

**Disenco Energy plc
Managements' Discussion and Analysis
For the financial year ending 31st December 2006**

The following management's discussion and analysis ("MD&A") of the financial and operational results of Disenco Energy plc and its subsidiary (the "Group") should be read in conjunction with Disenco Energy's consolidated financial statements for the year ended 31st December 2006.

References to the "Company" include Disenco Energy plc and its subsidiary where relevant. All figures are reported in pounds sterling ("£") unless otherwise stated.

The financial statements are prepared in accordance with UK GAAP, with a reconciliation included within the statements to reconcile to Canadian GAAP. All balances within this MD&A are stated in accordance with UK GAAP and reconciled to Canadian GAAP, where appropriate.

The Company was incorporated on 9 January 2006 as Silbury 311 Limited and changed its name on 17 March 2006 to Disenco Energy plc. Comparative figures are therefore not included in either the financial statements or MD&A.

The directors have prepared financial projections to take the group through to commercialization of its product in late 2007/early 2008 in the reasonable expectation that the company will generate significant amounts of future funding via private equity placements and director and other loans. They believe that sufficient funds can be raised to meet the net costs for the foreseeable future and until the group becomes profitable. The directors therefore consider it appropriate to prepare the financial statements on a going concern basis.

While the directors have estimated the future costs of the group and are taking reasonable steps to ensure that the required funding is received, there can be no certainty in relation to these matters. The financial statements and MD&A do not include any adjustments that would result from a failure to secure the required equity funding.

Introduction

The following management discussion covers the period from January 2006 to December 2006. The Company's principal activities at that time were the development of an m-CHP product (Micro-Combined Heat and Power) the commencement of field trials and the completion of the necessary work required to receive a receipt for prospectus prior to an application to list on the TSX Venture Exchange in Canada.

About Disenco Energy plc

The Company was incorporated on 9 January 2006 under the Companies Act 1985 (England and Wales) (the "Companies Act") as a private company under the name Silbury 311 Limited. On 17 March 2006 the Company re-registered as a public limited company under the Companies Act and changed its name to Disenco Energy plc. Pursuant to a letter of offer dated 4 March 2006, the shareholders of Disenco Limited exchanged their ordinary shares in Disenco Limited for Ordinary Shares in the Company on the basis of 1,500 Ordinary Shares for each one ordinary share of Disenco Limited. On 24 March 2006, by notice of increased capital filed with Companies House, the Company increased its authorized share capital by Cdn\$20,000,000 and created two classes of shares; S Shares and C Shares. The Company is authorized to issue up to 83,333,333 C Shares and 6,000,000 S Shares. On 24 March 2006 all of the Company's issued and outstanding Ordinary Shares were converted into 5,593,500 S Shares. On 20 April 2006,

Disenco Energy plc
Managements' Discussion and Analysis
For the financial year ending 31st December 2006

5,537,565 S Shares were converted into 55,375,650 C Shares at a rate of 10 C Shares for every 1 S Share held.

Disenco Limited is a wholly owned subsidiary of the Company and was incorporated under the Companies Act as a private company on 27 January 2003. The head office of the Company is located at Unit J, Sheffield Business Park, Europa Link, Sheffield, South Yorkshire, England, UK, S9 1XU.

The Company's business is to develop and commercially exploit an m-CHP unit that generates heat and electricity for central and hot water heating used in individual households and small businesses. The Company has developed and owns the intellectual property rights to this unit known as a micro-combined heat and power unit. The Company's m-CHP unit is called the "Disenco Home Power Plant". The m-CHP generates mechanical, electrical and thermal energy simultaneously allowing it to recover much of the energy normally lost in separate power generation. The recovered energy can be used for heating purposes and is expected to eliminate the need for a separate boiler. The heat generated by these small units can be used to heat the house and water and can be adapted to cool the house as well. The power generated by these units can be used for lighting, consumer electronics or other electrical appliances or can be sold into the power grid.

Overall Performance

Prior to September 2006, the development of the Disenco Home Power Plant had been restricted to development trials within a laboratory or factory environment. It was essential that the units be tested in the environment and under the working conditions that would exist in normal commercial circumstances.

In June 2006 the company received GAD (Gas Appliance Directive) approval for its first field trial unit allowing the product to be used in a domestic environment. On 14 September 2006 the Company commissioned its first m-CHP field trial unit. This initial field trial is fully instrumented and under contract with the Carbon Trust to provide data for the analysis of the actual performance of the unit. A second field trial unit was subsequently commissioned on 15 December 2006 and is again being monitored by the Carbon Trust. It is the intention of management to conduct at least five field trials from 2006 into mid 2007, the exact number being dependent on the quality of information being received from the first field trial and the availability of trial locations.

As part of the Company's growth plans a full time chief executive was recruited, who commenced employment with the company on 14 August 2006. In addition a full time Chief Financial Officer was recruited in October 2006, who commenced employment on 29 January 2007.

Significant resource and effort was expended through the latter 6 months of the year as the Company sought additional funds through a planned listing on the TSX Venture Exchange in Canada. This led to a receipt for prospectus being received on 29 December 2006, with a subsequent listing on the exchange taking place on 21 February 2007.

Disenco Energy plc
Managements' Discussion and Analysis
For the financial year ending 31st December 2006

Result of Operations

Key Performance Indicators (KPI)

- Financial
 - Funding to meet General Business KPIs
The overriding KPI for the business was the generation and maintenance of a steady and sufficient cash flow profile to enable the General Business KPIs to be achieved within 2006. This was achieved through the continued financial support of the company's backers and a number of structured loans and debentures. Cash flow and cash resources are monitored on a daily basis, to ensure the Company meets its continuing liabilities.

It is the Company's expectation that it will develop and utilise appropriate Financial KPIs as the Company moves closer to having a commercialised product and an appropriate revenue stream for its business.

- General Business KPIs
 - Development of the m-CHP unit to produce 15kWt and 3kWe.
This was successfully completed by Quarter 3 of 2006.
 - Commence Field Trials with the Carbon Trust.
This was successfully completed by Q4 of 2006.
 - Appoint an Executive Team.
This was successfully completed by Q4 of 2006.
 - List on the TSX Venture Exchange.
Receipt for prospectus was received on 29 December 2006, with eventual listing taking place on 21 February 2007.

Neither Disenco Energy plc nor its subsidiary Disenco Limited has any product related revenue streams at this stage of the company's development.

The consolidated results of Disenco Energy plc's operations are noted below.

Disenco Energy plc
Managements' Discussion and Analysis
For the financial year ending 31st December 2006

Summary of Results

Disenco Energy plc generated a loss of £1,440,601 in 2006.

	2006 £
Sales	6,853
Net Expenses:-	
Cost of Sales	(118,399)
Share based payments	(727,381)
Amortisation of intangible assets	(46,530)
Wages & salaries	(205,951)
Other administrative costs	(488,155)
Government Grants received	<u>113,316</u>
Total Expenses	1,473,100
Operating Loss	(1,466,247)
Interest receivable	56,763
Interest payable	(31,117)
Loss for Financial Period per UK GAAP	(1,440,601)
Canadian GAAP Adjustments	255,742
Loss for Financial Period per Canadian GAAP	(1,184,859)

Sales revenue of £6,853 is income received for data collected from two field trials under contract with the Carbon Trust.

Cost of sales of £118,399 includes premises related overhead costs of £80,878, depreciation on tangible fixed assets of £9,860, and travel & accommodation costs of £20,661.

Share based payments of £727,381 represents the fair value of shares and options issued to advisors, investment relations contractors, and company executives during the year.

Amortisation of intangible assets relates to the amortisation of patents and designs (£17,778), which are being amortised over 4 years and amortization of intellectual property rights (£28,752), which are being amortised over 20 years.

Wages & salaries are the administrative salary costs and directors' fees and emoluments incurred as expenses during 2006. All production salaries and 30% of the CEO salary costs are capitalized within development costs as noted below.

Other administrative costs include legal, professional and accountancy fees of £201,000 in relation to the issue of the TSX Venture prospectus, which was filed on 29 December 2006. Other administrative costs also includes other accounting, legal, professional & consultancy costs of £86,000, travel & subsistence costs of £76,000 and office costs of £46,000.

Disenco Energy plc
Managements' Discussion and Analysis
For the financial year ending 31st December 2006

Government Grants received relates to funds received from the South Yorkshire Inward Investment Scheme, which pays out grant funds based on achievement of cost and employee number milestones. The funds received were part of the European Commission's Structural Funds Scheme ERDF Objective 1 programme.

Interest receivable includes £47,796 of exchange gains relating mainly to gains on retranslation of the Norwegian Kroner loan and Canadian dollar convertible debenture at the year end exchange rate.

The Canadian GAAP adjustments relates to the following adjustments:-

1. £232,732 reduction in loss due to adopting purchase method of acquisition accounting. Under UK GAAP reporting, the combined loss is reported under merger accounting which takes the loss of both entities for the full year. Under purchase accounting the loss for Disenco Limited is included in the profit and loss account only from date of acquisition (13 March 2006)
2. £23,010 reduction in loss due to write-back of post-acquisition amortisation of intellectual property rights. Under UK GAAP, the entity is required to amortise the cost of acquired intellectual property rights over the asset's estimated useful life. Under Canadian GAAP the asset is to be reviewed annually and only written down if it is to be considered impaired in value.

Working Capital, Liquidity and Capital Resources

	31 December 2006 £
Current Assets	
Trade & other receivables	332,417
Cash & cash equivalents	<u>32,034</u>
Total Current Assets	364,451
Current Liabilities	
Trade & other payables	(778,322)
Loans	<u>(576,928)</u>
Total Current Liabilities	(1,355,250)
Net Current Liabilities	(990,799)

At 31 December 2006, the Company had net current liabilities of £990,799, which comprised current assets of £364,451 less current liabilities of £1,355,250. The Company was able to secure short term loans and advances, at no worse than market rate, from directors and related parties totalling £418,000 in late 2006 to fund the on-going development and field trial work, until the funds were received from the TSX Venture listing in February 2007. £230,000 of these loans was repaid on receipt of the TSX Venture Listing proceeds in February 2007. A director requested in February 2007 that £149,000 of the balance outstanding at 31 December 2006 be converted into equity, with the remaining balance of £39,000 payable at the end of April 2007.

The receivables balance relates mainly to funds due in relation to the special warrant proceeds, which were received in January 2007.

Disenco Energy plc
Managements' Discussion and Analysis
For the financial year ending 31st December 2006

Long Term Assets

	31 December 2006 £
Intangible Assets	
Development costs	1,123,808
Patents & designs	46,764
Intellectual property rights	<u>512,705</u>
Total Intangible Assets – UK GAAP	1,683,277
Canadian GAAP Adjustment	23,010
Total Intangible Assets – Canadian GAAP	1,706,287
Property, Plant & Equipment	28,885

The directors have adopted a policy of capitalising development expenditure incurred during the period, as they believe that the product will be both technically feasible and commercially viable. Further funding will be required to take the product to the final stage of technical development and to bring it to market. The directors are confident that this funding will be secured, however this cannot be considered a certainty. This and other intangible asset balances do not include any write-offs or adjustments that would result from a failure to secure the required equity funding. The development cost balance is not depreciated at this stage. This will occur once the product is commercialized and available for sale in its market.

The development cost balance comprises the following cost breakdown:-

	31 December 2006 £
Development costs	
Prototype Engine	196,740
Gas Appliance	242,914
Engineering Consultancy	283,124
Material Costs	275,534
Wages & Salaries	110,961
Gas Appliance Directive Approvals	<u>14,535</u>
Total – Development Costs	1,123,808

Development costs, within the capitalised cost total, comprise costs incurred with the Company's development partners, Prodrive (Engine development) and Enertek International Limited (Gas Appliance).

Engineering consultancy costs are essentially costs incurred with CHP Engineering AS, a Norwegian entity, who have assisted in the development of the product since prior to the inception of Disenco Energy plc.

Disenco Energy plc
Managements' Discussion and Analysis
For the financial year ending 31st December 2006

Material costs comprise all parts and materials consumed in the development of the product through to the end of the year.

Wages and salary costs comprise salary costs for all production-related employees employed by the Company during the year. It also comprises an appropriate percentage of the salary costs of the Chief Executive Officer to reflect the time spent by him in the development of the product.

Other intangible asset balances included in the long-term assets table are patent & design costs, and intellectual property rights. The intellectual property rights balance relates to the sum paid by Disenco Limited, a subsidiary of Disenco Energy plc, for the initial acquisition of the intellectual property from Disenco International AS, a Norwegian company that the Disenco Energy plc Group has no investment in. The depreciation rates applied against these assets and the required Canadian GAAP adjustment are noted within the Summary of Results above.

Long Term Liabilities

	31 December 2006 £
Long-term liabilities:	
Debenture Loans	392,554
Other Loans	<u>75,000</u>
Total – Long term Liabilities	467,554

The debenture loan is a convertible debenture of C\$1million, repayable with interest at C\$1.2million on 31 August 2008. The debenture can be converted into equity by the holder at a conversion price of C\$0.50 per unit at any stage during the term of the debenture. Each unit comprises one share of the Company's C ordinary shares and one half of one non-transferable share purchase warrant entitling the holder to purchase one additional share at an exercise price of C\$0.50 per warrant.

The convertible debenture has been split and accounted for in accordance with UK Financial Reporting Standard 25 "Financial Instruments: Disclosure and Presentation" and split between debt and equity based up on the market rate of a similar debenture not carrying conversion options, estimated to be 11%.

Other Loans is an outstanding balance to Disenco International AS, for amounts outstanding in more than one year in relation to the acquisition of Intellectual Property by Disenco Limited, noted in Long Term Assets above. The total amount outstanding to that entity at 31 December 2006 is £268,817 plus interest owing of £8,295. The loan is secured against the value of the intellectual property acquired.

Disenco Energy plc
Managements' Discussion and Analysis
For the financial year ending 31st December 2006

Shareholders' Equity

	31 December 2006 £
Shareholders' Equity under UK GAAP:	
Total share capital	5,907,806
Merger reserve	(3,762,559)
Other reserves	861,790
Accumulated Deficit	<u>(2,753,228)</u>
Total Shareholders' Equity under UK GAAP	253,809
Adjustments to Canadian GAAP:	
Amortisation of Intellectual Property	23,010
Merger reserve	3,762,559
Pre-acquisition losses	1,545,359
Excess of consideration over assets acquired allocated to deficit	<u>(5,307,918)</u>
Total Shareholders' Equity under Canadian GAAP	276,819

Total share capital represents shares at nominal value plus any applicable share premium. In the year ended 31 December 2006, the share premium on shares issued was £129,054 which was offset in full by expenses incurred in issuing shares and warrants.

The Canadian GAAP adjustments relate to the amortization of intellectual property, which is noted in the summary of results above, and the adjustments required in accounting for the business combination as an acquisition using the purchase method of accounting instead of merger accounting, under which the UK GAAP financial statements are prepared. The excess of consideration over assets acquired is calculated by comparing the value of the capital stock that was issued as consideration (£5,593,500) against the fair value of the assets and liabilities acquired (£285,582).

Capital Resources

The Company completed its listing on the TSX Venture Exchange on 21 February 2007. The net funding received of C\$2.9m (including special warrant proceeds), after deduction of all associated fees and commissions, is estimated to be sufficient to meet the original objectives stated in the prospectus. These were as follows:

- Complete, test and install up to five field trial units;
- Obtain Gas Appliance Directive approval for five field trial units;
- Complete appointment of Executive Team;
- Commence commercialization by entering into contracts with designated engineering groups to provide a commercial pre-production proto-type of the Disenco m-CHP;

The directors have prepared financial projections to take the Company through to commercialization of its product in late 2007/early 2008 in the reasonable expectation that the Company will generate future funding via private equity placements and director and other loans. The directors believe that sufficient funds can be raised to meet the net costs for the foreseeable future and to take the Company through to profitability. While the directors have estimated the

**Disenco Energy plc
Managements' Discussion and Analysis
For the financial year ending 31st December 2006**

future costs of the company and group, and are taking reasonable steps to ensure that the required funding is received, there can be no certainty in relation to these matters.

At 31 December 2006, Disenco Energy plc had commitments to future minimum payments under operating leases in respect of its rental office premises as follows:-

	£
31 December 2007	52,000
31 December 2008	56,000
31 December 2009	56,000

Off-Balance Sheet Arrangements

The Company has not entered into any off-balance sheet transactions or arrangements.

Critical Accounting Estimates

The Company's significant accounting policies are detailed in Note 1 of the audited 2006 financial statements. Details are provided in Note 25 of the financial statements of all significant differences to Canadian GAAP.

Financial Instruments

The Company has no trading revenues at this stage of development, and so finances its working capital requirements through loan or equity funding.

The company has trade creditors on normal payment terms. The Company has very few trade creditors denominated in foreign currency.

The Company has no credit facility with its bank, Royal Bank of Scotland. During the year all development was funded through the issue of equity, director and other loans, and the issue of a convertible debenture.

All borrowings are denominated in pounds sterling, except for a loan balance in Disenco Limited of NOK 2,849,149, with outstanding interest of NOK 101,113 (Norwegian Kroner), and a convertible debenture repayable at C\$1.2 million (Canadian Dollars). All loans undertaken in 2006 were granted at fixed interest rates, at broadly prevailing market rates, so the Company has limited exposure to credit and liquidity risks.

The company's financial risk management objective is broadly to seek to make neither profit nor loss from exposure to currency or interest rate risks. Its policy is to finance working capital through issue of equity and through borrowings at prevailing market interest rates. The company does not use hedge accounting.

The company's exposure to the price risk of financial instruments is minimal. The only potential exposure relates to currency risk on the above Norwegian Kroner loan and Canadian Dollar debenture. The Company does not undertake any forward currency purchases to hedge against this risk.

Disenco Energy plc
Managements' Discussion and Analysis
For the financial year ending 31st December 2006

The directors do not consider any other risks attaching to the use of financial instruments to be material to an assessment of its financial position or loss.

Warrants and Share Options

As at 31 December 2006, the following warrants and options were outstanding:-

	Expiry Date	Amount	Value C\$
Warrants	28 Feb 2007	2,267,606	727,860
Options	21 Feb 2009	617,045	308,522
	16 Oct 2009	659,904	329,952
	16 Oct 2011	9,684,816	3,266,156

Related Party Transactions

During the year the Company obtained loan financing from certain directors and related companies. These loans are disclosed in full in Note 22 of our audited consolidated financial statements.

Business Risk and Uncertainties

The Company's technology is of a disruptive nature, which means that its technology will significantly change the market in which it will eventually operate. The directors believe that its technology has significant benefits for both the environment and its target market, leading to enhanced shareholder value. It should be noted that in considering the risks the directors believe that there is significant established momentum supporting the introduction of this type of technology from both an environmental and regulatory standpoint. However the very nature of the technology means that there are risks associated with bringing it to market.

Risk factors considered by the Company include without limitation:

- (i) the need for market penetration and possible resistance to the arrival of new technology;
- (ii) any significant shortfall of demand in relation to expectation for the Company's products would have an adverse impact on the Company;
- (iii) additional financing will be required to develop the Company's products and services;
- (iv) the Company is experiencing competition for its products;
- (v) the Company is reliant to a certain degree on its suppliers regarding terms of trade, pricing and fulfillment requirements;
- (vi) the Company is subject to the complex regulatory environment in the United Kingdom (the "UK") and overseas markets;
- (vii) the Company is currently dependent upon its senior management, board of directors and consultants;
- (viii) the principal planned activity of the group is to finalise the development of the m-CHP unit and complete the commercialisation of the product. To this end

Disenco Energy plc
Managements' Discussion and Analysis
For the financial year ending 31st December 2006

additional financing will be required and will be the single most restrictive factor in the short term rate of growth of the Company.

Nature and Continuance of Operations

The principal planned activity of the company is to finalise the development of the m-CHP unit and complete the commercialisation of the product. To this end additional financing will be required and will be the single most restrictive factor in the short term rate of growth of the company.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to permit timely decisions regarding public disclosure.

The Company is, at present, a single site operation, with 12 employees, in which the Chief Executive Officer and Chief Financial Officer are involved in all aspects of the business. Processes and procedures for collating information for disclosure are therefore limited to that which can reasonably be achieved with the resources available. Management however believes that controls over disclosure of information are adequate for a business of this size and provide reasonable assurance that material items requiring disclosure are identified and reported in a timely manner. In reaching this conclusion, the Company recognizes that two factors must be and are present:

- i) the Company is assisted by its advisors and consultants in recognizing, interpreting, understanding and complying with the various securities regulations disclosure requirements and
- ii) an active Board and Management with open lines of communication. It should be noted that while the Company's CEO and CFO believe that the Company's disclosure controls and procedures provide a reasonable level of assurance and that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

During 2006, the Company was a small unlisted entity, with a maximum of 12 employees, 8 of whom were involved in the operational side of the business. Internal controls over financial reporting have historically been limited to that which can reasonably be achieved with the resources available due to the limited scope for segregation of duties and minimal requirement for

**Disenco Energy plc
Managements' Discussion and Analysis
For the financial year ending 31st December 2006**

public reporting. Management however does believe that the controls in place were appropriate for a business of this size, and that they provided reasonable assurance over risk of material error.

Since the end of 2006, the Company has listed on the TSX Venture Exchange. Management realizes that, as a result of this, and the increasing complexity of its business, there needs to be a greater focus on internal controls throughout the business, and as a result, a new full time Chief Financial Officer commenced employment in January 2007, replacing the original part-time position.

Management has commenced a review of existing processes and procedures to ensure their effectiveness and have designed additional procedures to enhance the internal controls over financial reporting and address some of the perceived limitations brought about by limited segregation of duties. In addition to establishing new internal controls and commencing a broader review of internal controls over financial reporting, a project was initiated to replace the existing, predominantly manual, accounting system which had become outdated. The lack of functionality of the existing system contributed to weaknesses related to segregation of duties and continuity of processing. The cross-over to the new computerized system was completed in March 2007. Management and the Board of Directors work to mitigate the risk of a material mis-statement in financial reporting, however, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material mis-statement.

Additional Information

Additional information relating to Disenco Energy plc can be found on the Company's website at www.disenco.com and on SEDAR at www.sedar.com

Approved on Behalf of the Board

(Signed) "Simon W S Ambler"

Simon W S Ambler
Chief Executive Officer

April 2007

(Signed) "Colin Mearns"

Colin Mearns
Chief Financial Officer

Disenco Energy plc's Management and Board of Directors

A Caplin
Chairman

S Ambler
Chief Executive Officer

**Disenco Energy plc
Managements' Discussion and Analysis
For the financial year ending 31st December 2006**

C Mearns
Chief Financial Officer

G B Longpre
Director of Corporate & Investor Relations

Sir R F Needham
Non-executive Director

J W Gunn
Non-executive Director

G Bretvin
Non-executive Director

Auditors:
PKF (UK) LLP

Lawyers (UK):
Kimbells LLP

Lawyers (Canada):
Clark Wilson LLP

Forward Looking Statements

This disclosure contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond Disenco Energy plc's control, including: the impact of general economic conditions where Disenco Energy plc operates, industry conditions, changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced, increased competition, the lack of availability of qualified personnel or management, fluctuations in foreign exchange or interest rates, stock market volatility and market valuations of companies with respect to announced transactions and the final valuations thereof and obtaining required approvals of regulatory authorities. Disenco Energy plc's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and accordingly, no assurances can be given that any of the events anticipated by the forward looking statements will transpire or occur, or if any of the do so, what benefits, including the amount of proceeds, that Disenco Energy plc will derive there from.