

Inspirit Energy Holdings plc (“Inspirit” or the “Company”)

Letter to shareholders

Monday 24 August 2020

- **My background and intentions**
- **Irregularities and inconsistencies in Director Dealing disclosures and shareholdings**
- **Addressing Board and Management underperformance**
- **The need for non-dilutive funding of growth**

My background and intentions

I am currently a 6.52% shareholder in Inspirit (with 189,301,820 shares) and, as an activist investor, it is appropriate that all shareholders understand my ambition for the Company. I have recently made suggestions to the Board which conform to existing Company statements on licensing, technologies and strategy. My suggestions include invigorating Inspirit with a combination of new ideas, new financing, complementary technologies and the grant of technology licences. I have requested that the Board properly considers suggestions for a number of new application areas into which Inspirit’s Stirling engine technology could be commercialised. However, the Board has not seen fit to follow up any of these suggestions. Given the underperformance of this Board over a number of years, it is time for a catalyst for change to stir the pot for the benefit of all long-suffering shareholders.

In collaboration with a number of other shareholders totalling, together, in excess of 10% of the shares outstanding, I have exercised the right under Section 803 of the Companies Act 2006 to request that the Company secures details of beneficial holders behind nominee accounts on the shareholder register. This action is to allow to me solicit proxy votes of support as well as to establish whether I might be opposed by a concert party holding over 30% of the shares in the Company. I will next be exercising my right, as a 5% shareholder, under Section 303 of the Companies Act 2006 to request that the Board convenes a General Meeting. Such a General Meeting would consider various issues including proposals to create a more balanced Board and enhancements to Inspirit’s strategy, as well as allow the Board to respond to some valid questions around compliance with AIM rules and historic performance.

I am a serious investor with long-standing experience in the industrial technology and renewables sectors. In 2009-2011, I sat on the Board and led the take-private of Robotic Technology Systems plc (“RTS”) which had been languishing on AIM and oversaw the subsequent profitable return of capital to shareholders. I have slowly and carefully built up a successor entity. While this growth has not been without its challenges, the business is preparing to list in 2021.

By way of a quick history lesson, immediately after the return of capital to RTS shareholders, excess cash holdings were spun off into an unlisted vehicle called Hephaestus Holdings Ltd (“HHL”). HHL’s mandate was to acquire and turn around failed or failing UK-based small engineering businesses. We ultimately discovered that there are generally good reasons why small engineering businesses are failing or have failed, and that even the best turn-around strategies are by no means always successful.

For us, this reality dawned with the acquisition in 2014 of the Flaretec/Haycock & Hague businesses – four companies involved in fabrication and pipework systems which were ultimately liquidated. In our defence, this failure transpired at a time when I was personally diagnosed with a life-changing medical condition (fortunately now in abeyance for 6 years) and after the Managing Director who was brought in to run the combined operations was caught with his “hands in the till” in a systematic and fraudulent way and in cahoots with the largest customer. After his immediate summary dismissal, the businesses failed to recover in a difficult market environment and were closed down. HHL had never extracted assets but had rather invested into the businesses, was invariably the largest creditor in

each failed company and, I would hazard, lost more money than all other creditors. While these sorts of incidences are unfortunate for all involved, the liquidators with my assistance recovered significant sums of money from the errant MD. I personally led an emergency recapitalisation of HHL with an injection of new funds and we worked our way through an existential crisis period. Every investor who stayed the course through these troubled times ultimately benefited.

Having revived HHL, I pivoted the strategy into investing into an area well known to me: forward-looking innovative cleantech businesses under the new umbrella of Time To ACT Limited. We have refocused our ageing Diffusion Alloys coatings business into the world's leading coater of hydrogen reformers, internal parts for Solid Oxide Fuel Cells and, imminently, electrolyzers. In 2019, we merged this business with the GreenSpur wind generator development business.

Even in the face of adversity, success is born out of hard work and application. It therefore frustrates me to find examples like Inspirit of companies which seemingly have interesting and valuable technology but which have withered for lack of senior management attention. My ambition is to act as a catalyst for change and to prevent further dilution for all shareholders (including myself). It will be a start if I can improve the breadth and depth of the Board and instil a focus on the need to deliver on shareholders' expectations.

Irregularities and inconsistencies in Director Dealing disclosures and shareholdings

AIM has not always been a home for well-managed businesses and abuses of the AIM regulations have been all too commonplace over the years. Companies where a single dominant shareholder also controls the Board is not always a marriage made in heaven for minority shareholders. It will not be simple with a 6.5% shareholding to outvote a Board controlling around 30% of the shares in issue but I can at least try along the way to ensure compliance with the rules, regulations and codes that apply to every AIM-quoted company. Above all, dominant shareholders should not be allowed to use a listed company as a personal playground at the expense of other shareholders.

In attempting to assess how to approach Inspirit and its Board and how to best utilise my minority shareholding, I have come up with two initial concerns.

First, on 29 July 2020 I was phoned by the Company's CFO, Nilesch Jagatia, and received a message that I can only describe as "warning me off" from any shareholder activism including requisitioning a Board Meeting given that the Board controlled sufficient votes to win any undesirable motions that it chose to contest. This concerns me coming from a company that already seems to pay no more than lip-service to the interests of smaller shareholders.

Second, I am concerned by a number of apparent irregularities in the disclosure of Director Dealings and shareholdings within the last five years on which I would like to see further clarity:

1. **Fine details.** On 16 September 2016, it was announced that Mr. John Gunn had bought 4,000,000 Inspirit shares, thereby increasing his holding, direct as well as indirectly through his Global Investment Strategy UK Ltd business ("GIS"), from 370,029,580 shares to 374,029,580 shares. On 3 May 2017, it was announced that Mr. Gunn had subscribed for 28,000,000 new shares in a placing and increased his shareholding to 398,029,580 shares. Fine details, but this May 2017 shareholding does not tally with the record, as it appears to forget the September 2016 purchase. Since this date it has not been possible to establish exactly how many shares Mr. Gunn actually holds;
2. **Obfuscation.** There tends to be a lot of obfuscation in AIM-listed company shareholder records between nominee account holdings, direct holdings and indirect shareholdings. Mr. Gunn originally disclosed a total direct and indirect (through GIS) shareholding in the Company. In recent years, some indirectly held shares have morphed into directly held shares,

which is not necessarily problematic in its own right but adds to the confusion around establishing the true ownership position;

3. **Lots of numbers.** As at 30 June 2019, Mr. Gunn disclosed a holding of 439,696,246 shares. On 25 November 2019, after the conversion of the majority of the Convertible Loan Notes (“CLNs”) that had been issued in 2018, Mr. Gunn notified that his interest had increased by 142,857,142 shares. In fact, his notifiable shareholding (direct and indirect) should have increased by 278,572,428 shares, comprising 142,857,142 direct shares from his CLNs (received in lieu of £100,000 of personal fees) plus a further 135,714,286 indirect shares from GIS’ CLNs (received in lieu of £95,000 of monies owed). But in fact Mr. Gunn’s new total shareholding increased not by 142,857,142, nor by 278,572,428, but by 356,992,128 (to the currently disclosed 796,687,374). Mr. Gunn’s new direct shareholding (582,553,388 shares) tallies with previous disclosures (although some indirect shares have morphed into direct shares) but (a) the conversion announcement did not mention any shares acquired by GIS, and (b) GIS now apparently holds 78,419,700 more shares (equivalent to 2.7% of the company) than it should have based on previous disclosures. Too many numbers perhaps, but seemingly a lack of accurate Director Dealing disclosures. It would be especially interesting to learn where the surplus 78,419,700 GIS shares have come from;
4. **Related Parties.** GIS’s disclosed interest in 135,714,286 shares arose from the swap of £95,000 of monies due as at May 2018 into Convertible Loan Notes (and subsequently shares). This was correctly dealt with at the time as a Related Party Transaction. It would nevertheless be informative to know the basis on which these monies were due. It would be informative to know more of the historic relationship between the two parties given that GIS did not become broker to the Company until August 2019. It would be most informative to know why at times Inspirit cash balances have been held on deposit at GIS. It would be interesting to know how GIS came to own all of its current shareholding which is much larger than it should be based on disclosure;
5. **Close Period.** In November and December 2019, the majority of the CLNs issued in 2018 were converted into shares. The issuance of shares to the management team, each a Person Discharging Managerial Responsibilities (or PDMR), came on (or after) the 25 November 2019 and so were issued just 28 days before the publication of the Company’s 2019 results on the 23 December 2019. While the conversion request was apparently received around 24 October 2019 and the conversion notice received on 20 November, the timing fortuitously straddled a major business update released on 13 November and facilitated a very tight timetable for issuance running right up to or perhaps into the Company’s close period. Indeed, it would appear these shares were technically acquired within a close period of 30 days before publication and so in technical contravention of the UK’s Market Abuse Regulation. It would be informative to be provided with the Company’s procedures for adhering to close period rules;
6. **Largest shareholder.** Final full conversion of the CLNs has reduced Mr. Gunn’s stated percentage (direct and indirect) shareholding to 27.4% of the shares currently in issue (i.e. 796,687,374 shares). The current share register however shows a single nominee account with 32.0% of the shares in issue (929,879,920 shares). Perhaps it is reading too much into an already complicated history, but I would like to understand whether I am seeking to challenge a concert party supporting Mr. Gunn, if and when a shareholding went upwards through 29.9% and why a Rule 9 mandatory offer was not triggered. Alternatively, whether I might find some independent shareholders under this common nominee account to vote with me.

In summary, I recently requisitioned a copy of the shareholder register so as to begin to solicit proxy votes in my favour, but the proliferation of nominee accounts on the register mean that I am still unclear as to what percentage of the Company’s shares is under the control of the Board. As the

Board does not appear to wish to have any form of substantive dialogue, I can only try to harness further proxy support in my favour with a Section 803 request ahead of a call for a General Meeting.

Addressing Board and Management underperformance

Inspirit is yet another forlorn and undermanaged example of the worst that AIM has to offer with, it seems to me, an uninspired Board who appear to pay no more than lip-service to the interests of outside shareholders and who retain the services of a docile NOMAD and of a broker that is a Related Party.

The operational underperformance is nothing new and is there for all to see. In June 2015, the Company announced that *"it has commenced construction of its first verification boiler..."* which *"...following final in-house testing, will be shipped to ... Enertek International Limited for testing..."* which *"...paves the way, subject to successful certification, for our verification unit to be installed in a commercial setting"*. In 2015, the Inspirit Charger was on track!

More than five years later, nothing more is spoken of Enertek or, indeed, the Chartered Institute of Building Services Engineers (who in 2016 were producing a formal peer review for publication at the end of 2017) or the *"nine pre-acquired units"* being assembled in Sheffield in 2016 (Company RNS, 17 December 2015) or of *"an agreement for the future installation of test products with a utility company"* (per John Gunn, 31 December 2015).

In my view, there is a fine line between genuine expectation being defeated by technical complexities and providing false hope. The Board has done nothing to explain why any of this has, or rather has not, happened other than for the entirety of the last year blaming *"further delays to the certification process"* without providing any real background on why those delays have occurred.

Thus I would characterise the history of the last five years as:

2015: On track to commercialise an Inspirit Charger;

2016: Raising development money during a year of silence on why commercialisation was not progressing as planned;

2017: Raising two more tranches of development funding during a year of denial;

2018: A complicated year starting with further denial, followed by a substantial fund-raising with management participation that severely diluted "outside" shareholders, followed at last by explicit admission of Charger delays;

2019: Further Charger delays but, finally, the initial implementation of a new strategy first mentioned in 2016;

2020: Promulgation of hope for the new strategy.

My generous interpretation of this unfolding debacle is that the Board has failed to impose a design freeze on overenthusiastic engineers who have continued to tinker with the Inspirit Charger's design. I have no particular insight as to whether the Charger is a genuinely viable product or not. Its claimed performance and energy output levels are, however, incomprehensible.

I am nevertheless hopeful of the Company's claims of a technology *"with multiple patents for engineering innovations"*, including *"the patented "sealed for life" power generation technology"* and the claim that *"the patents owned by Inspirit may be also used in the development of products other than a mCHP appliance"*. And yet I would like to know as a shareholder how many of these patents there are (3 registered and 5 pending according to one 2016 related-party report sourcing the

Company), their age, status and geographical spread, the ongoing prosecution actions and, most importantly, why if they are real doesn't the Company promote them?

So to give some credit to the Board, there does now appear to have been a belated recognition that the heat-recovery capability that drives the Sterling engine could find applications other than in a mCHP unit. However, this generalisation was first made in December 2016, again in December 2018 and again in April 2019 (when finally engaging a UK university to look into other applications for Stirling technology). It has taken some further time to finally lead to interest from a marine engine business (November 2019) and a waste-recycling application (March 2020). If the Board is genuinely seeking to exploit or otherwise licence this technology out, why is it doing such a pedestrian job and why has it ignored my proposals for the same? I am also very concerned when I read in one recent commentary both that *"ongoing funding for the development and commercialisation of our product remains a challenge"* but also that *"the board are setting up an automotive division to utilise the sterling [sic] engine to provide a source of power to charge electric motor cars"*. Given that the automotive industry is probably the most demanding customer industry in the world that it is possible to identify, attempting from a standing start to develop a product for the EV industry is a road to nowhere in my opinion.

I therefore take concern that the Chairman's Statement and other parts of the most recent Annual Report & Financial Statements cannot even consistently spell the name of this core technology correctly. Lack of attention to detail is to my mind indicative of the limited time and attention being dedicated by the Board to the development of the business. For the record, it is not a *"Sterling engine"* nor is it a *"sterling engine"*. It is a Stirling engine named after its inventor, Robert Stirling, who first patented the technology in 1816. In the same vein, the Inspirit Charger is not a *"microchip"* boiler as it is frequently referred to in Company publications but a *"micro-CHP"* or *"mCHP"* boiler.

Thus I remain concerned that a part-time Board (with a part-time CEO) cannot possibly dedicate sufficient time and enthusiasm to developing this business. It is my considered opinion that Mr. Gunn has limited time to successfully combine the overlapping roles of Chairman, Chief Executive Officer and largest shareholder of Inspirit with his larger roles as Chairman and majority shareholder of Octagonal plc, and that it is the shareholders in Inspirit who are suffering. Based on the relative remuneration received by Mr. Gunn from Inspirit and from GIS, it would be natural to conclude that Mr Gunn works significantly less than one day per week for the Company – implying an equivalent full-time pay remuneration of over £600,000 per annum. There has in fact been no-one running the company full time since Neil Luke's departure from the COO role in June 2017. While the attention to cost control could be applauded, the outcome is that there is insufficient time being dedicated from the Board and senior Executive Management team to the Company for the technology to prosper.

I raise the question whether the current Non-Executive Director (Mr Anthony Samaha, who has to date been invisible to me) fulfils anything more than a regulatory requirement while collecting his fee. While the Board may choose from time to time to take some of its compensation in the form of shares rather than cash, the latest annual cost of Directors/"Key Management Personnel" (which includes the Chairman/CEO's wife) of £134,000 is still an unwelcome drag or dilution of 9% of the undisturbed 2020 market capitalisation that continues to be incurred every year and deducted against shareholder value. I am concerned that, at this annual cost, I would expect the Board should be able to file accounts and its subsidiary's accounts on time. This simple action would remedy the *"Accounts overdue"* status for its operating subsidiary Inspirit Energy Limited and hopefully avoid a third Compulsory Strike-Off action in the last five years. I would also like to know what role a Key Management person is happy to fulfil for just £12,000 a year.

I am concerned as a shareholder that the Company's adherence to the Quoted Companies Alliance (QCA) Code adopted within its Corporate Governance Report is stretched rather thin. My experience since becoming a shareholder is that the Company's statements that "*Inspirit has a close and ongoing relationship with its shareholders*" and that it "*also places great importance on effective and timely communication with its shareholders*" are laughable. The Board had failed to give the courtesy of an acknowledgement let alone a properly formulated response to the most recent letters, emails, and phone calls from myself or my advisors.

Ultimately, my biggest concern is that the Board has failed to deliver the Inspirit Charger for the last five years and now risks failing to deliver on using promising elements of the technology in other applications. Improving the chances of success can start with expanding the capabilities of the Board.

My primary interest is to promote Inspirit as a successful investment for all shareholders. I have therefore proposed a closer working co-operation between the Company and Time To ACT Limited. Our Board of Directors includes Mr Andrew Hall, the former-CFO of Siemens Gamesa Renewable Energy S.A. (which is listed on the Madrid and other Spanish exchanges with a current market capitalisation of €13bn) and who is highly regarded within the renewables industry. I believe that, together, we could add a great deal of depth to Inspirit's Board. In my case, I am perfectly willing to serve as an unpaid Non-Executive Director for a period of time. As Directors, we would ensure stimulation of discussion within the Board to consider the implementation of a broader strategy in complementary technologies in the renewables sector – a move which would complement and build upon a strand of Inspirit's existing stated strategy articulated in December 2018 that "*The Board may consider making investments in complementary areas and technologies*".

I fully accept that the Board may decide that it is not obliged to follow all of my ideas, but I cannot understand how it can fail to respond to exciting and new real-world commercial application opportunities that I have attempted to introduce for the Inspirit Stirling engine technology.

The need for non-dilutive funding of growth

In the last five years under mainly the current Board, Inspirit has raised £2.85m in new funding and has seen a trebling of the number of shares in issue. The result has been a recent (undisturbed) market capitalisation of around £1.5m and a decline of 90% in the share price. In summary, the Board has sponsored raising significant additional capital, while typically disallowing pre-emption rights, resulting in a substantial negative return for those not allowed to participate. During this time, the Board has failed to communicate news, good or bad, in a clear and consistent fashion.

The most dilutive element of financing was the issuance in May 2018 of Convertible Loan Notes which led to an 85% increase in the number of shares (or 127% including the as yet unexercised attached warrants) with an ultimate conversion price of 0.07p. The CLNs were seemingly structured to protect as much of the Board's shareholding interest as possible at a relatively attractive price and sandwiched between two straight equity rises at 0.12p. The CLNs, which delivered Mr. Gunn at least 9.6% of the current shares in issue, were launched at an interesting time in the development history of the Inspirit Charger. On 29 March 2018, the Company alluded to but did not confirm certification delays (although two years had elapsed since certification should have been complete) or that Enertek was no longer the certification partner. Rather, the Charger would be tested by a "*competent authority*". In May 2018 it raised the dilutive CLN funding.

Yet by April 2019 the news-flow had started to turn positive again with the Board highlighting multiple possible applications for the Stirling technology and on 13 November 2019 announcing the marine industry development, which spiked the share price to 0.22p. On 24 October 2019, fortuitously just three weeks ahead of the marine industry announcement, came notification of the request, agreed

only at the Company's option but with the identity of the author of the request unconfirmed, to convert the loan notes into shares at 0.07p. On 18 November 2019 came the announcement of a further placing at a more palatable 0.12p.

It is easy with hindsight to dissect the apparent relationship between news-flow, lack of news-flow, capital raising and historic share price movements and to consider whether there has ever been a false market. It is nevertheless also easy to point out incontrovertibly highly dilutive financing. It is also quite obvious that Inspirit has not been fulminating in the clarity or frequency of its updates. My position is that where a company needs regular development funding, there should be absolute clarity in the provision of news-flow and updates. Capital raising efforts need to be based on a clear communication strategy, which has been sorely lacking at Inspirit.

I would caution that many of the loftier ambitions for Inspirit technology are unachievable without funding. The Inspirit Board has clearly been aware of this, but has chosen to regularly dilute existing shareholders. Future funding will be required. That the Inspirit Board is setting up an "*automotive division*" has truly terrifying financing implications. Perhaps consider the following – a highly respected UK technology company embarked in 2017 on a two-year project with £3.6m of funding to design a system to convert low-grade waste heat generated in marine vessel propulsion and generator engines into electricity. The project has not led to an unequivocal commercial success, the point being just how long and how much money it can take to explore new potential markets.

The key to driving value from Inspirit will be found within the quality of its patents. Within Time To ACT Limited, we are learning our way through managing an extensive Intellectual Property portfolio requiring a mix of proprietary development and licensing. GreenSpur Wind's Intellectual Property is embedded in 11 different worldwide patent applications (some granted, some pending and with more to be filed), and we have the skillset to manage that portfolio without needing unlimited funding.

I still do not know, from my perspective of the outside looking in, whether Inspirit truly possesses any decent technology. My hope and suspicion is that it does. Let's hope that the Board and Management have something up their sleeve. The concern remains is that the Company needs more resource – people, inspiration, know-how and money – to stand a chance of succeeding in securing value from these assets. The first stage of managing this value creation is to build a Board and an equity story on which funding can be raised – and without needlessly and constantly diluting the interests of existing shareholders. The second is to secure funding which reflects the inherent value in the business.

Only with the right support and encouragement will Inspirit succeed in its ambitions to develop applications for its Stirling engine technology and will shareholders reap the benefit of the investment of the last several years.

Chris Heminway
24th August 2020