>	<b>120,090</b>
Non-controlling interests	13	6,315	6,862	-	-
<b>Total equity</b>		<b>94,031</b>	<b>119,563</b>	<b>112,698</b>	<b>120,090</b>

The accompanying notes form an integral part of these financial statements.

# STATEMENTS OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2019

	Note	Attributable to owners of the Company					Total £'000	Non- controlling interest £'000	Total £'000
		Share capital £'000	Capital reserve £'000	Translation reserve £'000	Share option reserve £'000	Accumulated losses £'000			
<b>Group</b>									
<b>At 1 January 2018</b>		95,030	12,665	7,161	3,477	(66,425)	51,908	8,327	60,235
<b>Total comprehensive income for the year</b>									
Loss for the year		-	-	-	-	(22,579)	(22,579)	(1,465)	(24,044)
Other comprehensive expense		-	-	-	-	-	-	-	-
<b>Total comprehensive income for the year</b>		-	-	-	-	(22,579)	(22,579)	(1,465)	(24,044)
<b>Transactions with owners, recognised directly in equity</b>									
Issue of ordinary shares	23	83,188	-	-	-	-	83,188	-	83,188
Recognition of share- based payments	26	-	-	-	184	-	184	-	184
Transfer between reserves		-	-	(88)	(437)	525	-	-	-
<b>Total transactions with owners</b>		83,188	-	(88)	(253)	525	83,372	-	83,372
<b>At 31 December 2018</b>		178,218	12,665	7,073	3,224	(88,479)	112,701	6,862	119,563
<b>Total comprehensive income for the year</b>									
Loss for the year		-	-	-	-	(34,872)	(34,872)	(547)	(35,419)
Other comprehensive income		-	-	6	-	-	6	-	6
<b>Total comprehensive income for the year</b>		-	-	6	-	(34,872)	(34,866)	(547)	(35,413)
<b>Transactions with owners, recognised directly in equity</b>									
Issue of ordinary shares	23	9,800	-	-	-	-	9,800	-	9,800
Recognition of share- based payments	26	-	-	-	81	-	81	-	81
Transfer between reserves	26	-	-	-	(2,565)	2,565	-	-	-
<b>Total transactions with owners</b>		9,800	-	-	(2,484)	2,565	9,881	-	9,881
<b>At 31 December 2019</b>		188,018	12,665	7,079	740	(120,786)	87,716	6,315	94,031

The accompanying notes form an integral part of these financial statements.

# STATEMENTS OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2019

	Note	Share capital £'000	Translation reserve £'000	Share option reserve £'000	Accumulated losses £'000	Total £'000
<b>Company</b>						
At 1 January 2018		95,030	(227)	3,477	(60,366)	37,914
<b>Total comprehensive income for the year</b>						
Loss for the year		-	-	-	(1,196)	(1,196)
<b>Total comprehensive income for the year</b>						
		-	-	-	(1,196)	(1,196)
<b>Transactions with owners, recognised directly in equity</b>						
Issue of ordinary shares	23	83,188	-	-	-	83,188
Recognition of share-based payments	26	-	-	184	-	184
Transfer between reserves		-	-	(437)	437	-
<b>Total transactions with owners</b>						
		83,188	-	(253)	437	83,372
<b>At 31 December 2018</b>						
		178,218	(227)	3,224	(61,125)	120,090
<b>Total comprehensive income for the year</b>						
Loss for the year		-	-	-	(17,273)	(17,273)
<b>Total comprehensive income for the year</b>						
		-	-	-	(17,273)	(17,273)
<b>Transactions with owners, recognised directly in equity</b>						
Issue of ordinary shares	23	9,800	-	-	-	9,800
Recognition of share-based payments	26	-	-	81	-	81
Transfer between reserves	26	-	-	(2,565)	2,565	-
<b>Total transactions with owners</b>						
		9,800	-	(2,484)	2,565	9,881
<b>At 31 December 2019</b>						
		188,018	(227)	740	(75,833)	112,698

The accompanying notes form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2019

	Note	2019 £'000	2018 £'000
<b>Cash flows from operating activities</b>			
Loss before tax for the year		(36,206)	(24,164)
Adjustments for:			
Grant income	5	(1,313)	(2)
Bargain purchase arising from business combinations	13	(2,928)	-
Depreciation of property, plant and equipment; and right-of-use assets	10, 12	8,948	5,782
Amortisation of intangible assets	11	1,531	1,517
Interest income	5	(16)	(8)
Finance costs	7	3,648	2,998
Share-based payments	6	81	184
Movement in provisions	20	(1,499)	(607)
Loss on disposal of intangible seabed options	11	16,085	-
Share of loss of JV, net of tax	14	23	-
Net foreign exchange		35	96
Operating cash flows before movements in working capital		(11,611)	(14,204)
Movements in trade and other receivables		1,907	1,044
Movements in trade and other payables		(1,075)	(778)
<b>Net cash used in operating activities</b>		<b>(10,779)</b>	<b>(13,938)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(1,789)	(802)
Investment in joint venture	14	(70)	-
Cash from disposal of joint venture	14	-	168
Acquisition of subsidiary, net of cash acquired <sup>1</sup>	13	423	57
<b>Net cash used in investing activities</b>		<b>(1,436)</b>	<b>(577)</b>
<b>Cash flows from financing activities</b>			
Proceeds from grants received		1,614	16
Proceeds from issue of shares	23	6,030	20,000
Share issuance cost	23	(260)	(897)
Proceeds from borrowings	21	2,730	4,970
Repayment of borrowings	21	(1,376)	(5,192)
Interest paid	21	(849)	(696)
Payment of lease liabilities	12	(420)	-
Deposits released/(pledged)		(3)	864
<b>Net cash from financing activities</b>		<b>7,466</b>	<b>19,065</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(4,749)</b>	<b>4,550</b>
Cash and cash equivalents at 1 January		8,351	3,801
<b>Cash and cash equivalents at 31 December</b>	18	<b>3,602</b>	<b>8,351</b>

The accompanying notes form an integral part of these financial statements.

1 In 2018, as disclosed in Note 13(d) of the financial statements, the acquisition of SIMEC Uskmouth Power Limited was settled via the issue of ordinary shares of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 11 August 2020.

## 1. DOMICILE AND ACTIVITIES

SIMEC Atlantis Energy Limited (the “Company”) is a company incorporated in Singapore. The address of the Company’s registered office is Level 4, 21 Merchant Road, #04-01 Singapore 058267. The principal place of business is Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, EH3 9QG, United Kingdom.

The principal activity of the Group is to develop and operate as a global sustainable energy provider. The Company is an inventor, developer, owner, marketer and licensor of technology, intellectual property, trademarks, products and services and an investment holding company.

The principal activities of the subsidiaries are disclosed in Note 13 to the financial statements.

The financial statements of the Group as at and for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in an equity-accounted investee.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards (International) (SFRS(I)) and International Financial Reporting Standards (IFRS). SFRS(I)s are issued by the Accounting Standards Council Singapore, which comprise standards and interpretations that are equivalent to IFRS issued by the International Accounting Standards Board.

All references to SFRS(I)s and IFRSs are subsequently referred to as IFRS in these financial statements unless otherwise specified.

The financial statements have been prepared on the historical cost basis except as otherwise disclosed in the accounting policies below.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, other than standards applied for the first time in 2019.

#### **Adoption of New and Revised Standards**

A number of amendments to standards and interpretations are effective for annual periods from 1 January 2019. Except from the introduction of IFRS 16, amendments to standards and interpretations had no impact on the consolidated financial statements of the Group.

#### **Impact of initial application of IFRS 16 Lease**

In the current year, the Group has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use (“ROU”) asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the Group’s consolidated financial statements is described below.

#### **Lessee Accounting**

The Group has applied IFRS 16 from 1 January 2019 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17. The Group has land, office premises and office equipment leases.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019. The group applied the available practical expedient to rely on its assessment of where leases are onerous immediately before the date of initial application.

In applying IFRS 16, the Group recognises ROU assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments with the ROU Asset adjusted by the amount of any prepaid or accrued lease payments. Each payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Land and buildings have a remaining lease term between 1 – 93 years. Office equipment has a remaining lease term of 2 years.

Variable lease payments that depend on an index are initially recognised in the lease liability using the index at the commencement date. There is no requirement for an entity to forecast future changes in the index; these changes are taken into account at the point in time in which lease payments change and the ROU asset and lease liability are remeasured. Variable lease payments linked to future performance or usage of the leased items are excluded from the measurement of lease assets and lease liabilities. Instead, these costs are recognised as expenses in the period in which they are incurred.

Following application of IFRS 16 as at 1 January 2019, the Group recognised ROU assets and lease liabilities totalling £1.7 million, the impact to opening retained earnings is immaterial. See note 12 for full disclosure.

### **Lessor Accounting**

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor.

### **Summary of New Accounting Policy:**

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

### **Group as a lessee**

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

### **Right-of-use Assets**

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

### **Lease liabilities**

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

In calculating the present value of lease payments, the Group uses the interest rate implied in the lease agreements, or if that rate cannot be readily determined, the Group's incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

### **Short-term leases and leases of low-value assets**

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below £5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

### **Foreign currencies**

The individual financial statements of each Group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements of the Group and the statement of financial position and statement of equity of the Company are presented in Great British Pounds ("GBP"), which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

Transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. All exchange differences are recognised in profit or loss.

At each reporting date, for presentation purposes, the assets and liabilities of the Group's entities that do not use GBP as their functional currency are translated into GBP at exchange rates prevailing at the reporting date, with gains or losses on retranslation being recognised through the translation reserve. Income and expense transactions are translated at the average exchange rates for the period, where average rates are a reasonable approximation of actual rates.

The financial statements are presented in GBP (£), rounded to the nearest thousand.

### **Going concern**

The Board of Directors are required to state whether it is appropriate to adopt the going concern basis of accounting in preparing the financial statements, and to identify any material uncertainties to the Company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements.

These financial statements have been prepared on a going concern basis. The Board of Directors have undertaken the assessment of the going concern assumptions using financial forecasts for the period to 31 December 2021 and considering a wide range of downside scenarios. The projections prepared for the going concern assessment are based on contractually committed income (based on contractual milestones where applicable) and forecast costs are based on actual expenditure to date and management experience of running those projects

As set out in Note 32, on 6 August 2020, the Company announced a Placing which has raised gross proceeds of £6.5 million through the issue of 54,166,666 new ordinary shares at 12 pence per share and a further £1 million through the issue of 8,333,333 new ordinary shares at 12 pence per share. In aggregate, the fundraising has raised gross proceeds of £7.5 million and will result in the issue of 62,499,999 new Ordinary Shares at 12 pence per share. The net proceeds of £7.1 million will be used to fund working capital and an intended investment in a new fuel production joint venture.

The forecasts indicate that the Group is projected to operate within its cash balances and available facilities for the forecast going concern period.



# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### **Going concern assessment and reverse stress testing**

The broader political and economic uncertainty coupled with the potential future impact on the Group of the recent COVID-19 outbreak has been factored into the scenarios considered as part of the Group's adoption of the going concern assumption.

In reaching its conclusion on the going concern assessment, the Board of Directors also assessed forecasts of severe but plausible downside scenarios related to our principal risks, including:

- ▶ **A review of the timing and risks included in the delivery of major existing and potential contracts.** In particular, the Directors considered the impact that extended restrictions as a result of COVID-19 may have on the deployment of a turbine in Nagasaki, Japan. Whilst a delay is not anticipated, a downside scenario considered the impact of a 3 month delay to the installation of the turbine. The Board of Directors are satisfied that this is not expected to materialise due to mitigating actions that have been taken to minimise risk in any slippage of delivery date.
- ▶ **The Directors considered the certainty of various sources of funding and other income streams.** In particular, the Directors assessed the conditions precedent to obtaining access to the £2 million funding from SIMEC and whilst satisfied that this funding will be available in the going concern period, a downside scenario considered the impact of a 2 month delay to this funding. The Board of Directors are satisfied that this is not expected to materialise as the formal test report is expected to be ready for submission in August 2020 and evidence has been considered which indicate that the conditions have been met.
- ▶ **The ability to manage and mitigate any material delay in the financial close of the Uskmouth Power Station project.** As funding from the financial close is not within the control of management, this has not been included in the going concern forecasts. However, a downside scenario considered the impact of a delay to financial close by way of increased running costs through the going concern period.

### **Mitigating actions**

In the event that cashflows are limited due to delays in the Japanese contract milestone or delays in the receipt of the SIMEC funds, the key mitigation available would be to further reduce the Group's cost base, in particular the ability to delay key freight and insurance costs associated with the Japanese project (to match any delay caused by COVID-19), matching of expenditure on the Uskmouth Power Station project to projected financial close, suspension of directors fees, and taking the full benefit of payment terms with suppliers.

In addition, the following non-controllable mitigations could be available to the Group, the benefits of which have not been reflected in our going concern assessment:

- ▶ The refinancing of certain corporate debt which would allow for the release of additional restricted funds back into the group
- ▶ The successful application of central and local government grants available
- ▶ Access to additional funding

### **Liquidity headroom**

In line with previous practice, the Company funds its short and medium term funding requirements through a combination of equity and debt. On 11th August 2020, the Company completed an equity placing raising net proceeds of £7.1 million – refer to Note 32.

Details of the Group's loans and borrowings at year end can be found in note 21 of the financial statements. As at the 31 December 2019, the only undrawn loan was the £2.0 million SIMEC convertible loan which will be repayable in May 2022 and its availability is subject to the satisfaction of defined targets relating to the Uskmouth project. The only covenant is in respect of the Group's long term debentures and relate to balance sheet coverage which require the entity to have a total debt to asset ratio of at least 1:2.8. Under all of the modelled scenarios, positive liquidity headroom exists throughout the going concern period and the Group remains in compliance with this covenant.

In the downside scenarios modelled as set out above, liquidity headroom exists throughout the going concern period after taking account of controllable, plausible mitigating actions.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### **Going concern conclusion**

Accordingly, the Board of Directors concluded that it is appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statements and the parent company financial statements. The Board of Directors have a reasonable expectation that the Company and the Group will each continue to operate as a going concern for at least 12 months from the date of approval of the financial statements.

### **2.2 Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) at the reporting date. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity (capital reserve) and attributed to the owners of the Company.

In the Company's financial statements, investments in subsidiaries are carried at cost less any impairment in net recoverable value that has been recognised in profit or loss.

### **2.3 Business combinations**

The acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the acquisition date fair values of assets given, liabilities incurred by the Group to the former owners of the acquiree, and equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 *Financial Instruments*, or IFRS 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS are recognised at their fair value at the acquisition date, except that:

- ▶ deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 *Employee Benefits* respectively;
- ▶ liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 *Share-based Payment*; and
- ▶ assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

### **Goodwill**

The Group measures goodwill at the acquisition date as:

- ▶ the consideration transferred; plus
- ▶ the recognised amount of any non-controlling interests in the acquiree; plus
- ▶ if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree, over the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or the relevant cash generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### **Investment in joint venture (equity-accounted investee)**

A joint venture is an arrangement in which the Group has joint control, whereby the Group has a rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in joint ventures are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, together with any long-term interest that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation to fund the investee's operations or has made payments on behalf of the investee. If the equity-accounted investee subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### 2.4 Financial instruments

Financial assets and financial liabilities are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

#### *Financial assets*

All financial assets are recognised and de-recognised on the trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value plus transaction costs except for those financial assets classified as at fair value through profit and loss, which are initially measured at fair value.

Financial assets comprise loans and receivables.

#### *Loans and receivables*

Trade and other receivables that have fixed or determinable payments and that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any allowance for expected credit losses. Interest is recognised by applying the effective interest method, except for short-term receivables where the recognition of interest would be immaterial. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest' ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank, short-term bank deposits with an original maturity of 3 months or less and cash on hand.

For the purposes of the consolidated statement of cashflows, pledged deposits are excluded.

#### *Impairment of financial assets*

IFRS 9 requires the Group to recognise an allowance for expected credit loss ("ECLs") for financial assets measured at amortised cost.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Additional information about how the company measures the allowance for impairment is described in note 28.

### ***Derecognition of financial assets***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

### ***Financial liabilities and equity instruments***

#### ***Classification as debt or equity***

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

#### ***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

#### ***Other financial liabilities***

Trade and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis.

Loans and borrowings (except for financial guarantee contract liabilities) are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for finance costs (see Note 2.14).

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as fair value through profit and loss, subsequently at the higher of the amount of the loss allowance determined in accordance with section 5.5 of IFRS 9, and amount of the loss allowance determined in accordance with section 5.5 of IFRS 9, and initially recognised less cumulative amortisation, in accordance with IFRS 15.

#### ***Derecognition of financial liabilities***

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

### **2.5 Property, plant and equipment**

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

The cost of self-constructed assets includes:

- ▶ the cost of materials and direct labour;
- ▶ any other costs directly attributable to bringing the assets to a working condition for their intended use;

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

- ▶ when the Group has an obligation to remove the asset or restore the site, an estimate of the discounted costs of dismantling and removing the items and restoring the site on which they are located; and
- ▶ capitalised borrowing costs.

In 2018 the Group has acquired a new class of assets, Power Plant, as a result of business combinations. The power plant assets are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and accumulated impairment losses. Revaluations are performed at such regularity on this class of assets so that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period.

Any revaluation increase is recognised in other comprehensive income and accumulated in equity except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such power plant, land and buildings and plant and machinery is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Depreciation is charged to the statement of profit or loss using the straight-line method over the estimated useful life of the asset on the following basis:

Leasehold improvements	-	20%
Plant, property and equipment	-	4% - 7%
Furniture, fixtures and equipment	-	25% - 33%
Computer equipment and software	-	25% - 33%
Motor vehicles	-	25%
Power plant	-	4% - 6%

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Freehold land is stated at cost, less any subsequent accumulated impairment losses.

### 2.6 Intangible assets

#### ***Internally-generated intangible assets - research and development expenditure***

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Capitalisation of an internally generated asset is only permitted during the development phase. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

The cost of capitalised development activities should include all directly attributable costs necessary to create, produce and prepare an asset for a business purpose in the manner intended by management.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

#### ***Intellectual property***

Intellectual property is measured initially at purchase cost. Intellectual property is tested for impairment annually, or more frequently when there is an indication that it may be impaired (see below for impairment testing).

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### ***Intangible assets acquired in a business combination***

Intangible assets acquired in a business combination are identified and recognised separately from goodwill. The cost of such intangible assets is their fair value at the acquisition date (see note 13).

Intangible assets are derecognised on disposal or when no future economic benefits are expected from its use or disposal.

### ***Amortisation***

Subsequent to initial recognition, each class of intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the expected estimated useful life of that class of asset. Amortisation will begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

### **2.7 Impairment of non-financial assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, testing for impairment is undertaken.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognised in profit or loss, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually.

### **2.8 Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties surrounding the obligation. If the effect of the time value of money is material, discounting is applied.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### 2.9 Share-based payments

The Group issues equity-settled share-based payments to certain employees and directors.

Equity-settled share-based payments are measured at fair value of the equity instruments (excluding the effect of non market-based vesting conditions) at the date of grant. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 26. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

### 2.10 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attached to them and the grants will be received. Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are presented as a deduction from the carrying amount of the related assets and recognised as income over the useful lives of the assets by way of a reduced depreciation or amortisation charge.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### 2.11 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of sales related taxes. Consulting fees are recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. Revenue for the sale of equipment is recognised when the control of the product are transferred to the customer. Revenue from power generation sales and the associated Renewables Obligation Certificates (ROCs) are recognised based on the quantity of electricity exported and the contracted rate on the date of generation.

ROCs are awarded to the Group from Ofgem based on generation of power. These ROCs are sold on receipt of certificates from Ofgem allowing transfer of title. The amount of revenue recognised on sale is in accordance with a contractual agreement where the pricing is based on Ofgem's minimum ROC value (the buy-out).

### 2.12 Retirement benefit obligations

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered the services entitling them to the contributions. Payments made to state-managed retirement benefit schemes, such as the Singapore Central Provident Fund, are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

### 2.13 Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted in countries where the Company and its subsidiaries operate by the end of the reporting period.



# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited outside profit or loss (either in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss (either in other comprehensive income or directly in equity, respectively), or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

### 2.14 Finance costs and income

Finance costs comprise interest expense on borrowings and changes in fair values of derivative liabilities. All borrowing costs are recognised in the profit or loss using the effective interest method, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to be prepared for its intended use or sale.

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable.

Leases under IAS 17 are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. In 2018 all other leases were classified as operating leases and were charged to profit or loss on a straight-line basis over the term of the lease.

### 2.15 Segment reporting

The Group is currently focused on generating energy from renewable power generation projects, development of these projects, and in developing its turbines for installation in tidal projects. It currently considers its business as three operating segments: power generation; turbine and engineering services; and project development.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### 2.16 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020, and have not been applied in preparing these financial statements.

New standards, amendments to standards, and interpretations are not expected to have a significant effect on the financial statements of the Group. The Group does not plan to adopt these standards early.

- Amendments to References to the Conceptual Framework in IFRS Standards (1 January 2020)
- Amendments to IAS 1 and IAS 8: Definition of Material (1 January 2020)
- Amendments to IFRS 9, IAS 39 and IFRS17: Interest Rate Benchmark Reform (1 January 2020)
- Amendment to IFRS 3 Business Combinations – Definition of a Business (1 January 2020)
- Amendment to IFRS 16 Leases Covid 19-Related Rent Concessions (1 June 2020)
- IFRS 17 Insurance Contracts (1 January 2021)
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (1 January 2022)
- Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements (1 January 2022)

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

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### ***Critical judgements in applying the Group's accounting policies and key sources of estimation uncertainty***

In the process of applying the Group's accounting policies, which are described in Note 2, the critical accounting judgements that will have a significant effect on the amounts recognised in the financial statements and the key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

### ***Recoverability of property, plant and equipment and investment in subsidiaries***

The Group tests its property, plant and equipment related to the MeyGen project and SUP, annually for impairment, or more frequently if there are indicators that it might be impaired. The Company also tests its investment in subsidiaries for impairment where indicators of impairment exists. The recoverable amounts for the Group's property, plant and equipment and the Company's investment in subsidiaries are supported by the estimated value-in-use of these assets. The value-in-use is calculated using a net present value cash flow model which compares the costs of completing each of the respective projects, including financing costs, with expected revenues, net of operating and maintenance expenditure, over its operating life.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

The key assumptions used to determine the MeyGen project's value-in-use are the expected capital costs to develop the project, the financing structure and cost, forecast operating and maintenance costs, revenue per MWh and the discount rate to calculate present values. The model is based on probability and risk weighted sensitised cash flows using discount rates ranging from 8.5% to 13%. Capital and operating and maintenance costs are based upon experience gained from the development and recent fully operational phase of MeyGen 1A. Estimated savings have been factored in to take account of scaling up both the capacity and numbers of the turbines needed for the development of the entire project. These savings are based upon the same principles as those achieved by the more advanced land based and offshore wind industry.

The key assumptions used to determine SUP's value-in-use are the expected capital costs to develop the project, the financing structure and cost, forecast operating and maintenance costs, revenue per MWh and the discount rate to calculate present values. The model is based on probability and risk weighted sensitised cash flows using discount rates ranging from 8.5% to 13%. Capital and operating and maintenance costs are based upon experience gained from prior SUP operations as well as various FEED studies completed by the Group to date.

The recoverable amounts were determined to be in excess of the carrying values of both the property, plant and equipment and investment in subsidiaries and accordingly no impairment loss has been recognised. The recoverable amount is most sensitive to changes in capital and operating costs, discount rate and revenue per MWh and adverse movements in excess of 10% in relation to each could result in the carrying value of property, plant and equipment and investment in subsidiaries being impaired.

### **Useful lives of intangible assets**

The useful lives are based on similar assets in the industry and taking into account anticipated technological changes. Judgement is required to determine the period over which the proprietary technology (to which the intangible assets relate) will continue to have economic value. Amortisation will commence upon the commercialisation of the assets. The Group reviews the useful lives of the intangible assets at the end of each reporting period.

### **Recoverability of intangible assets**

The Group tests its intangible assets as detailed in note 11 annually for impairment, or more frequently if there are indicators that they might be impaired. The recoverable amount is determined using value-in-use calculations for each separate cash generating unit.

The value-in-use is determined by discounting expected future cash flows. The cash flow forecasts are based on probability and risk weighted sensitised cash flow forecasts using discount rates ranging from 8.5% to 13%.

Given the expiry of a number of seabed options held by the Group as well as the impending expiry of the remaining seabed options, the seabed options have been written off in the current financial year as the Group focusses on developing the remainder of the MeyGen project.

For the license, turbine technology and intellectual property CGU the value in use is based upon an estimate of cash flows to be generated from forecast turbine sales volumes, sales price and achievable margin. The key assumption is the forecast turbine sales, which is based upon those sales expected to be generated internally and reasonably possible external sales which are estimated from current negotiations and opportunities that the Group is pursuing.

The recoverable amount of the Group's intangible assets was determined to be in excess of the carrying value and accordingly no impairment loss has been recognised. The recoverable amount is most sensitive to changes in capital costs, discount rate and revenue per MWh and adverse movements in excess of 20% in relation to each could result in the carrying value of intangible assets being impaired.

### **Provision for decommissioning costs**

Provision for decommissioning costs is recognised as an amount equal to the directors' best estimate of the expenditure required to settle the Group's obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and risk specific to the liability. The unwinding of the discount is recognised as a finance cost.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

The SUP power station decommissioning provision is the present value of the best estimate of direct costs that may be incurred to restore the site of the SUP power station to a condition that complies with applicable legislation, which is anticipated to take place in approximately 2042. The provision was recognised on acquisition of SUP in 2018 and conversion of the financial statements to IFRS. A formal review of the provision value was in progress when COVID-19 erupted and led to no contractors being allowed onsite to complete the review of works required. Based on the preliminary review of works required management expect that the decommissioning provision will materially decrease however as this cannot yet be formally substantiated the brought forward provision value remains.

### **Acquisition accounting**

When the Group completes a business combination, the fair values of the identifiable assets and liabilities acquired, including intangible assets, are recognised at their fair value. The determination of the fair value of acquired assets and liabilities is based, to a considerable extent, on management's judgment.

Managements review of the carrying value of the identifiable assets and liabilities acquired of GHR, including separately identifiable intangible assets resulted in a fair value adjustment of £1.9 million and subsequently bargain purchase price of £2.9 million (see Note 13).

Intangible assets identified are long term non-cancellable contracts with customers. These contracts were valued using discounted cash flow.

### **Leases - Estimating the incremental borrowing rate**

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

## 4. REVENUE

	Group	
	2019 £'000	2018 £'000
Consulting fees	123	120
O&M Contracts	551	-
Power sales	4,185	2,097
	<b>4,859</b>	<b>2,217</b>

Power sales includes associated revenue from ROCs.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 5. OTHER INCOME

	Group	
	2019 £'000	2018 £'000
Interest income	16	8
Grant income	1,313	2
Other income	527	939
	<b>1,856</b>	<b>949</b>

Other income includes research and development tax credits.

## 6. EMPLOYEE BENEFITS EXPENSE

The average number of employees (including executive directors) was:

	Group	
	2019 Number	2018 Number
Average number of employees (including executive directors)	<b>88</b>	68

Their aggregate remuneration comprised:

	2019	2018
	£'000	£'000
Wages, salaries and other short term benefits	<b>5,179</b>	4,454
Social security costs	<b>569</b>	509
Share-based payments (Note 26)	<b>81</b>	184
Contributions to defined contribution plan	<b>424</b>	347
Other related costs	<b>94</b>	68
	<b>6,347</b>	<b>5,562</b>

## 7. FINANCE COSTS

	Group	
	2019 £'000	2018 £'000
Interest expense arising from:		
– loans from a related party	<b>299</b>	377
– long term loans	<b>297</b>	380
– secured long term loans	<b>1,347</b>	1,400
– long term debentures	<b>849</b>	696
– lease liabilities	<b>88</b>	–
Unwinding of discount on decommissioning provision	<b>257</b>	145
Other finance costs	<b>511</b>	–
	<b>3,648</b>	<b>2,998</b>

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 8. TAX CREDIT

	Group	
	2019 £'000	2018 £'000
Deferred tax credit	<b>787</b>	120

As a result of the Company's management and control moving from Singapore to the United Kingdom on 1 January 2016, the Company became tax resident of the United Kingdom and all filing requirements are met in both jurisdictions.

In the United Kingdom, the applicable rate of tax is computed at 19% (2018: 19%). The future tax rate in the United Kingdom is set to remain at 19%.

Singapore domestic income tax is calculated at 17% (2018: 17%) of the estimated assessable loss for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

	Group	
	2019 £'000	2018 £'000
<b>Reconciliation of effective tax rate</b>		
Loss before tax	<b>(36,206)</b>	<b>(24,164)</b>
Tax at the domestic rates applicable to losses in the country concerned	<b>(6,871)</b>	(4,591)
Non-allowable items at rates concerned	<b>4,900</b>	1,263
Non-taxable income at rates concerned	<b>(43)</b>	(45)
Tax effect of deferred tax asset not recognised	<b>2,014</b>	3,373
Tax effect of unwinding deferred tax fair value adjustment on business combinations (note 22)	<b>120</b>	120
Release deferred tax liability	<b>667</b>	-
	<b>787</b>	120

At the end of the reporting period, the Group has unutilised tax losses of £156.6 million (2018: £145.0 million) available for offset against future profits, including £1.2 million of tax losses available for utilisation at the acquisition date of GHR (note 13). The amount of the Company's unutilised tax losses available for offset against future profits is £28.9 million (2018: £27.3 million). No deferred tax asset has been recognised due to the unpredictability of future profit streams.

Included in the Group and Company losses are £28.9 million (2017: £27.3 million) of losses relating to Singapore corporation tax, which will only be utilised against taxable income realised in Singapore.

## 9. LOSS FOR THE YEAR

The following items have been included in arriving at loss for the year:

		Group	
	Note	2019 £'000	2018 £'000
Depreciation of property, plant and equipment	10	<b>8,593</b>	5,782
Depreciation of right-of-use assets	12	<b>355</b>	-
Amortisation of intangibles assets	11	<b>1,531</b>	1,517
Auditor's remuneration			
- Audit and audit related fees		<b>256</b>	125
- Non audit fees		<b>20</b>	312
Share-based payments	26	<b>81</b>	184
Loss on disposal of Intangible Seabed Options	11	<b>16,085</b>	-
Operating lease expenses	12	-	686
Net foreign exchange losses		<b>35</b>	95

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 10. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land £'000	Leasehold improvements £'000	Plant, property & equipment £'000	Furniture, fixture and equipment £'000	Motor vehicles £'000	Computer equipment and software £'000	Project-under-construction £'000	Power plant £'000	Total £'000
<b>Cost</b>									
At 1 January 2018	20	87	34,065	109	-	382	32,788	-	67,451
Acquisition through business combinations (Note 13)	-	-	-	-	12	-	-	80,279	80,291
Additions	-	-	-	-	-	12	236	828	1,076
Reimbursed by grants	-	-	(16)	-	-	-	-	-	(16)
Disposals	-	-	-	-	-	(329)	-	-	(329)
Transfers	-	-	33,024	-	-	-	(33,024)	-	-
<b>At 31 December 2018</b>	<b>20</b>	<b>87</b>	<b>67,073</b>	<b>109</b>	<b>12</b>	<b>65</b>	<b>-</b>	<b>81,107</b>	<b>148,473</b>
Acquisition through business combinations (Note 13)	-	-	9	9	20	-	-	-	38
Additions	-	-	834	15	23	39	-	1,712	2,623
Disposals	-	-	-	-	-	(23)	-	-	(23)
<b>At 31 December 2019</b>	<b>20</b>	<b>87</b>	<b>67,916</b>	<b>133</b>	<b>55</b>	<b>81</b>	<b>-</b>	<b>82,819</b>	<b>151,111</b>
<b>Accumulated depreciation</b>									
At 1 January 2018	-	6	329	73	-	365	-	-	773
Depreciation for the year	-	9	2,533	24	5	13	-	3,198	5,782
Disposals	-	-	-	-	-	(329)	-	-	(329)
<b>At 31 December 2018</b>	<b>-</b>	<b>15</b>	<b>2,862</b>	<b>97</b>	<b>5</b>	<b>49</b>	<b>-</b>	<b>3,198</b>	<b>6,226</b>
Depreciation for the year	-	9	2,676	10	13	14	-	5,871	8,593
Disposals	-	-	-	-	-	(23)	-	-	(23)
<b>At 31 December 2019</b>	<b>-</b>	<b>24</b>	<b>5,538</b>	<b>107</b>	<b>18</b>	<b>40</b>	<b>-</b>	<b>9,069</b>	<b>14,796</b>
<b>Carrying amounts</b>									
At 1 January 2018	20	81	33,736	36	-	17	32,788	-	66,678
At 31 December 2018	20	72	64,211	12	7	16	-	77,909	142,247
<b>At 31 December 2019</b>	<b>20</b>	<b>63</b>	<b>62,378</b>	<b>26</b>	<b>37</b>	<b>41</b>	<b>-</b>	<b>73,750</b>	<b>136,315</b>

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 10. PROPERTY, PLANT AND EQUIPMENT continued

<b>Company</b>	<b>Computer equipment and software £'000</b>
<b>Cost</b>	
At 1 January 2018	329
Disposals	(329)
At 31 December 2018	-
Disposals	-
<b>31 December 2019</b>	<b>-</b>
<b>Accumulated depreciation</b>	
At 1 January 2018	324
Depreciation for year	5
Disposals	(329)
At 31 December 2018	-
Depreciation for the year	-
Disposals	-
<b>At 31 December 2019</b>	<b>-</b>
<b>Carrying amounts</b>	
At 1 January 2018	5
At 31 December 2018	-
<b>At 31 December 2019</b>	<b>-</b>

### (a) Project-under-construction

As construction of the MeyGen project completed in 2018, no additional costs were capitalised during the year. In the prior year, capitalised borrowing costs amounted to 0.2 million (which corresponds to an average interest cost on borrowings of 6%). Aggregate grants of £13.3 million, comprising a £10 million grant from the United Kingdom's Department of Energy and Climate Change, and two grants from Scotland's Highlands and Islands Enterprise totalling £3.3 million, were awarded for the MeyGen project in August 2014. Grants received where the conditions attached to them have been complied with were recorded as a deduction from the carrying amount of the project-under-construction in accordance with the accounting policy stated in Note 2.

### (b) Transfers

During 2018, the fourth turbine relating to the MeyGen Phase 1A Project reached the operational phase and was therefore transferred to plant, property and equipment from project-under construction (2017: three of the four turbines reached operating phase). Depreciation on these assets commenced in accordance with the accounting policy stated in Note 2.

### (c) Security

At 31 December 2019, assets of subsidiaries with carrying amounts of £62.4 million (2018: £64.2 million) were pledged as security on long term loans (Note 21(d)).

### (d) Power plant

During 2018 the Group acquired the power plant category of fixed assets through acquisition of a subsidiary (Note 13).



# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 11. INTANGIBLE ASSETS

Group	Global technology licence £'000	Intellectual property £'000	Development costs £'000	Seabed options £'000	Tidal data £'000	Development project-in- progress £'000	Customer Contracts £'000	Total £'000
<b>Cost</b>								
At 1 January 2018	8,223	3,133	14,416	16,085	1,465	1,651	-	44,973
Transfers	-	-	1,651	-	-	(1,651)	-	-
Exchange differences	-	-	(42)	-	-	-	-	(42)
At 31 December 2018,	8,223	3,133	16,025	16,085	1,465	-	-	44,931
Acquisition through business combinations (Note 13)	-	-	-	-	-	-	1,938	1,938
Disposals	-	-	-	(16,085)	-	-	-	(16,085)
Exchange differences	-	-	(38)	-	-	-	-	(38)
<b>At 31 December 2019</b>	<b>8,223</b>	<b>3,133</b>	<b>15,987</b>	<b>-</b>	<b>1,465</b>	<b>-</b>	<b>1,938</b>	<b>30,746</b>
<b>Accumulated amortisation and impairment</b>								
At 1 January 2018	3,782	268	6,632	-	-	-	-	10,682
Amortisation for the year	493	38	986	-	-	-	-	1,517
Exchange differences	-	-	(21)	-	-	-	-	(21)
At 31 December 2018	4,275	306	7,597	-	-	-	-	12,178
Amortisation for the year	494	38	999	-	-	-	-	1,531
Exchange differences	-	-	(21)	-	-	-	-	(21)
<b>At 31 December 2019</b>	<b>4,769</b>	<b>344</b>	<b>8,575</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,688</b>
<b>Carrying amounts</b>								
At 1 January 2018	4,441	2,865	7,784	16,085	1,465	1,651	-	34,291
At 31 December 2018	3,948	2,827	8,428	16,085	1,465	-	-	32,753
<b>At 31 December 2019</b>	<b>3,454</b>	<b>2,789</b>	<b>7,412</b>	<b>-</b>	<b>1,465</b>	<b>-</b>	<b>1,938</b>	<b>17,058</b>

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 11. INTANGIBLE ASSETS continued

<b>Company</b>	<b>Intellectual property £'000</b>	<b>Development costs £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
<b>At 1 January 2018, 31 December 2018 and 31 December 2019</b>	<b>573</b>	<b>3,347</b>	<b>3,920</b>
<b>Accumulated amortisation</b>			
At 1 January 2018	267	1,562	1,829
Amortisation for the year	39	223	262
At 31 December 2018	306	1,785	2,091
Amortisation for the year	38	223	261
<b>At 31 December 2019</b>	<b>344</b>	<b>2,008</b>	<b>2,352</b>
<b>Carrying amounts</b>			
At 1 January 2018	306	1,785	2,091
At 31 December 2018	267	1,562	1,829
<b>At 31 December 2019</b>	<b>229</b>	<b>1,339</b>	<b>1,568</b>

### (a) Global technology licence

This licence grants the Group an exclusive, perpetual, world-wide licence of the rights to use, deploy and manufacture certain proprietary technology in respect of turbines and related infrastructure used in tidal energy generation.

The Group estimated that the technology has a useful life of approximately 15 years with approximately 7 years remaining.

### (b) Intellectual property

Intellectual property includes technical know-how, international patent applications and registered trademarks of the Company.

The Group estimated that the intellectual property costs have a useful life of approximately 15 years with approximately 13 years remaining.

### (c) Development costs/Development project-in-progress

Development costs include expenditure on planning or designing activities for the production of new or substantially improved tidal turbine products and processes. Upon commercialisation of the Group's AR1500 turbine, the technology was transferred from Development project-in-process to Development costs and commenced amortisation.

The Group estimated that the development costs have a useful life of between approximately 15 and 25 years with between 6 to 23 years remaining.

### (d) Seabed options

Seabed options relate to options that allow the Group to enter into a 25-year lease to use the seabed for development and operation of the tidal stream energy projects. During 2019 the Group relinquished agreement for lease ("AFL") seabed options with book value of £6.1 million to The Crown Estate. In 2020, the remainder of the AFL seabed options with book value £10 million are due to expire, and the Group does not intend to extend these options with Crown Estate Scotland and therefore the options have been disposed of as no future economic benefit is expected.

### (e) Tidal data

Tidal data relates to key information on tidal flows that is crucial to the development of the MeyGen project and little or no obsolescence is expected. The tidal data will be amortised over the life of the project upon commissioning of the project.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 12. LEASES

### *As a Lessee*

The Group has lease contracts for land and buildings and IT equipment. Leases of land and buildings generally have lease terms between 5 and 100 years while office equipment has lease terms of 3 years. The Group has certain leases of office equipment of low value. The Group applies the 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amount of right-of-use assets recognised and the movements during the period:

	Land and Buildings £'000	Office Equipment £'000	Total £'000
<b>At 1 January 2019</b>	<b>1,716</b>	<b>14</b>	<b>1,730</b>
Additions as a result of business combinations (note 13)	61	-	61
Depreciation expense	(348)	(7)	(355)
<b>As at 31 December 2019</b>	<b>1,429</b>	<b>7</b>	<b>1,436</b>

Set out below are the carrying amount of lease liabilities and movements during the period:

	2019 £'000
At 1 January	1,636
Additions as a result of business combinations (note 13)	63
Accretion of interest	88
Payments	(420)
As at 31 December	1,367
Current	276
Non-current	1,091

The maturity analysis of lease liabilities is disclosed in note 28(b).

The following are the amounts recognised in the profit or loss:

	2019 £'000
Depreciation expense of right-of use assets	355
Interest expense on lease liabilities	88
Expense relating to leases of low value assets (included in other operating expenses)	4
Variable lease payments (included in other operating expenses)	8
As at 31 December	455

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 12. LEASES continued

The Group has leases which contain variable lease payment terms that are linked to power generation. Variable lease payments had the following effect:

	2019 £'000
Fixed rent	12
Variable payment	8
Total payment	<u>20</u>

Overall the variable payments constitute 2% of the Groups entire lease payments. The variable lease payments depend on generation, whilst the Group expects the ratio to remain constant in future years, a 5% increase in variable would result in £2k increase to lease payments.

### **Operating Leases - lessee under IAS 17**

As at the 31 December 2018 the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2018 £'000
Within one year	430
Between two and five years	878
More than five years	6,128
	<u>7,436</u>

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	£'000
Operating lease commitments as at 31 December 2018	7,436
Effect of variable lease payments	(2,512)
Effect of discounting	(3,265)
Effect of lease payment review	(23)
Lease liabilities recognised on adoption of IFRS 16 at 1 January 2019	<u>1,636</u>

The lease commitments disclosed in 2018 were not discounted, whilst the IFRS 16 obligations have been discounted based on Atlantis incremental borrowing rate with a weighted average of 6%. The effect of business combinations does not impact the weighted average rate.

Under IFRS 16 the entity is not required to include forecast variable lease payments linked to future performance or usage of the leased items. These costs are instead recognised as expenses in the period in which they occur. Atlantis has therefore excluded the MeyGen variable lease payments linked to future generation in the IFRS 16 calculations.

Where lease payments contain an RPI factor, Atlantis has used the RPI index rate as at the commencement date. There is no requirement for an entity to forecast future changes in the index, these changes are taken into account at the point in time in which the lease payments change.

A review of the lease payments due as at 31 December 2018 noted that the 2018 disclosure should have been reduced by £23k to account for prepayment of lease liabilities

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 12. LEASES continued

### *As a Lessor*

At the end of the reporting period, the Group and the Company had amounts due to it under non-cancellable operating leases, which fall due as follows:

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Within one year	-	-	-	-
Between two and five years	-	-	-	-
More than five years	98	99	-	-
	<u>98</u>	<u>99</u>	<u>-</u>	<u>-</u>

One of the subsidiaries of the Group, SUP, leases excess land available at the power station site to a related party, SIMEC Power 1 Limited. The lease is agreed on a 999 year basis and includes a lease premium of £1.5 million, which is recognised in advanced receipts (Note 19).

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 13. INVESTMENTS

	Company
	2019
	£'000
<b>Investments in Subsidiaries</b>	
Unquoted equity shares, at cost	
1 January	63,278
Movement	697
31 December	<u>63,975</u>

Details of the subsidiaries are as follows:

Name of subsidiary	Principal activities	Country of incorporation/ registration and operation	Proportion of ownership interest and voting power held	
			2019 %	2018 %
SIMEC GHR Limited <sup>(c)</sup>	Provision of hydro development, project management and operations & maintenance services	United Kingdom	100	–
Atlantis Turbines Pte. Limited <sup>(3)</sup>	Investment holding	Singapore	100	100
Atlantis Energy Pte Limited <sup>(1)(6)</sup>	Dormant	Singapore	100	100
Atlantis Licensing Pte Limited <sup>(1)(6)</sup>	Dormant	Singapore	100	100
Atlantis Projects Pte. Ltd. <sup>(3)</sup>	Investment holding	Singapore	100	100
Atlantis Resources (Gujarat Tidal) Pte Limited <sup>(1)</sup>	Dormant	Singapore	50	50
ARC Operations Pty Limited <sup>(4)</sup>	Provision of operational services to the Group	Australia	100	100
Atlantis Resources (Scotland) Limited <sup>(5)</sup>	Provision of project management and consulting services	United Kingdom	100	100
Atlantis Ocean Energy plc <sup>(5)</sup>	Financial services	United Kingdom	100	100
Atlantis Future Energy plc <sup>(5)</sup>	Financial services	United Kingdom	100	100
SIMEC Uskmouth Power Limited <sup>(5)(d)</sup>	Development of renewable energy generation project	United Kingdom	100	100

### Name of subsidiary held by Atlantis Projects Pte. Limited

Tidal Power Scotland Limited <sup>(5)</sup>	Investment holding	United Kingdom	92	92
Stroma Tidal Power Limited <sup>(5)</sup>	Development of tidal power generation project	United Kingdom	100	100
Wide Range Developments Limited <sup>(1)</sup>	Dormant	United Kingdom	100	100
SIMEC Atlantis GHR Limited <sup>(6)(9)</sup>	Investment holding	United Kingdom	100	–

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 13. INVESTMENTS continued

Name of subsidiary	Principal activities	Country of incorporation/ registration and operation	Proportion of ownership interest and voting power held	
			2019 %	2018 %
<b>Name of subsidiary held by Tidal Power Scotland Limited</b>				
MeyGen Holdings Limited <sup>(5)</sup>	Investment holding	United Kingdom	<b>83</b>	83
Islay Holdings Limited <sup>(5)</sup>	Investment holding	United Kingdom	<b>100</b>	100
Duncansby Tidal Power Limited <sup>(4)</sup>	Dormant	United Kingdom	<b>100</b>	100
<b>Name of subsidiary held by MeyGen Holdings Limited</b>				
MeyGen PLC <sup>(2)(5)(8)</sup>	Development of tidal power generation project	United Kingdom	<b>100</b>	100
<b>Name of subsidiary held by Islay Holdings Limited</b>				
Islay Tidal Power Limited <sup>(5)</sup>	Development of tidal power generation project	United Kingdom	<b>100</b>	100
<b>Name of subsidiary held by Atlantis Turbines Pte Limited</b>				
Atlantis Operations (UK) Limited <sup>(5)</sup>	Provision of operational services to the Group	United Kingdom	<b>100</b>	100
Marine Current Turbines Limited <sup>(5)</sup>	Development of turbines and projects	United Kingdom	<b>100</b>	100
<b>Name of subsidiary held by Atlantis Operations (UK) Limited</b>				
Atlantis Operations Japan Good Kaisha <sup>(7)</sup>	Provision of operational services to the Group	United Kingdom	<b>100</b>	-
<b>Name of subsidiary held by Marine Current Turbines Limited</b>				
Sea Generation Limited <sup>(5)</sup>	Development of tidal power generation project	United Kingdom	<b>100</b>	100
Sea Generation (Wales) Limited <sup>(6)</sup>	Development of tidal power generation project	United Kingdom	<b>100</b>	100
Sea Generation (Kyle Rhea) Limited <sup>(6)</sup>	Development of tidal power generation project	United Kingdom	<b>100</b>	100
Sea Generation (Brough Ness) Limited <sup>(6)</sup>	Development of tidal power generation project	United Kingdom	<b>100</b>	100

(1) Not required to be audited as the subsidiaries are dormant.

(2) As at 31 December 2019 and 31 December 2018, shares in MeyGen PLC were pledged as security on long term loans (see note 21).

(3) Audited by EY LLP, Singapore.

(4) Not required to be audited by law in its country of incorporation.

(5) Audited by EY LLP, United Kingdom.

(6) As at 31 December 2019 the companies were in the process of being dissolved. As at the date of the approval of this report, all five companies have been dissolved.

(7) Incorporated on 22 November 2019

(8) On 14 June 2019, the company re-registered from a private company to a public company

(9) Incorporated on 30 April 2019

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 13. INVESTMENTS continued

### (a) Share-based payments

During the financial year, share-based payments granted by the Company to the employing subsidiaries, Atlantis Resources (Scotland) Limited ("ARSL"), Marine Current Turbines Limited ("MCT"), SIMEC Uskmouth Power Limited ("SUP") and Atlantis Operations (UK) Limited ("AOU") resulted in an increase to the deemed investments by the Company in those subsidiaries totalling £64,000 (2018: £155,000).

### (b) Dilution of interest in subsidiaries

#### Tidal Power Scotland Limited ("TPSL")

As at 31 December 2019 and 31 December 2018, Scottish Power Renewables ("SPR") has an equity investment of 6% of the shareholding in TPSL.

The Group retains the remaining 92% shareholding of TPSL.

#### MeyGen Holdings Limited ("MGHL")

As at 31 December 2019 and 31 December 2018, Scottish Enterprise, as administrator of the Renewable Energy Investment Fund, had made an equity investment of £12.1 million in MGHL, while the Company, via Atlantis Projects Pte Ltd ("APPL") and TPSL, had subscribed for a total of £9.7 million in new shares of MGHL. As a result, Scottish Enterprise has a 16.55% shareholding in MGHL, with APPL retaining the remaining shareholding of 83.45% via TPSL.

The following table summarises the information relating to the material non-controlling interest ("NCI") in MeyGen Limited, based on its financial statements prepared in accordance with IFRS, modified for fair value adjustments on acquisition and differences in the Group's accounting policies.

	Group	
	2019 £'000	2018 £'000
<b>NCI percentage</b>	<b>23%</b>	23%
Non-current assets	<b>62,938</b>	64,072
Current assets	<b>3,364</b>	3,460
Non-current liabilities	<b>(33,972)</b>	(34,832)
Current liabilities	<b>(5,143)</b>	(3,627)
<b>Net assets</b>	<b>27,187</b>	29,073
<b>Net assets attributable to NCI</b>	<b>6,315</b>	6,753
Cash flows from/(used in) operating activities	<b>944</b>	(800)
Cash flows used in investing activities	<b>(2)</b>	(425)
Cash flows used in financing activities	<b>(1,457)</b>	(228)
<b>Net decrease in cash and cash equivalents</b>	<b>(515)</b>	(1,453)



# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 13. INVESTMENTS continued

	2019 £'000	2018 £'000
Loss for the year	<u>(2,351)</u>	<u>(6,317)</u>
<b>Total comprehensive income</b>	<b><u>(2,351)</u></b>	<b><u>(6,317)</u></b>
Attributable to NCI:		
Loss for the year	<u>(547)</u>	<u>(1,465)</u>
<b>Total comprehensive income</b>	<b><u>(547)</u></b>	<b><u>(1,465)</u></b>

### (c) Acquisition of SIMEC GHR Limited ("GHR")

On 31 October 2019, the Company successfully completed the acquisition of the whole of the issued share capital of GHR, a company incorporated in the United Kingdom, from SIMEC GHR Acquisitions Topco Limited a subsidiary of SIMEC Energy ("SIMEC"), a member of the GFG Alliance. The acquisition was undertaken to further diversify the Atlantis energy platform and combine the project management and delivery expertise of the two companies whilst bringing positive revenue streams to the Group.

Consideration for the purchase of the share capital was £1. The acquisition-related costs amounting to £1.1 million excluded from the consideration transferred were included in the cost of investment. £1.0 million of expenses were recognised in the consolidation statement of comprehensive income in 2019. The balance of £0.1 million was incurred during 2018. The acquisition-related costs were expensed in the Group consolidated results; at Company level, they were capitalised in the cost of the investment.

The acquired business contributed losses and revenue amounting to £0.2 million and £0.5 million respectively to the Group's results for the period from 31 October 2019 to 31 December 2019.

Had GHR been consolidated from 1 January 2019 then the Group's consolidated loss before tax and consolidated revenue for the year to 31 December 2019 would have been £39.2 million and £7.2 million respectively.

A purchase price allocation was conducted to determine the valuation of the acquisition resulting in a fair value adjustment to intangible assets. The following summarises the identifiable assets acquired and liabilities assumed at the acquisition date at their fair value:

	Book value before business combination £'000	Fair value adjustment £'000	Fair value £'000
<b>Non-current assets</b>			
Intangibles	–	1,938	1,938
Property, plant and equipment	38	–	38
Right-of-use assets	61	–	61
<b>Current assets</b>			
Trade and other receivables	1,550	–	1,550
Cash and cash equivalents	423	–	423
<b>Current liabilities</b>			
Trade and other payables	(690)	–	(690)
Lease liabilities	(63)	–	(63)
<b>Total net assets</b>	<u>1,319</u>	<u>1,938</u>	<u>3,257</u>
<b>Purchase consideration (£1)</b>			0
Cash held in subsidiary			<u>423</u>
<b>Cash inflow on acquisition</b>			<b><u>423</u></b>

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 13. INVESTMENTS continued

### Intangible Assets

Intangible assets refer to GHR customer contracts. GHR has non-terminable customer contract for the Operations and Maintenance of 13 hydro schemes up until March 2037. The fair value was determined after taking into account the potential sales revenue arising from these contracts and the associated cost of the contracts discounted at a rate of 11.6%. At the date of acquisition, the fair value of the customer contracts amounted to £1.9 million.

### Deferred tax

As a result of the recognition of the Intangible assets a deferred tax liability has been recognised of £0.3 (Note 22).

### Bargain purchase price arising on business combination at 31 October 2019

The bargain purchase was recognised as a result of the business combinations as follows:

Total consideration transferred (£1)	–
Fair value of identifiable net assets	2,928
	<hr/>
Bargain purchase	2,928
	<hr/>

### (d) Acquisition of SIMEC Uskmouth Power Limited ("SUP")

During the prior year, on 15 June 2018, pursuant to a sale and purchase agreement dated 14 December 2017, the Company successfully completed the acquisition of the whole of the issued share capital of SUP, a company incorporated in the United Kingdom, from SIMEC UK Energy Holdings Limited ("SIMEC"), a member of the GFG Alliance. The acquisition was undertaken to create a diversified renewable energy platform and it is proposed that the 220MW of capacity at the SUP power station in Wales will be converted to use a waste derived energy pellet as fuel.

Consideration for the purchase was the issuance by the Company of new shares to SIMEC such that, immediately following the issuance of such shares, SIMEC became a 49.99% Shareholder of the Company and Group. On the basis of the Company's share placing price of 0.35 pence per share, which completed concurrently with the share issue, the fair value of the 152.6 million consideration shares issued was £53.4 million. Additionally, by way of automatic conversion pursuant to the terms of the Sale and Purchase Agreement and the SIMEC Loan Agreement 30.4 million loan completion shares were issued, giving a total of 183 million new ordinary shares. As a result of the £10.6 million loan completion shares issued to SIMEC, the loan balance due from SUP to SIMEC was reassigned to Atlantis.

The acquisition-related costs amounting to £4.2 million excluded from the consideration transferred were included in the cost of investment. £3.6 million of expenses were recognised in the consolidation statement of comprehensive income in 2018. The balance of £0.6 million was incurred during 2017. The acquisition-related costs were expensed in the Group consolidated results; at Company level, they were capitalised in the cost of the investment.

The acquired business contributed losses and revenue amounting to £5.5 million and £nil respectively to the Group's results for the period from 15 June 2018 to 31 December 2018.

Had SUP been consolidated from 1 January 2018 then the Group's consolidated loss before tax and consolidated revenue for the year to 31 December 2018 would have been £27.7 million and £2.4 million respectively.

A purchase price allocation was conducted to determine the valuation of the acquisition resulting in a fair value adjustment to plant, property and equipment. The fair value of fixed assets was derived by using the Company valuation, based on the market based transaction, and deducting the fair value of other assets and liabilities. The book value of SUP differs from that provisionally disclosed in the Company's 30 June 2018 Interim results due to unrecorded liabilities of £175,000, as a result of the final working capital adjustments. No goodwill or bargain purchase price arose on the business combination.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 13. INVESTMENTS continued

The following summarises the identifiable assets acquired and liabilities assumed at the acquisition date at their provisional fair value:

	Book value before business combination £'000	Fair value adjustment £'000	Fair value £'000
<b>Non-current assets</b>			
Property, plant and equipment	80,116	175	80,291
<b>Current assets</b>			
Inventory	986	-	986
Trade and other receivables	1,784	-	1,784
Cash and cash equivalents	57	-	57
<b>Current liabilities</b>			
Trade and other payables	(4,166)	-	(4,166)
<b>Non-current liabilities</b>			
Loans and borrowings	(12,687)	-	(12,687)
Provisions	(12,840)	-	(12,840)
<b>Total net assets</b>	<u>53,250</u>	<u>175</u>	53,425
<b>Purchase consideration shares issued</b>			53,425
Cash held in subsidiary			<u>57</u>
<b>Cash inflow on acquisition</b>			<u><u>57</u></u>

## 14. INVESTMENT IN JOINT VENTURE

On 3 July 2019 Wide Range Developments Limited, a group subsidiary entered into a Joint Venture agreement with Normandie Participations and Efinor to create Normandie Hydroliennes ("NH") a company domiciled in France. The purpose of the joint venture is to commence site development, permitting and consenting work to allow for the construction of a phased array of tidal energy projects.

The Group has a 51% interest in NH resulting from €76k (£70k) investment in share capital of the joint venture. The groups interest in NH is accounted for using the equity method in the consolidated financial statements due to the terms of the joint venture agreement resulting in £23k loss on equity accounted investees for the period.

NH financial statements are prepared under IFRS in Euros. The financial statements have been translated into GBP in line with the group foreign currencies policy in Note 2.1. The joint venture is not material to the group and hence no further disclosures have been prepared.

On 19 December 2018, the Company completed the sale of its 50% interest in Atlantis Operations (Canada) Limited ("AOC") to its joint venture partner DP Energy.

Following completion, AOC will be renamed Rio Fundo Operations Canada Ltd. The transaction returned C\$400,000 (£168,000) to the Group.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 15. LOANS RECEIVABLE

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
<b>Loans to subsidiaries:</b>				
– Interest-bearing <sup>(a)</sup>	-	-	<b>1,154</b>	1,089
– Non-interest bearing <sup>(b)</sup>	-	-	<b>11,075</b>	11,075
<b>Loans receivable</b>	<b>-</b>	<b>-</b>	<b>12,229</b>	12,164

(a) The Company has provided a loan to MeyGen PLC which is interest-bearing with an interest rate of 12-month LIBOR plus 5% per annum, unsecured and repayable in February 2030.

(b) In 2014, the Company extended a loan to APPL, which is interest-free and unsecured. The loan is repayable on demand. Management has no current intention to recall this loan in the foreseeable future.

## 16. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Trade receivables	<b>866</b>	308	<b>106</b>	161
Deposits	<b>189</b>	1,453	-	-
Accrued revenue	<b>1,141</b>	399	-	-
Value added tax recoverable	<b>34</b>	493	<b>33</b>	97
Other receivables	<b>1,180</b>	1,057	-	-
Amounts due from a related party	<b>4,030</b>	-	<b>4,030</b>	-
Non-trade receivables due from subsidiaries	-	-	<b>56,360</b>	39,928
<b>Less:</b>				
Expected credit loss	-	-	<b>(14,979)</b>	(496)
Financial assets at amortised cost under IFRS 9	<b>7,440</b>	3,710	<b>45,550</b>	39,690
Prepayments	<b>390</b>	446	<b>65</b>	442
	<b>7,830</b>	4,156	<b>45,615</b>	40,132
Non-current	-	-	<b>41,381</b>	39,432
Current	<b>7,830</b>	4,156	<b>4,234</b>	700
	<b>7,830</b>	4,156	<b>45,615</b>	40,132

The non-current receivables due from subsidiaries are unsecured, interest-free, and settlement is neither planned nor likely to occur in the foreseeable future. The balances are stated at cost less impairment losses, if any.

Amounts due from a related party represented the money due from SIMEC in relation to consideration shares issued March 2019. The full amount was repaid to Atlantis during 2020.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 16. TRADE AND OTHER RECEIVABLES continued

At the end of the reporting period, the Company had a provision for expected loss allowance of £14.9 million (2018: £496,000) in relation to balances receivable from subsidiaries as recovery of the amounts due is not considered probable. No other expected credit loss has been recognised.

The Group's and the Company's exposure to credit and currency risks are as set out in Note 28.

## 17. INVENTORY

	<b>Group</b>	Group
	<b>2019</b>	2018
	<b>£'000</b>	£'000
Inventory	<b>864</b>	986

Inventory acquired in 2018 as a result of the acquisition of SUP (note 13) relates to spare parts and consumables. Since March 2018, inventory has been held at 50% cost based on the uncertainty around the usability of spares and consumables post conversion.

## 18. CASH AND CASH EQUIVALENTS

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	2018	<b>2019</b>	2018
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Cash at bank	<b>3,600</b>	8,349	<b>121</b>	5,342
Fixed deposits	<b>919</b>	916	-	-
Cash on hand	<b>2</b>	2	-	-
Cash and cash equivalents in the statements of financial position	<b>4,521</b>	9,267	<b>121</b>	5,342
Less: Encumbered deposits	<b>(919)</b>	(916)	-	-
Cash and cash equivalents in the statement of cash flows	<b>3,602</b>	8,351	<b>121</b>	5,342

The encumbered deposits served as collateral on behalf of MeyGen PLC, in support of the provision of bank guarantees and standby letters of credit as required under the terms of MeyGen's seabed lease and to secure the MeyGen project's electricity transmission capacity (Note 30). The Group's exposure to interest rate risks is described in Note 28.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 19. TRADE AND OTHER PAYABLES

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Trade payables	1,505	2,626	501	1,065
Other payables	1,077	434	5	5
Accruals	896	375	237	133
Non-trade payables due to subsidiaries	-	-	9,515	904
Non-trade payables due to a related party	-	994	-	-
Other financial liabilities	3,478	4,429	10,258	2,107
Advanced receipts	5,971	4,094	-	-
	<b>9,449</b>	<b>8,523</b>	<b>10,258</b>	<b>2,107</b>

The non-trade balances due to subsidiaries and related parties are unsecured, interest-free and repayable on demand.

Advanced receipts include deferred grant income of £2.9 million (2018: £2.6 million), deferred revenue £1.6 million (2018: £nil) and the lease premium of £1.5 million (2018: nil) received as part of the acquisition of SUP (Note 13). Deferred grant income relates to future projects to design, build and operate turbine arrays to further demonstrate the technical and commercial viability of tidal stream.

The Group's and the Company's exposure to currency and liquidity risks related to trade and other payables are described in Note 28.

## 20. PROVISIONS

	Group		Company	
	Provision for decommissioning costs £'000	Other provision £'000	Total £'000	Other provision £'000
At 1 January 2019	15,765	136	15,901	41
Provision made during the year	5	-	5	-
Provision utilised during the year	(1,463)	-	(1,463)	-
Remeasurement of provision	-	(41)	(41)	-
Unwinding of discount on decommissioning provision	257	-	257	-
<b>At 31 December 2019</b>	<b>14,564</b>	<b>95</b>	<b>14,659</b>	<b>41</b>
Non current	14,539	-	14,539	-
Current	25	95	120	41
	<b>14,564</b>	<b>95</b>	<b>14,659</b>	<b>41</b>

### Provision for decommissioning costs

The provision for decommissioning costs includes the present value of the best estimate of direct costs that may be incurred to remove turbine foundations from the seabed and the decommissioning of the SUP power station.

During 2019, Sea Generation Limited's project at Strangford Lough, Northern Ireland was successfully decommissioned. The remaining foundations relate to the MeyGen project located in the Inner Sound of the Pentland Firth, are anticipated to be decommissioned in 2043.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 20. PROVISIONS continued

The Groups testing berth at the European Marine Energy Centre ("EMEC") in Scotland completed decommissioning in 2018.

The SUP power station provision is the present value of the best estimate of direct costs that may be incurred to restore the site of the SUP power station to a condition that complies with applicable legislation, which is anticipated to take place in approximately 2043. The provision is based upon an estimate of the timing and current cost of this exercise, adjusted for the effects of inflation and discounted to present value using an appropriate discount rate. A 5% increase in the estimate of current cost would increase the recorded provision by approximately £0.6 million in each financial year, a 0.1% increase in estimated inflation would increase the recorded provision by approximately £0.3 million in each financial year and a 0.1% increase in discount rate would decrease the recorded provision by approximately £0.3 million in each financial year.

### Other provisions

The other provision represents short term provisions for spend anticipated to be settled during 2020.

## 21. LOANS AND BORROWINGS

The Group's and the Company's total loans and borrowings are as follows:

	Note	Group		Company	
		2019 £'000	2018 £'000	2019 £'000	2018 £'000
<b>Current loans and borrowings</b>					
Secured long term loans	(d)	2,532	738	-	-
Loans from a related party	(b)	2,027	2,027	-	-
Financial guarantees		-	-	119	130
		<b>4,559</b>	<b>2,765</b>	<b>119</b>	<b>130</b>
<b>Non-current loans and borrowings</b>					
Loan from a subsidiary	(a)	-	-	392	377
Loans from a related party	(b)	5,139	4,714	-	-
Long term loan	(c)	5,089	4,665	-	-
Secured long term loans	(d)	18,208	20,000	-	-
Long term debentures	(e)	12,226	9,476	-	-
		<b>40,662</b>	<b>38,855</b>	<b>392</b>	<b>377</b>
<b>Total loans and borrowings</b>		<b>45,221</b>	<b>41,620</b>	<b>511</b>	<b>507</b>

### (a) Loan from a subsidiary

The loan from a subsidiary is denominated in British pounds, is interest-bearing with an interest rate of 5.0% per annum, unsecured and is repayable in February 2021. The fair value of the loan at the end of the reporting period was approximately £0.4 million (2018: £0.4 million).

### (b) Loans from a related party

Loans from Morgan Stanley Capital Group Inc. ("MSCGI") totalling £5.1 million (2018: £4.7 million) are treated as related party loans, given that MSCGI is a related party of Morgan Stanley Renewables, a shareholder of the Company.

The loans from MSCGI are denominated in British pounds with an interest rate of 5.0% plus base, with floating interest rates in the range of 5.9% to 6.06% per annum, are unsecured and are repayable in February 2028. At the end of the reporting period, the carrying value of the loans approximate their fair value.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 21. LOANS AND BORROWINGS continued

The loan from SIMEC Group Limited ("SIMEC") of £2.0 million (2018: £2.0 million) is treated a related party loan, given that SIMEC is a shareholder of the company. The loan was acquired on the acquisition of SUP (see Note 12). The loan is denominated in British pounds, interest free and repayable on earlier of financial close of the SUP project or 31 December 2021. In the earlier event of a share fundraise the loan is automatically converted into shares in the Company pursuant to compliance with the contractual relationship agreement requiring SIMEC Group to hold 49.9% or less of share capital in issue.

### (c) Long term loan

The loan is denominated in British pounds, with a floating rate of interest in the range 5.9% to 5.06% per annum, are unsecured and are repayable in February 2028. At the end of the reporting period, the carrying value of the loan approximates its fair value.

### (d) Secured long term loans

#### **MeyGen PLC ("MeyGen")**

In August 2014, as part of the Phase 1A MeyGen project financing, Scottish Enterprise (as administrator of the Renewable Energy Investment Fund) extended a loan of £7.5 million to MeyGen to finance the construction of the project. The Crown Estate Commissioners committed an investment of £9.8 million to MeyGen, also to finance the construction of the Phase 1A project, which will be serviced through the payment of "enhanced rent", with an exit payment at or before the date 10 years from commissioning of Phase 1A of the project. During 2019 enhanced rent payments of £0.5 million (2018: £0.2 million) were paid.

The Scottish Enterprise loan and the Crown Estate investment to MeyGen are denominated in British pounds, and are repayable in the period from 2018 to 2027. The effective interest rates on these loans are in the range of 7% to 7.8% per annum. As at 31 December 2019, the total loans drawn down were £17.3 million (2018: £17.3 million). During 2019 £0.9 million (2018: £0.1 million) was repaid.

The Group's secured long term loans are secured by way of fixed and floating charges over the assets of subsidiaries as well as MeyGen Limited's shares. There was no breach of any loan covenants during the year.

At the reporting date, the Company does not consider it probable that a claim will be made against the Company under the guarantees as described above.

The Group's and the Company's exposures to interest rate, foreign currency and liquidity risks are described in Note 28.

### (e) Long term debentures

On 25 July 2017, the Group, via its subsidiary company Atlantis Ocean Energy PLC, raised £5.0 million through a five-year bond with a coupon of 8%, payable semi-annually, and maturing in 2022. The bond was offered through Abundance Investment Limited, the provider of a regulated green peer-to-peer investment platform.

In the period from April to June 2018, the Group, via its subsidiary company Atlantis Future Energy PLC, raised £5.0 million through a five-year bond with a coupon of 8%, payable semi-annually, and maturing in 2023. This bond was offered through Abundance Investment Limited.

In the period from August 2019 to December 2019, the Group, via its subsidiary company Atlantis Future Energy PLC, raised £2.7 million through a five-year bond with a coupon of 8%, payable semi-annually, and maturing in 2023. This bond was offered through Abundance Investment Limited. The bond closed in February 2020, having raised £3.8 million.



# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 21. LOANS AND BORROWINGS continued

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Loans and other borrowings	
	2019 £'000	2018 £'000
Balance as at 1 January	41,620	37,909
Proceeds from borrowings	2,730	4,970
Acquired on acquisition of a subsidiary (Note 12)	-	2,027
Repayment of borrowings	(1,376)	(5,192)
Interest expense*	2,792	2,657
Interest capitalised*	-	152
Interest paid	(849)	(696)
Other*	304	(207)
<b>Balance as at 31 December</b>	<b>45,221</b>	<b>41,620</b>

\* non-cash movements

## 22. DEFERRED TAX LIABILITIES

Movements in deferred tax liabilities of the Group are as follows:

	Group £'000
1 January 2018	3,255
Effect of reduction in tax rates	(120)
As a result of business combinations (Note 13)	667
At 31 December 2018	3,802
Unwind historic fair value adjustment	(120)
Release deferred tax liability	(667)
As a result of business combinations (Note 13)	329
<b>At 31 December 2019</b>	<b>3,344</b>

The deferred tax liability was recognised due to the fair valuation of the seabed option and tidal data upon acquisition of MeyGen in 2013 and began unwinding in 2018 when MeyGen Phase 1A entered its operating phase. During 2019 £0.3 million was recognised as a result of the fair value adjustments on acquisition of GHR. During 2018 £0.7 million was recognised as a result of the acquisition of SUP relating to deferred tax on the revaluation of fixed assets.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 23. SHARE CAPITAL

	Group and Company	
	Number of ordinary shares with no par value '000	£'000
<b>Issued and paid up during the year:</b>		
At 1 January 2018	125,956	95,030
Public offerings issued for cash	57,143	20,000
Issued in business combinations (note 13)	183,099	64,085
Transaction costs incurred in relation to share issuance	-	(897)
At 31 December 2018	366,198	178,218
Public offerings issued for cash	31,439	5,030
Consideration shares issued for cash	31,439	5,030
Transaction costs incurred in relation to share issuance	-	(260)
<b>At 31 December 2019</b>	<b>429,076</b>	<b>188,018</b>

On 28 March 2019, the Company raised £5 million, before expenses through the placing of 31.4 million new ordinary shares at a placing price of 16 pence per share. Simultaneously, prevalent to the SUP acquisition share purchase agreement dated 14 December 2017, the Group issued 31.4 million consideration shares at 16 pence per share (£5 million) to SIMEC UK Energy Holdings Limited. As at 31 December 2019, £4 million cash remained outstanding (note 16). The full amount was fully paid to Atlantis during 2020.

During the year, £0.3 million (2018: £0.9 million) of expenses were incurred incidental to the issuance of shares.

During the prior year, on 21 May 2018, the Company raised £20 million, before expenses, through the placing of 57.1 million new ordinary shares at a placing price of 35 pence per share. On 15 June 2018, the Company issued 183 million new ordinary shares at a placing price of 35 pence per share, of which 152.6 million were consideration shares and 30.4 million were loan completion shares, both of which relate to the acquisition of SUP.

## 24. CAPITAL RESERVE

The capital reserve consists of the difference between the carrying value of net assets transferred to and the consideration received from the non-controlling interest.

## 25. TRANSLATION RESERVE

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

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

## 26. SHARE OPTIONS

The share option reserve represents the equity-settled share options granted to employees. The reserve is made up of the cumulative value of services received from employees recorded on grant date. The expense for services received will be recognised over the vesting period.

### **Long Term Incentive Plan ("LTIP")**

In 2013, the Company approved an LTIP. During the year, no share options were granted under the LTIP (2018: 0.7 million).

The options outstanding at 31 December 2019 have a weighted average contractual life of 7.29 years (2018: 5.20 years).

No options were exercised in 2019 and 2018.

Details of the share options outstanding are as follows:

<b>Group and Company</b>	<b>Number of share options '000</b>	<b>Weighted average exercise price £</b>
Outstanding at 1 January 2018	5,988	0.780
Granted during the year	722	0.371
Cancelled and modified	(1,258)	0.835
<b>Outstanding at 31 December 2018</b>	<b>5,452</b>	<b>0.650</b>
Lapsed	(2,115)	0.930
<b>Outstanding at 31 December 2019</b>	<b>3,337</b>	<b>0.473</b>
<b>Exercisable at 31 December 2019</b>	<b>2,671</b>	<b>0.489</b>
<b>Exercisable at 31 December 2018</b>	<b>3,275</b>	<b>0.686</b>

The share options on issue expire between 2025 and 2028.

In 2019 £2.6 million (2018: £0.5 million) was transferred from the share option reserve to accumulated losses upon expiry/cancellation of the share options.

### **Company Share Option Plan ("CSOP")**

On 10 November 2016, the Company established a CSOP to offer share options to employees. During the year, 3.2 million share options were granted under the CSOP (2018: nil).

The options outstanding at 31 December 2019 have a weighted average contractual life of 9.40 years (2018: 7.86 years).

No options were exercised in 2019 and 2018.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 26. SHARE OPTIONS continued

Details of the share options outstanding are as follows:

<b>Group and Company</b>	<b>Number of share options '000</b>	<b>Weighted average exercise price £</b>
Outstanding at 1 January 2018	371	0.700
Cancelled	(14)	0.700
Outstanding at 31 December 2018	357	0.700
Granted during the year	3,200	0.200
Cancelled	(57)	0.700
Outstanding at 31 December 2019	3,500	0.240
Exercisable at 31 December 2019	300	0.700
<b>Exercisable at 31 December 2018</b>	-	-

The fair values for the above share options were calculated using the Black-Scholes pricing model. The inputs into the model for share options granted are as follows:

	<b>2019</b>	<b>2018</b>
Fair value of options on date of grant	£0.02	£0.01 ~ £0.11
Share price	£0.11	£0.36
Exercise price	£0.20	£0.35 ~ £0.50
Expected volatility	45.53%	41.20%
Expected life	3 years	0.5 ~ 3 years
Risk free rate	0.38%	1.33%
Expected dividend yield	0%	0%

Expected volatility was determined by calculating the historical volatility of the Company's stock. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group and the Company recognised total expenses of £0.1 million (2018: £0.2 million), related to equity-settled share-based payment transactions during the year and this is included as part of employee benefits expense (Note 6).

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

## 27. EARNINGS PER SHARE

The calculation of earnings per share is based on the loss after tax attributable to ordinary equity holders of the Company and on the weighted average number of ordinary shares in issue during each year.

	Total loss attributable to owners of the Company		Weighted average number of shares		Loss per share	
	2019 £'000	2018 £'000	2019 '000	2018 '000	2019 £	2018 £
Basic and diluted	(34,872)	(22,579)	414,262	261,008	(0.08)	(0.09)

	Group	
	2019 '000	2018 '000
<b>Weighted average number of ordinary shares</b>		
Issued ordinary shares at 1 January	366,198	125,956
Effect of public offerings issued for cash	24,032	35,225
Effect of consideration shares issued for cash	24,032	-
Effect of shares issued in relation to business combination	-	99,827
Weighted average number of shares at end of the year	414,262	261,008

Share options were excluded from the diluted weighted-average number of ordinary shares calculation as their effect would have been anti-dilutive.

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

## 28. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT

The Group is exposed to various financial risks arising in the normal course of business. It has adopted financial risk management policies and utilised a variety of techniques to manage its exposure to these risks.

### (a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Group.

There are no significant concentrations of credit risk.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset as at the end of the reporting period.

### Loans and receivables

Loans and receivables are detailed in section (d) below.

All balances are considered to be recoverable and are not past due. The total expected credit loss ("ECL") provision relating to loans and receivables for the Group is £nil (2018: nil) and the Company is £14.9 million (2018: £0.5 million). See notes 15 and 16 for further detail of loans and receivables balances.

### Cash and cash equivalents

The Group held cash of £4.5 million (2018: £9.3 million) at 31 December 2019. Cash at bank is held with banks and financial institution counterparties that are licensed banks in the countries in which the Group operates and that are rated AA- based on Standard & Poor's ratings.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 28. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT

continued

### Guarantees

At 31 December 2019 and 2018, the Company issued guarantees to a lender in respect of credit facilities granted to a subsidiary (Note 31).

### (b) Liquidity risk

The Group actively manages its operating cash flows and the availability of funding through maintaining sufficient cash and cash equivalents to finance its activities.

Current financial liabilities in 2018 and 2019 are repayable on demand or due within one year from the end of the reporting period. Other than certain loans, the remaining financial liabilities are non-interest bearing.

### Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Company's financial liabilities at the end of the reporting period based on the contractual undiscounted repayment obligations.

Group	Notes	Carrying amount £'000	Total £'000	Contractual cash flows		
				One year or less £'000	Two to five years £'000	Over five years £'000
<b>2019</b>						
<b>Financial liabilities</b>						
Trade and other payables	19	3,478	3,478	3,478	-	-
Loans from a related party	21	7,166	7,641	2,027	54	5,560
Long term loan	21	5,089	5,560	-	-	5,560
Long term debentures	21	12,226	15,870	1,013	14,857	-
Secured long term loans	21	20,740	33,191	2,532	11,510	19,149
Lease liabilities	12	1,367	4,532	279	660	3,593
		<b>50,066</b>	<b>70,272</b>	<b>9,329</b>	<b>27,081</b>	<b>33,862</b>
<b>2018</b>						
<b>Financial liabilities</b>						
Trade and other payables	19	4,429	4,429	4,429	-	-
Loans from a related party	21	6,741	7,627	2,027	-	5,600
Long term loan	21	4,665	5,546	-	-	5,546
Long term debentures	21	9,476	12,895	794	12,101	-
Secured long term loans	21	20,738	34,996	738	9,355	24,903
		<b>46,049</b>	<b>65,493</b>	<b>7,988</b>	<b>21,456</b>	<b>36,049</b>

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 28. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT

continued

Company	Notes	Carrying amount £'000	Total £'000	Contractual cash flows		
				One year or less £'000	Two to five years £'000	Over five years £'000
<b>2019</b>						
<b>Financial liabilities</b>						
Trade and other payables	19	10,258	10,258	10,258	-	-
Financial guarantees	21	119	3,500	3,500	-	-
Loan from a subsidiary	21	392	423	-	423	-
		<u>10,769</u>	<u>14,181</u>	<u>13,758</u>	<u>423</u>	<u>-</u>
<b>2018</b>						
<b>Financial liabilities</b>						
Trade and other payables	19	2,107	2,107	2,107	-	-
Financial guarantees	21	130	3,500	3,500	-	-
Loan from a subsidiary	21	377	423	-	423	-
		<u>2,614</u>	<u>6,030</u>	<u>5,607</u>	<u>423</u>	<u>-</u>

### (c) Market risk

#### Currency risk

The Group transacts business in various foreign currencies, including the Australian dollar, Euro, United States dollar, Singapore dollar and Japanese YEN, and is hence exposed to foreign exchange risk.

At the end of the reporting period, the carrying amounts of monetary assets and monetary liabilities denominated in currencies other than the respective Group entities' functional currencies are as follows:

	Group				Company			
	Liabilities		Assets		Liabilities		Assets	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Australian dollars	4	5	7	6	-	-	37	1
Euros	76	312	583	3	4	311	-	1
United States dollars	1	1	-	3	1	-	-	3
Singapore dollars	7	4	62	76	7	4	58	72
Japanese Yen	54	-	321	-	-	-	-	-

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 28. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT

continued

### Foreign currency sensitivity

The sensitivity rate used when reporting foreign currency risk is 10%, which is the sensitivity rate that represents management's assessment of the likely potential change in foreign exchange rates.

If the relevant foreign currencies were to strengthen by 10% against the functional currency of each Group entity, profit and loss (before tax) and equity will increase (decrease) by:

	Group				Company			
	Equity		Profit and loss (before tax)		Equity		Profit and loss (before tax)	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Australian dollars	-	-	-	-	-	-	(4)	-
Euros	-	-	(51)	31	-	-	-	31
United States dollars	-	-	-	-	-	-	-	-
Singapore dollars	-	-	(6)	(7)	-	-	(5)	(7)
Japanese Yen	-	-	(27)	-	-	-	-	-

If the relevant foreign currency weakens by 10% against the functional currency of each Group entity, the effects on profit and loss and equity will be vice versa.

### Interest rate risk

Interest rate risk arises from the potential change in interest rates that may have an adverse effect on the Group in the current reporting year or in future years.

The Group's exposure to interest rate risk is limited to the effects of fluctuation in bank interest rate on cash and cash equivalents as well as LIBOR rates on certain loans and borrowings.

For variable rate financial instruments, a change of 100 basis points (bps) in interest rate with all other variables held constant would increase/decrease profit/loss before tax by £0.1 million (2018: £0.1 million).

### Equity price risk

The Group is not exposed to equity price risks as it does not hold any quoted equity investments.

### Capital management policies and objectives

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balances.

The capital structure of the Group and the Company consists of equity attributable to owners of the parent and loans and borrowings amounting to £132.9 million (2018: £154.3 million) and £113.2 million (2018: £120.6 million), respectively.

There are no changes in the Group's approach to capital management during the financial year. The Company is not subject to externally imposed capital requirements. Except for one subsidiary that is subject to loan restrictions and dividend distributions, such restrictions are complied with and capital relating to that subsidiary is ring fenced as required by these capital requirements. None of the other subsidiaries are subject to externally imposed capital requirements.



# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 28. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT

continued

### (d) Accounting classifications and fair values

Except as detailed in the following table, the Directors consider that the carrying amounts of the financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values. The fair values of the financial instruments have been determined based on discounted future cash flows using Level 3 hierarchy, which are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

	Note	2019		2018	
		Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
<b>Group</b>					
<b>Financial Assets</b>					
Trade and other receivables	16	7,440		3,710	
Cash and cash equivalents	18	4,521		9,267	
Financial assets at amortised cost under IFRS 9		<b>11,961</b>		<b>12,977</b>	
<b>Financial liabilities</b>					
Trade and other payables	19	3,478		4,429	
Secured long term loans	21	20,740	20,320	20,738	20,023
Other loans and borrowings	21	24,481	24,733	20,882	21,387
Lease liabilities	12	1,367		-	
Liabilities at amortised cost		<b>50,066</b>		<b>46,049</b>	
<b>Company</b>					
<b>Financial assets</b>					
Loans receivable	15	12,229		12,164	
Trade and other receivables	16	45,550		39,690	
Cash and cash equivalents	18	121		5,342	
Financial assets at amortised cost under IFRS 9		<b>57,900</b>		<b>57,196</b>	
<b>Financial liabilities</b>					
Trade and other payables	19	10,258		2,107	
Loan from a subsidiary	21	392	401	377	382
Other loans and borrowings	21	119		130	
Liabilities at amortised cost		<b>10,769</b>		<b>2,614</b>	

### Estimating the fair value

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments of the Group and the Company.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 28. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT

continued

### *Financial assets and liabilities*

The notional amounts of financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash and cash equivalents, and trade and other payables) are assumed to approximate their fair values.

All other financial assets and liabilities are discounted to determine their fair values using the discounted cash flow method which considers the present value of expected payment, discounted using a risk adjusted discount rate.

## 29. RELATED COMPANY AND RELATED PARTY TRANSACTIONS

During the year, Group entities were engaged into the following significant transactions with related parties/companies:

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
<b>Interest income from a subsidiary</b>				
- MeyGen Limited	-	-	65	59
<b>Service fee income from a subsidiary</b>				
- Atlantis Resources (Scotland) Limited	-	-	185	166
<b>Service fee expense charged by a subsidiary</b>				
- ARC Operations Pty Limited	-	-	-	-
<b>Interest expense arising from related party</b>				
- Morgan Stanley Capital Group Inc.	299	276	-	-
<b>Interest expense arising from a subsidiary</b>				
- Atlantis Resources (Scotland) Limited	-	-	15	15
<b>Recharge of costs to related party</b>				
- Severn Power Limited	141	89	-	-
- SIMEC Power 1 Limited	42	42	-	-
- SIMEC Subcoal Fuels Limited	184	-	-	-
- SIMEC Energy Pty Limited	-	500	-	-
- Reimbursement of Non-Executive Director fees paid by SIMEC International (UK) Ltd	41	20	-	-
<b>Lease premium charged to a related party</b>				
- SIMEC Power 1 Limited	-	1,475	-	-

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 29. RELATED COMPANY AND RELATED PARTY TRANSACTIONS continued

### *Compensation of directors and key management personnel:*

The remuneration of directors and other members of key management during the year was as follows:

	Group	
	2019 £'000	2018 £'000
Short-term benefits	685	836
Defined contribution benefits	26	26
Share based payments	39	75
	<u>750</u>	<u>937</u>

## 30. COMMITMENTS

As at 31 December 2019, the Group, through its subsidiary SUP has capital expenditure contracted but not recognised as liabilities of £1.5 million (2018: £4.9 million).

## 31. CONTINGENT LIABILITIES

The Company has guaranteed credit facilities of £3.5 million (2018: £3.5 million) granted to subsidiaries.

## 32. COVID-19 AND EVENTS AFTER THE REPORTING PERIOD

On 30 January 2020 the spread of the Coronavirus (COVID 19) was declared a public health emergency by the World Health Organisation. The impact of COVID 19 did not materially impact the Group in the year ended 31 December 2019 and in line with IAS 10 has been considered a non-adjusting post balance sheet event. We have considered the impact of COVID-19 on the carrying value of the Group's property, plant and equipment and intangible assets and concluded there to be sufficient headroom in impairment assessments. We have also considered the impact on the recoverability of receivables. Furthermore, the impact of COVID 19 on the Group's ability to raise finance and potential delays to the supply chain have been considered within the forecast scenarios prepared by management to support the going concern assessment.

On 6 August 2020, the Company announced a Placing which has raised gross proceeds of £6.5 million through the issue of 54,166,666 new ordinary shares at 12 pence per share and a further £1 million through the issue of 8,333,333 new ordinary shares at 12 pence per share. In aggregate, the fundraising has raised gross proceeds of £7.5 million and will result in the issue of 62,499,999 new capital and an intended investment in a new fuel production joint venture.

## 33. SEGMENT INFORMATION

### (a) *Operating segments*

The Group is principally engaged in generating energy from renewable generation projects, development of these projects, as well as turbine and engineering services for the tidal power industry. In addition to the development of power projects, the power generation division currently focuses on the development of the MeyGen tidal energy project, whereas the turbine and engineering services division focuses on the development and delivery of turbines and technology solutions for projects worldwide. The divisions are managed separately because they require different expertise and marketing strategies. External revenues from power generation relate to MeyGen's contract to sell generation and ROCS to Smartest. The acquisition of GHR has been included in project development. In 2018, the acquisition of SUP was included in the project development segment.

The Board of Directors, who are the chief operating decision makers, review internal management reports for each division regularly, in relation to the capital expenditure, resources allocation and funding availability of the three divisions.

# NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

## 33. SEGMENT INFORMATION continued

Other operations include the provision of corporate services which does not meet any of the quantitative thresholds for determining reportable segments in 2019 and 2018 and is included within unallocated.

There are varying levels of integration between the power generation and the turbine and engineering services divisions, including the delivery of a turbine from the turbine and engineering services to the power generation division.

Information regarding the results of each reportable segment is included below. Unallocated expenditure, assets and liabilities include amounts of a corporate nature as well as corporate and inter-segment elimination, and are not specifically attributable to a segment.

	Power generation £'000	Turbine and engineering services £'000	Project development £'000	Unallocated £'000	Total £'000
<b>2019</b>					
External revenues	4,185	122	552	-	4,859
Inter-segment revenue	-	-	-	-	-
Interest revenue	9	15	-	(8)	16
Interest expense	(2,167)	(78)	(235)	(1,168)	(3,648)
Depreciation and amortisation	(2,692)	(1,068)	(5,902)	(817)	(10,479)
Reportable segment loss before tax	(2,312)	(5,129)	(26,538)	(2,227)	(36,206)
Reportable segment assets	67,730	23,115	71,213	6,013	168,071
Capital expenditure	836	37	1,712	-	2,585
Reportable segment liabilities	(36,689)	(49,910)	(32,988)	45,547	(74,040)
<b>2018</b>					
External revenues	2,097	120	-	-	2,217
Inter-segment revenue	-	2,283	-	(2,283)	-
Interest revenue	8	16	-	(16)	8
Interest expense	(1,824)	(237)	(128)	(809)	(2,998)
Depreciation and amortisation	(2,533)	(740)	(3,204)	(822)	(7,299)
Reportable segment profit/(loss) before tax	(4,623)	(6,477)	(6,071)	(6,993)	(24,164)
Reportable segment assets	69,338	29,887	88,494	1,690	189,409
Capital expenditure	236	12	828	-	1,076
Reportable segment liabilities	(33,819)	(37,969)	(50,650)	52,592	(69,846)

### (b) Geographical segments

Total segment revenue for the Group is £4.8 million (2018: £2.2 million). The Group operations are mostly focused in the United Kingdom, where the activities are focused on development of sustainable energy projects. Most of the Group's assets are located in the United Kingdom. The capital expenditure during the year is primarily related to the development of the projects.

# COMPANY INFORMATION

## NON-EXECUTIVE DIRECTORS

John Mitchell Neill  
Mark Edward Monckton Elborne  
George Jay Hambro  
Ian Raymond Wakelin  
John Anthony Clifford Woodley

## EXECUTIVE DIRECTORS

Timothy James Cornelius  
Andrew Luke Dagley

## REGISTERED OFFICE AND COMPANY NUMBER

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Company Number: 200517551R

## COMPANY SECRETARY

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