

Disenco Energy plc
Management's Discussion and Analysis
For the financial year ended 31 December 2007

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 audited consolidated financial statements for the year ended 31 December 2007. The financial statements for the year ended 31 December 2007 have been prepared by the Company and are the responsibility of the Company's management.

References to the "Company" include Disenco Energy plc and its subsidiary, Disenco Limited, 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. The Company was listed on the TSX Venture Exchange on 21 February 2007.

The directors have prepared financial projections to take the group through to commercialisation of its product in 2008, and through to anticipated profitability, in the reasonable expectation that the company will generate the required significant amounts of future funding via private equity placements, director and other loans. The directors 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 year ended 31 December 2007. The Company's principal activities at that time were the continued development and commercialisation of an m-CHP product (Micro-Combined Heat and Power), the monitoring of field trials and continued fundraising activities in North America and Europe.

About Disenco Energy plc

At the start of the year the Company's authorized share capital was 83,333,333 C Shares and 60,000,000 S Shares. As a result of a special resolution passed at the Annual General Meeting on 14 May 2007, the authorized share capital was increased to 200,000,000 C shares with the S shares being retained at 60,000,000. C shares and S shares rank pari passu in all respects.

The head office of the Company and Group is located at Unit J, Sheffield Business Park, Europa Link, Sheffield, South Yorkshire, England, UK, S9 1XU.

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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 HomePowerPlant". 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 could be adapted to cool the house as well. The power generated by these units can be used for lighting, consumer electronics, other electrical appliances, and excess power can be sold into the national power grid.

Overall Performance

The Company completed its listing on the TSX Venture Exchange on 21 February 2007, issuing 5,500,000 units, which comprised of one C ordinary share at C\$0.50 per share and one half of one warrant at a price of C\$0.75 per warrant. In addition the Company issued 2,059,642 C ordinary shares to the holders of 2,059,642 previously issued special warrants of the Company. The Company also issued, as a result of a private placement of funding, at that time, 670,642 C shares at C\$0.50 and 335,321 special warrants at C\$0.75 per warrant.

The Company completed its 176b development engine field trial programme during 2007. Both of the field trials with The Carbon Trust performed to expectation and were decommissioned at the end of the trial in December 2007. In total the company operated five field trial appliances in 2006/2007 and will not be placing any more field trials of the 176b development engine. Further evaluation of the product during 2008 will be with production intent components only.

Significant resource and effort was expended through the latter 6 months of 2006 and first two months of 2007 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.

In February 2007, phase one of a commercialisation and engineering review was completed by Prodrive, the Company's engine design partner. The main outcome of this review was a clear recommendation to proceed to initial production. The Company therefore entered phase two of the commercialisation programme with its engineering partners, including Prodrive and Enertek. Phase two is now expected to be completed at the end of Quarter 2, 2008. The Company identified an electronics partner in Sentec Limited, and successfully agreed project terms and costs in December 2007, to cover the electronic controls of the appliance. Initial product is expected to be available for installation in Quarter 3, 2008, providing current funding expectations are met.

Initial production designs were completed in Quarter 3, 2007 allowing production components and associated tooling to be placed on order. The initial m-CHP production engines were assembled and cold bench tested during December 2007. An appropriate supplier base has now been identified for the purpose of fulfilling initial low volume production demand. Following the successful completion of bench testing, which is expected to be at the end of Quarter 1, 2008, the first production m-CHP engines should be incorporated into production appliances, for further evaluation as a complete unit.

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It is the Company's intention to recruit additional personnel, as increased funding becomes available, to provide appropriate support and skills base to assist the Company through the completion of the planned commercialisation phase.

In addition to the funds received through the TSX listing noted above, equity based funds of C\$869,942 were received as a result of a Private Placement initiative in North America. The Private Placement was closed in July 2007 and 1,839,885 shares were issued to subscribers. The Company is continuing to pursue investment opportunities in North America, but at this stage has not closed any additional funding from that market, other than that disclosed. A further equity fundraising programme based in London, UK commenced during the year. This remains in progress, and has therefore yet to be concluded. In addition to the dual equity initiatives noted, since the TSX Listing, the Company has received gross funds from a number of short term loans, loan facilities and debentures from directors and investors, in the year, totaling £1,659,000, covering its short term working capital requirements, thereby maintaining the Company's progress towards the commercialisation of the Disenco HomePowerPlant.

Result of Operations

Key Performance Indicators (KPI)

- Financial
 - Funding to meet General Business KPIs
The overriding KPI for the business is the generation and maintenance of a steady and sufficient cash flow profile to enable the General Business KPIs to be achieved. This is being 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 utilize appropriate Financial KPIs as the Company moves closer to having a commercialized product and an appropriate revenue stream for its business.

- General Business KPIs
 - Complete Phase one engineering appliance review.
Achieved in February 2007.
 - Commence Phase two of the commercialisation programme, for the design and manufacture of production intent appliances.
Commenced Phase two in March 2007.
Electronic Controls partner, Sentec, identified in July 2007 and contracted in January 2008.
 - Complete Field Trials with the Carbon Trust -
Completed December 2007.
 - Recruit additional key personnel to support the business through the commercialisation programme -

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Planned, but currently on hold pending receipt of appropriate funding.

Summary of Results

Disenco Energy plc generated losses of £300,934 and £1,523,591 in the 3 and 12 months ended 31 December 2007 respectively.

	3 months ended 31 December 2007 (Unaudited) £	3 months ended 31 December 2006 (Unaudited) £	12 months ended 31 December 2007 (Audited) £	12 months ended 31 December 2006 (Audited) £
Sales	26,800	6,853	41,200	6,853
Net Expenses:-				
Cost of Sales	(43,202)	(8,575)	(168,521)	(118,399)
Share based payments	(45,585)	(461,979)	(346,313)	(727,381)
Amortisation of intangible assets	(13,174)	(12,145)	(52,372)	(46,530)
Wages & salaries	(41,478)	(77,539)	(332,815)	(205,952)
Other administrative costs	(149,027)	(134,450)	(513,804)	(489,821)
Government Grants received	-	-	-	114,983
Total Expenses	(292,466)	(694,688)	(1,413,825)	(1,473,100)
Operating Loss	(265,666)	(687,835)	(1,372,625)	(1,466,247)
Interest receivable	630	46,955	5,210	56,763
Interest payable	(81,295)	(14,875)	(201,573)	(31,117)
Tax	45,397	-	45,397	-
Loss for Financial Period per UK GAAP	(300,934)	(655,755)	(1,523,591)	(1,440,601)
Canadian GAAP Adjustments	7,185	7,195	28,739	255,742
Loss for Financial Period per Canadian GAAP	(293,749)	(648,560)	(1,494,852)	(1,184,859)

Sales revenue is income received for data collected from two field trials under contract with the Carbon Trust.

Cost of sales of £168,521 for the 12 month period and £43,202 for the 3 month period includes premises related overhead costs of £101,366 (£26,499 for 3 month period), insurance charges of £32,870 (£9,418 for the 3 month period) and depreciation on tangible fixed assets of £13,198 (£3,697 for 3 month period).

Share based payments represents the fair value of options issued to advisors, investment relations contractors, and company executives.

Amortization of intangible assets for the 12 month and 3 month periods relates to the amortization of patents and designs (£23,633 for 12 month period; £5,989 for 3 month period), which are being amortized over 4 years and amortization of intellectual property rights (£28,739 for 12 month period; £7,185 for 3 month period), which are being amortized over 20 years.

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Wages & salaries are the administrative salary costs and directors' fees and emoluments incurred as expenses during 2007. This includes a £30,000 loss of office payment made to a director during Quarter 1, 2007. All production salaries and 30% of the CEO salary costs are capitalised within development costs as noted below. The average number of employees, excluding non-executive directors, increased from 9 to 11 over the same 12 month period in 2006, as a result of the commencement of the acceleration of the development and commercialisation programme with our external partners in late 2006. The wages and salaries total for Quarter 4, 2007 is lower than previous quarters as a result of an over accrual of non-executive directors fees built up over prior quarters in 2007, which were not required at year end following finalisation of the non-executive director service agreements.

Other administrative costs for the 12 month and 3 month periods ended 31 December 2007 include legal, professional, accountancy and other consultancy fees of £238,639 (£68,639 for 3 month period), investor relations and public relations costs of £57,394 (£23,394 for 3 month period), TSX registration, filing, and transfer agent costs of £33,494 (£778 for 3 month period), travel & subsistence costs of £72,824 (£10,824 for 3 month period), staff recruitment costs of £24,775 (£nil for 3 month period), office costs of £53,428 (£12,428 for 3 month period) and amortization of debenture loan issue costs of £27,054 (£27,054 for 3 month period). The increase on the prior year is mainly as a result of the increased costs associated with the Company's listing on the TSX Venture Exchange.

Government Grants received in 2006 related 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 payable includes £91,242 of exchange losses in the 12 month period (£24,083 in the 3 month period) relating to losses on retranslation of the Norwegian Kroner loan, the Canadian dollar convertible debenture, and Canadian dollar loan facility balances at the year end exchange rate.

The Canadian GAAP adjustments in 2007 relate to a reduction in loss due to write-back of amortization of intellectual property rights in the period. Under UK GAAP, the entity is required to amortize 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 considered to be impaired in value. In 2006, the Canadian GAAP adjustment also included the adjustment to account for the business combination under the purchase method of 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), with £232,732 of losses incurred up to that date in 2006 accounted as pre-acquisition reserves.

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Quarterly results for 2007 are summarized as follows:-

	3 months ended 31 December 2007 (Unaudited) £	3 months ended 30 September 2007 (Unaudited) £	3 months ended 30 June 2007 (Unaudited) £	3 months ended 31 March 2007 (Unaudited) £
Net Sales	26,800	4,800	4,800	4,800
Operating Loss	(265,666)	(282,302)	(414,280)	(410,377)
Loss for Financial Period per UK GAAP	(300,934)	(347,781)	(440,795)	(434,081)
Earnings per Share (Basic)	(0.42) pence	(0.49) pence	(0.64) pence	(0.7) pence

No quarterly results are included for 2006, as consolidated quarterly figures were not produced by the Company for the whole of that year, prior to listing on the TSX Venture Exchange.

The net sales figure in Quarter 4 is higher than previous quarters as a result of final invoices submitted to the Carbon Trust on completion of the field trials and provision of required data in December 2007. The operating loss in Quarters 1 and 2 was higher than the following quarters, mainly due to costs incurred in the TSX Venture Exchange listing, a £30k loss of office payment to a director, and higher share based payment figures as a result of certain executive options vesting on the TSX Venture Exchange listing. The interest figure in Quarters 3 and 4 was higher than Quarters 1 and 2, as a result of increased loan funding and foreign exchange losses on Canadian dollar and Norwegian Kroner loan and convertible debenture balances.

Working Capital, Liquidity and Capital Resources

	31 December 2007 (Audited) £	31 December 2006 (Audited) £
Current Assets		
Trade & other receivables	203,069	332,417
Cash & cash equivalents	125,135	32,034
Total Current Assets	328,204	364,451
Current Liabilities		
Trade & other payables	(858,032)	(778,322)
Debenture Loans	(513,244)	-
Other Loans	(1,428,341)	(576,928)
Total Current Liabilities	(2,799,617)	(1,355,250)
Net Current Liabilities	(2,471,413)	(990,799)

At 31 December 2007, the Company had net current liabilities of £2,471,413 which comprised current assets of £328,204 less current liabilities of £2,799,617.

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The debenture loan balance comprises a convertible debenture of C\$1million, repayable with interest at C\$1.2million on 31 August 2008 and a 1 year convertible debenture for £275,000 repayable with interest at 8% on 1 December 2008. The first of the debentures was disclosed as a long term liability in the prior year but is now disclosed within current liabilities as it is due for repayment within one year. A full description of the terms and the accounting treatment for the debentures is included within Long Term Liabilities below.

During the year the Company was able to secure short term loans and advances, at no worse than market rate, from directors, related parties, and investors totalling £1,384,000 to help fund the on-going development and working capital needs of the business.

A director requested in February 2007 that £200,000 of the balance outstanding to him and related parties be converted into equity, with the remaining balance of £38,892 agreed to be repaid on the receipt of significant funds from the Company's fundraising programmes. This shares for debt request was accepted by the TSX Venture Exchange and the relevant securities commissions in April 2007 and 1,120,343 shares were subsequently issued as settlement of the debt.

Other loan balances include balances outstanding to an external party totalling £690,000, which were consolidated into one loan on 1 January 2008. This loan bears interest at 7% per annum and is repayable, with interest, on 15 March 2008. These loan advances commenced in April 2007 with repayment terms being agreed and rolled forward on 30 day intervals. These loans are guaranteed in full by Mr GB Longpre, a director of the Company.

The other loans included within Other Loan balances were provided by related parties and are outlined in detail within "Related Party Transactions" below.

Other payables include an outstanding balance to Disenco International AS, for amounts outstanding in relation to the acquisition of Intellectual Property by Disenco Limited, noted in Long Term Assets below. The balance is disclosed as being due for payment in full within one year, because the final instalment is due for payment on 1 June 2008. The final instalment of £75,000 was previously disclosed as a long term liability in the 31 December 2006 and 31 March 2007 balance sheets. The total amount owing to that entity at 31 December 2007 is £299,958 plus interest owing of £32,878. The Company agreed with the lender, during the period, that the £75,000, which was due to be paid on 1 June 2007, could be deferred until 1 March 2008. The loan is secured against the value of the intellectual property acquired.

The receivables balance at 31 December 2007 includes Value Added Tax refundable to the Company totalling £96,999. The VAT refund balance of £81,973 for the quarter ending 30 November 2007 was paid to the Company in January 2008, post year end.

The receivables balance at 31 December 2006 related mainly to funds due in relation to the special warrant proceeds, which were received in full in January 2007.

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Long Term Assets

	31 December 2007 (Audited) £	31 December 2006 (Audited) £
Intangible Assets		
Development costs	3,024,025	1,123,808
Patents & designs	24,786	46,764
Intellectual property rights	483,966	512,705
Total Intangible Assets – UK GAAP	3,532,777	1,683,277
Canadian GAAP Adjustment	51,749	23,010
Total Intangible Assets – Canadian GAAP	3,584,526	1,706,287
Property, Plant & Equipment	28,146	28,885

The directors have, since the start of 2006, adopted a policy of capitalising development expenditure incurred, 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 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 total cost breakdown:-

	31 December 2006 (Audited) £	Incurred in 2007 (Audited) £	31 December 2007 (Audited) £
Development costs			
Prototype Engine	196,740	1,033,243	1,229,983
Gas Appliance	242,914	201,887	444,801
Engineering Consultancy	283,124	41,473	324,597
Material & Other Support Costs	275,534	429,710	705,244
Wages & Salaries	110,961	186,907	297,868
Gas Appliance Directive Approvals	<u>14,535</u>	<u>6,997</u>	<u>21,532</u>
Total – Development Costs	1,123,808	1,900,217	3,024,025

Development costs, within the capitalised cost total, comprise mainly costs incurred with the Company's development partners, Prodrive (Engine development) and Enertek International Limited (Gas Appliance). The high cost of development of the Prototype engine in 2007 reflects the commencement of Phase 2 of the Prodrive development and commercialisation contract in March 2007. In Quarter 3, 2007 the Company ordered all of the parts and components required to build its first APO prototype engines, which it anticipates will move the Company significantly forward by having an engine, within its appliance, which has been manufactured entirely from production tooled components. Following the successful completion of bench testing, which is expected to be at the end of Quarter 1, 2008, the first production m-CHP engines should be incorporated into production appliances, for further evaluation as a complete unit. The first APO engines were built and cold tested in Quarter 4, 2007.

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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.

Material and other support costs comprise all parts and materials consumed in the development of the product, since the commencement of the development expenditure capitalization policy, and other electrical and technical support received during the same period. Tooling and parts for the first APO engines comprise £166,811 of the material and other support costs in the year.

Wages and salary costs comprise salary costs for all production-related employees employed by the Company since the commencement of the capitalization policy. 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 in which the Disenco Energy plc Group has no investment. 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 2007 (Audited)	31 December 2006 (Audited) £
Long-term liabilities:		
Debenture Loans	-	392,554
Other Loans	-	75,000
Total – Long term Liabilities	-	467,554

The debenture loan at 31 December 2006 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.

On 28 March 2007 C\$120,000 of the debenture was converted into equity at the request of the debenture holder. On 10 April 2007, a further C\$313,200 was converted into equity at the request of the debenture holder.

The balance outstanding on the debenture (£265,843) is now disclosed within current liabilities as it is due for repayment within one year. The value of the liability has been increased by £17,000 since the above equity conversions as a result of movements in the £ pound/C\$ Canadian Dollar exchange rate in the period.

The Company completed a new convertible debenture in December 2007 for £275,000 at an interest rate of 8% per annum repayable on 1 December 2008. The debenture can be converted

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into equity by the holder at a conversion price of C\$0.30 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\$0.40 per warrant.

The convertible debentures have been 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%.

The other loan balance, due to Disenco International AS, is described in Working Capital, Liquidity and Capital Resources above.

Shareholders' Equity

	31 December 2007 (Audited) £	31 December 2006 (Audited) £
Shareholders' Equity under UK GAAP:		
Total share capital	8,176,088	5,907,806
Merger reserve	(3,762,559)	(3,762,559)
Other reserves	858,477	861,790
Accumulated Deficit	(4,182,496)	(2,753,228)
Total Shareholders' Equity under UK GAAP	1,089,510	253,809
Adjustments to Canadian GAAP:		
Amortisation of Intellectual Property	51,749	23,010
Merger reserve	3,762,559	3,762,559
Pre-acquisition losses	1,545,359	1,545,359
Excess of consideration over assets acquired allocated to deficit	(5,307,918)	(5,307,918)
Total Shareholders' Equity under Canadian GAAP	1,141,259	276,819

Total share capital represents shares at nominal value plus any applicable share premium. In the year ended 31 December 2007, the share premium on shares issued (including conversion of special warrants and debentures) was £1,235,610 which was offset by cash expenses incurred of £202,606, issue of warrants to subscribers calculated at £63,020 and issue of options to finders calculated at £26,912. The offset value of the warrants and options was calculated using the Black-Scholes fair value method.

During the year the Company issued the following "C" shares:-

- 5,500,000 relating to the closure of the listing on the TSX Venture Exchange
- 670,462 relating to the closure of a North American private placement, at the time of the IPO;
- 2,267,606 relating to the conversion of previously issued share warrants into equity;
- 866,400 relating to conversion of convertible debenture into equity;
- 1,304,360 relating to shares for debt transactions
- 1,839,885 relating to the closure of a North American Private Placement;
- 55,000 relating to investors who invested in the Company in 2006, but had not received their share certificates.

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The Canadian GAAP adjustments relate to the amortization of intellectual property, 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, proved 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 commercialisation 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 commercialisation of its product in early 2008 and through to future profitability 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 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 2007, Disenco Energy plc had commitments to future minimum payments under operating leases in respect of its rental office premises as follows:-

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

Off-Balance Sheet Arrangements

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

The Company has loans of £690,000 with an external party, which incurs interest at 7% per annum. These loans, which are included within current liabilities, have been guaranteed personally by Mr.B Longpre, a director of the Company.

Critical Accounting Estimates

The Company's significant accounting policies are detailed in Note 1 of the audited financial statements for the year ended 31 December 2007. Details are provided in Note 26 of the financial statements of all significant differences to Canadian GAAP.

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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 period all development was funded through the issue of equity, director and other loans.

All borrowings are denominated in pounds sterling, except for the following:-

- Loan balance in Disenco Limited of NOK 2,859,097 (Norwegian Kroner). Interest on the Norwegian Kroner loan is charged at Norwegian Bank Base Rate plus 2% ;
- C\$1 million (Canadian Dollars) Convertible Debenture repayable at C\$1.2 million, of which C\$433,200 has already been converted into equity;
- Loan facility totaling C\$1 million (Canadian dollars) with Mr J Gunn, a director of the Company, of which C\$400,000 has been drawn down by the Company. Interest on the loan is charged at 1% above the rate obtained for an equivalent value 12 month Canadian dollar deposit, which the Company has agreed with the lender will be 5.05%;
- Loan facility totaling C\$1 million (Canadian dollars) with Dover International, a Company in which Mr Longpre, a director of the Company, is a director and shareholder, of which C\$777,871 has been drawn down by the Company. Interest on the loan is charged at 1% above the rate obtained for an equivalent value 12 month Canadian dollar deposit, which the Company has agreed with the lender will be 5.05%.

All other loans undertaken 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 limited to currency risk on the Norwegian Kroner loan and Canadian Dollar debenture and loan facilities, as noted above. The Company does not undertake any forward currency purchases to hedge against this risk.

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.

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Warrants and Share Options

As at 31 December 2007, the following warrants and options were outstanding:-

	Expiry Date	Amount	Value C\$
Warrants	9 Feb 2009	335,230	251,423
	21 Feb 2009	2,750,000	2,062,500
	28 Mar 2009	120,000	60,000
	10 Apr 2009	313,200	156,600
	13 July 2009	919,943	689,957
	23 July 2009	126,800	95,100
Options	21 Feb 2009	617,045	308,522
	16 Oct 2009	659,904	329,952
	16 Oct 2011	8,510,835	2,859,063
	15 Mar 2012	96,000	48,960
	8 May 2012	750,000	322,500
	31 August 2012	104,000	53,040

Related Party Transactions

During 2006 and early 2007 the Company obtained loan financing from certain directors and related companies. All of these loans were repaid on receipt of the funds from the TSX Venture Exchange Listing in February 2007, except for a balance of £238,892 due to Mr Longpre (and related parties), a director of the Company. £200,000 of this outstanding balance was converted into equity in April 2007, with the remaining balance of £38,892 to be repaid, as noted under Working Capital, Liquidity, and Capital Resources above.

On 11 May 2007, the Company received a loan of £50,000 from Mr J Gunn, a director of the Company. The loan incurs interest at 6% per annum, payable in full on repayment of the loan, which has been agreed to be repaid on the receipt of significant funds from the Company's fundraising programmes. The Company also received a further loan of £50,000 from Mr J Gunn on 22 October 2007. This loan incurs interest at 7% per annum, payable in full on repayment of the loan, which has been agreed to be repaid on the receipt of significant funds from the Company's fundraising programmes

On 13 July 2007, the Company received a C\$400k drawdown from the C\$1 million loan facility agreement that it has with Mr J Gunn. This facility is repayable any time from one year of date of commencement of the facility, which was 12 October 2006, following receipt of 7 days notice in writing from the lender. Interest on the loan is charged at 1% above the rate obtained for an equivalent value 12 month Canadian dollar deposit, which the Company has agreed with the lender will be 5.05%.

In August to December 2007, the Company received funds totalling C\$777,871 as drawdown from the C\$1 million loan facility agreement that it has with Dover International Limited, a Company in which Mr Longpre, is a director and shareholder. This facility is repayable any time from one year of date of commencement of the facility, which was 12 October 2006, following receipt of 7 days notice in writing from the lender. Interest on the loan is charged at 1% above the rate obtained for an equivalent value 12 month Canadian dollar deposit, which the Company has agreed with the lender will be 5.05%.

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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) additional financing will be required to develop the Company's products and services;
- (ii) the need for market penetration and possible resistance to the arrival of new technology;
- (iii) any significant shortfall of demand in relation to expectation for the Company's products would have an adverse impact on the Company;
- (iv) the Company may experience competition against 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.

Nature and Continuance of Operations

The principal planned activity of the company is to finalize 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:

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- i) the Company is assisted by its advisors and consultants in recognising, 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 controls 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 who were involved in the operational side of the business. Internal controls over financial reporting were historically limited to that which could reasonably be achieved with the resources available due to the limited scope for segregation of duties and minimal requirement for public reporting. Management however did 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 realised that, as a result of this, and the increasing complexity of its business, there needed 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.

During 2007, management completed a review of existing processes and procedures to ensure their effectiveness and 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 undertaking a broader review of internal controls over financial reporting, a project was completed to replace the existing, predominantly manual, accounting system which had become outdated. The lack of functionality of the previous system contributed to weaknesses related to segregation of duties and continuity of processing. The cross-over to the new computerised system was completed in March 2007, and this new computerized system worked successfully throughout 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.

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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
4 March 2008

(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

C Mearns
Chief Financial Officer

G B Longpre
Director of Corporate & Investor Relations

Sir R F Needham (resigned 9 July 2007)
Non-executive Director

J W Gunn
Non-executive Director

G Bretvin
Non-executive Director

S Bernstein (appointed 14 May 2007)
Non-executive Director

T MacKay (appointed 6 July 2007)
Non-executive Director

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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 them do so, what benefits, including the amount of proceeds, that Disenco Energy plc will derive there from.