

**Disenco Energy plc**  
**Management's Discussion and Analysis**  
**For the financial quarter ended 30 September 2008**

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 unaudited consolidated financial statements for the quarter ended 30 September 2008. The financial statements for the quarter ended 30 September 2008 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 2009, 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 funding.

## **Introduction**

The following management discussion covers the quarter ended 30 September 2008. The Company's principal activities at that time were the continued development and commercialisation of a micro-Combined Heat and Power ("m-CHP") appliance, the continued fundraising activities in North America, the UK and Europe and the negotiation of Memorandum of Understandings with major utilities in the UK, Europe and North America.

## **About Disenco Energy plc**

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.

The Company's business is to develop and commercially exploit an m-CHP appliance that generates heat and electricity for central and hot water heating that can be used in individual households and small and medium enterprise businesses. The Company has developed and owns the intellectual property rights to this appliance. The Company's m-CHP unit is called the "Disenco HomePowerPlant" ("HPP"). The HPP, a dishwasher sized unit, generates mechanical, electrical and thermal energy simultaneously at up to 92% efficiency, allowing it to recover much

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of the energy normally lost in separate power generation. The HPP produces heat and hot water, is expected to generate on average 50% of the electrical consumption of the home, including 70% at peak times, and will be able to export electricity back to the power grid up to an amount equal to that consumed by the home or SME. It is also expected to save the household up to 4 tonnes of CO<sub>2</sub> emissions on an annual basis. The HPP is a complete boiler replacement appliance, which could be installed and used in residential or commercial properties. The power generated by the HPP can be used to operate lighting, consumer electronics, and other electrical appliances, with any excess power generated on site being sold back to the national power grid.

**Overall Performance**

In March of 2007, phase one of a commercialisation and engineering review was completed by Prodrive, the Company's stirling engine design partner with a clear recommendation to proceed to initial production. The Company therefore entered phase two of the commercialisation programme with its engineering partners. Delays in raising the funds necessary to complete the project have impacted on the speed of progress on this programme in 2008. Phase two of this project is now expected to be completed in Quarter 1, 2009.

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 been identified for the purpose of fulfilling initial low volume production demand. Following the successful completion of bench testing, which is expected to be in early 2009, the first production m-CHP engines should be incorporated into production appliances, for further evaluation as a production feasible appliance.

In Quarter 1, 2008, the Company signed contracts with Sentec Limited, to commence the development of the electronic controls unit and to develop a grid interface for the stirling engine generator, within the m-CHP appliance. Sentec have made considerable progress during 2008 in designing and building a prototype electronic controls display unit, and in developing a usable grid interface with controllable power electronics. The contracted work with Sentec is proceeding in line with progress on the Phase two commercialisation contract.

In December of 2007 Disenco successfully completed 14 months of field trials of its 176b field trial models in the UK under the auspices of the Carbon Trust Field Trial program. The field trials with the Carbon Trust performed to expectation during the trials meeting both the 3 kW electrical and 15 kW thermal output performance expectations. In total the company operated five field trial appliances in 2006/2007. The Company expects to commence field trials in 2009 of its APO, production intent HPP appliances in anticipation of market entry later in that year.

In January 2008 the Company announced that it has appointed Autocraft Industries UK Limited ("Autocraft") and Malvern Boilers Limited ("Malvern Boilers") to manufacture the initial commercial volumes of the completed HPP appliances. Autocraft will manufacture the stirling engine component of the appliance and Malvern Boilers will manufacture the condensing boiler element, the boiler appliance parts and complete the final assembly with quality certification of the product. Both subcontractors will utilise the latest lean manufacturing techniques to ensure that the Company meets initial demand and product quality for its HPP products.

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Management believes that utility companies are a key route to market for its appliance due to the combination of a radical change to the market for distributed energy, strong government energy saving and CO2 emissions reduction requirements, rising fuel and energy costs and the expected savings that can be achieved by the HPP technology from both an ecological as well as a financial aspect.

The Company announced in July 2008 that it has signed a Memorandum of Understanding with Endesa, one of the leading utility companies in the Spanish energy market and the number one private-sector multinational electricity utility in Latin America. In accordance with the agreement Disenco's patented technology, after undergoing rigorous testing by Endesa, will be placed into field trialling sites in selected end user domestic and business premises, with the focus of this agreement to explore the deployment of the Disenco technology and HPP products in the markets of Endesa. Under the terms of the Agreement, Endesa has the exclusive rights to use and exploit Disenco's technology in Spain, Chile, Brazil, Argentina, Peru and Colombia. Endesa, with its market skill and expertise, will lead the relationship with the Spanish regional authorities, to meet the legal and regulatory requirements to enable production of the HomePowerPlant units. The Agreement, which has a duration of 12 months subject to extension upon the agreement of both parties, does not necessitate any financial payments, but does oblige the parties to explore funding vehicles for the research and development of Disenco's technologies, including regulatory and governmental initiatives.

The Company also announced in September 2008 that it had signed a Memorandum of Understanding with Centrica, one of the world's leading energy providers, serving the energy needs of over 20 million residential and business customers on both sides of the Atlantic. Under the terms of the Memorandum of Understanding, the two companies will collaborate in the development of Disenco's patented technology and HPP product and jointly contribute to the field trialling, marketing, installation and distribution of the appliance to meet customer requirements. It is anticipated that British Gas, Centrica's wholly owned subsidiary, will work with Disenco to bring the product into field trials by early 2009 followed by commercialization before the end of that year. The agreement joins together Disenco's low carbon heat and electricity appliance with Centrica's existing residential and business customer base

The Company is also in advanced discussions with a number of other utility companies in the UK, mainland Europe and North America and in addition to this is continuing to have ongoing discussions with other utilities, municipalities and community planning groups throughout the UK and the EU. The Company expects to complete commercial relationships with such companies for the distribution of its HPP appliance, in the near future.

Initial product is expected to be available for field trials with its utility company partners in early to mid 2009, providing current funding expectations are met.

On 29 May 2008, the Company filed a final short form prospectus to qualify the distribution in the Provinces of British Columbia, Alberta and Ontario of up to 16,700,000 units of Disenco Energy plc at a price of C\$0.30 per unit for aggregate gross proceeds of up to C\$5,010,000. Each unit will consist of one C Ordinary Share and one transferable share purchase warrant. Each warrant will entitle the holder to purchase one C Share at a price of \$0.50 per C Share for a period of 24 months from the closing of the offering. On 11 July 2008 and 2 September 2008 the Company closed the first and second tranches of this offering for gross proceeds of C\$980,100 and C\$839,400 respectively. On 3 October 2008 the Company filed an amended and restated prospectus to enable it to continue raising further funds through this Offering. Management

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anticipates that the successful final closure of this offering will assist the Company greatly in covering its short term working capital and development cost requirements thereby maintaining the Company's progress towards the commercialisation of the Disenco HomePowerPlant.

The Company also closed a convertible debenture on 29 August 2008. This debenture, which closed at a gross value of C\$1,375,286, is convertible at any time up to its maturity date on August 29, 2010 into units at a price of C\$0.30 per unit. Each unit comprises one "C" share and one half of one share purchase warrant. Each warrant entitles the holder to purchase one additional "C" share at an exercise price of C\$0.40 until the earlier of the maturity date or two years after the conversion date. Interest is charged on the debenture at 8% per annum. The unconverted balance (C\$766,800) on a debenture which was due to be repaid on August 31, 2008 was repaid in full and subsequently re-invested into this new debenture and is included in the C\$1,375,286 closing value. C\$540,000 of the remaining balance of the debenture value was received into the Company before the end of quarter two in advance of the closing of the debenture.

The Company is continuing to pursue other investment opportunities in Europe, but at this stage has not closed any additional funding from these markets.

## **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 Two of the commercialisation programme, for the design and manufacture of production intent appliances*

Expect to complete Phase Two contract with Prodrive in Quarter 1, 2009

Signed contract with electronic controls partner, Sentec Limited, in January 2008

Expect to have commercial appliances for field trialling with utility companies in early to middle of 2009.

- *Identify and contract with manufacturing partners to cover build of initial volumes of m-CHP appliances*

Memorandum of Understanding (MOUs) signed with Autocraft and Malvern Boilers

Expect to complete and sign formal contracts in Quarter 1, 2009

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- *Complete Field Trials with the Carbon Trust*  
Completed December 2007
- *Recruit additional key personnel to support the business through the commercialisation programme*  
Recruited an Engineering Manager and Administration Assistant in June 2008. Further personnel changes will be dependent on the receipt of further funds to take the Company through to the commercialisation of the appliance.
- *Secure commercial arrangements with major utility companies*  
Memorandum of Understanding signed with Endesa and Centrica in Quarter 3, 2008. Discussions continuing with a number of other major utility companies. Expect to sign further MOUs by end of 2008.

**Summary of Results**

Disenco Energy plc generated losses of £357,110 and £964,669, in the 3 months and 9 months ended 30 September 2008.

	3 months ended 30 September 2008 (Unaudited) £	3 months ended 30 September 2007 (Unaudited) £	9 months ended 30 September 2008 (Unaudited) £	9 months ended 30 September 2007 (Unaudited) £
<b>Sales</b>	-	<b>4,800</b>	-	<b>14,400</b>
Net Expenses:-				
Manufacturing overheads	(57,396)	(21,209)	(137,779)	(125,319)
Share based payments	(9,200)	(70,405)	(109,166)	(300,728)
Amortization of intangible assets	(9,900)	(13,174)	(29,699)	(39,198)
Wages & salaries	(68,570)	(83,511)	(300,894)	(291,337)
Other administrative costs	(89,355)	(98,803)	(351,540)	(364,777)
<b>Total Expenses</b>	<b>(234,421)</b>	<b>(287,102)</b>	<b>(929,078)</b>	<b>(1,121,359)</b>
<b>Operating Loss</b>	<b>(234,421)</b>	<b>(282,302)</b>	<b>(929,078)</b>	<b>(1,106,959)</b>
Interest receivable	516	1,358	1,441	4,580
Interest payable	(123,205)	(66,837)	(220,377)	(120,278)
Taxation	-	-	183,345	-
<b>Loss for Financial Period per UK GAAP</b>	<b>(357,110)</b>	<b>(347,781)</b>	<b>(964,669)</b>	<b>(1,222,657)</b>
Canadian GAAP Adjustments	7,185	7,185	21,555	21,554
<b>Loss for Financial Period per Canadian GAAP</b>	<b>(349,925)</b>	<b>(340,596)</b>	<b>(943,114)</b>	<b>(1,201,103)</b>

Sales revenue in 2007 was income received for data collected from two field trials under contract with The Carbon Trust. These field trials were completed and decommissioned in December 2007.

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Manufacturing overheads of £137,779 for the 9 month period and £57,396 for the 3 month period includes premises related overhead costs of £64,378 (£20,954 for 3 month period), employee travel expenses of £40,499 (£20,963 for 3 months) and depreciation on tangible fixed assets of £10,695 (£3,706 for 3 months).

Share based payments represents the fair value of options issued to advisors, investment relations contractors, and company executives. A significant number of executive options vested on the TSX listing in February 2007, which accounts for the higher charge through the Summary of Results in 2007. The charge in the quarter was offset by a credit of £65,353 to the profit and loss account to credit back charges previously recorded on options cancelled in the quarter, which had not yet vested.

Amortization of intangible assets for the 9 month and 3 month periods relates to the amortization of patents and designs (£8,144 for 9 month period; £2,715 for 3 month period), which are being amortized over 4 years, and amortization of intellectual property rights (£21,555 for 9 month period; £7,185 for 3 month period), which are being amortized over 20 years.

Wages & salaries are the operations and administrative salary costs, and directors' fees and emoluments incurred during the period. All development employee salaries and 70% of the Chief Operating Officer's salary costs are capitalised within development costs as noted below. In June 2008 the Company agreed a termination payment of £56,156 with Mr Ambler, its outgoing Chief Executive Officer. This comprised a payment of £38,156 as compensation for loss of office, and a bonus payment of £18,000. These amounts were paid in 4 equal monthly instalments commencing June 2008. The total gross payment amounts are included in the wages and salary costs for Quarter 2, 2008. The non-executive Chairman of the Company is currently undertaking the role of Interim Chief Executive Officer ("CEO"), until such time as a new CEO is appointed. The Company is currently not incurring any additional costs for this interim change in role.

Other administrative costs for the 9 month and 3 month periods ended 30 September 2008 include legal, professional, accountancy, corporate finance and other consultancy fees of £104,380, (£2,400 credit) for 3 month period). This includes a credit of £27,193 regarding corporate finance and professional fees incurred through the profit and loss account in prior quarters which were reallocated to the share premium account on the closing of the first and second tranches of the share offering. Additional professional fees incurred by the Company in the quarter that were allocated to the share premium account totalled £17,672. Other administrative costs also included investor relations and public relations costs of £52,710 (£27,796 for 3 month period), TSX registration, filing, and transfer agent costs of £24,370 (£10,015 for 3 month period), travel & subsistence costs of £62,373 (£23,158 for 3 month period), office and IT costs of £31,747 (£12,244 for 3 month period), and amortization of debenture loan issue costs of £31,004 (£11,175 for 3 month period).

Interest payable for the 9 months and 3 months ended 30 September 2008 included exchange losses of £8,872 (£10,152 exchange gain for 3 months) relating to differences on retranslation of the Norwegian Krone loan at the quarter end and £55,945 of exchange losses (£71,202 exchange loss for 3 months) on retranslation of the Canadian dollar convertible debentures, and Canadian dollar loan facility balances during the quarter.

The Canadian GAAP adjustments in 2008 and 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

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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.

**Working Capital, Liquidity and Capital Resources**

	30 September 2008 (Unaudited) £	31 December 2007 (Audited) £
<b>Current Assets</b>		
Trade & other receivables	89,929	203,069
Cash & cash equivalents	<u>113,219</u>	<u>125,135</u>
<b>Total Current Assets</b>	<b>203,148</b>	<b>328,204</b>
<b>Current Liabilities</b>		
Trade & other payables	(795,605)	(858,032)
Debenture loans	(263,898)	(513,244)
Other loans	<u>(1,558,670)</u>	<u>(1,428,341)</u>
<b>Total Current Liabilities</b>	<b>(2,618,173)</b>	<b>(2,799,617)</b>
<b>Net Current Liabilities</b>	<b>(2,415,025)</b>	<b>(2,471,413)</b>

At 30 September 2008, the Company had net current liabilities of £2,415,025 which comprised current assets of £203,148 less current liabilities of £2,618,173.

The Company is continuing to secure short term loans and advances, at no worse than market rate, from directors, related parties, and investors to help fund the on-going development and working capital needs of the business.

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 was repayable, with interest, on 15 April 2008. These loan advances commenced in April 2007 with repayment terms being agreed and rolled forward on 30 day intervals. The Company has also received additional advances of £25,000 on 1 February 2008 and £20,000 on 31 March 2008 from this lender, on the same terms, as the above loan. 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 ("DIAS"), for amounts outstanding in relation to the acquisition of intellectual property by Disenco Limited, noted in Long Term Assets below. The total amount owing to that entity at 30 September 2008 is £296,137, plus total interest owing of £18,607 (including penalty interest), of which £261,020 (2,749,607 NOK) plus interest represents amounts owing by DIAS to SND Innovation Bank, for which the Company has given a guarantee. The Company agreed with the lender, during 2007, that the £75,000, which was due to be paid on 1 June 2007, could be deferred until 1 March 2008. Discussions are currently continuing between DIAS and the bank regarding further agreed payment extensions. The loan is secured against the value of the intellectual property acquired.

Other payables also include advance payments totalling £100,000 from an investor for a proposed investment in the outstanding C\$5million share offering.

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The debenture loans at 31 December 2007 comprised a convertible debenture of C\$1million, repayable in total at C\$1.2million on 31 August 2008, and a convertible debenture for £275,000 at an interest rate of 8% per annum repayable on 1 December 2008.

The unconverted equity balance on the C\$1.2million debenture was C\$766,800, which was repaid in full by the Company, with the funds reinvested by the holder in full in the new debenture disclosed under Long term liabilities below.

The Company completed the second 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 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 share purchase warrant entitling the holder to purchase one additional share at an exercise price of C\$0.40 per warrant. At the end of Quarter 3, 2008 the full value of the debenture and accrued interest remain unconverted.

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 upon the market rate of a similar debenture not carrying conversion options, estimated to be 11%. The unconverted balances on the debentures showing on the Company's balance sheet at 31 December 2007 and 30 September 2008 is lower than the total unconverted balance reported above due to the requirement to account for the convertible debenture by splitting the debt and equity components, and deducting the debenture issue costs from the liability on inception and then amortizing over the period of the debenture.

The receivables balance at 30 September 2008 includes Value Added Tax refundable to the Company totalling £12,982. The VAT refund balance of £81,973 for the quarter ending 30 November 2007 was paid to the Company in January 2008. During 2008 HM Revenue & Customs agreed that the Company could submit monthly VAT returns, which has improved the Company's cash flow in relation to VAT suffered on purchase invoices.

The receivables balance at 31 December 2007 included invoices outstanding, totalling £27,730, which were paid in full during Quarter 1, 2008.

**Long Term Assets**

	30 September 2008 (Unaudited) £	31 December 2007 (Audited) £
Intangible Assets		
Development costs	3,585,227	3,024,025
Patents & designs	16,642	24,786
Intellectual property rights	<u>462,411</u>	<u>483,966</u>
<b>Total Intangible Assets – UK GAAP</b>	<b>4,064,280</b>	<b>3,532,777</b>
Canadian GAAP Adjustment	73,304	51,749
<b>Total Intangible Assets – Canadian GAAP</b>	<b>4,137,584</b>	<b>3,584,526</b>
<b>Property, Plant &amp; Equipment</b>	<b>22,852</b>	<b>28,146</b>

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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 available for sale.

The development cost balance comprises the following total cost breakdown:-

	31 December 2007 (Audited) £	Incurred in 2008 (Unaudited) £	30 September 2008 (Unaudited) £
Development Costs			
Prototype Engine	1,229,983	100,970	1,330,953
Gas Appliance	444,801	70,029	514,830
Electrical Controls Unit/Grid Interface	-	174,307	174,307
Engineering Consultancy	324,597	43,474	368,071
Material & Other Support Costs	705,244	61,332	766,576
Wages & Salaries	297,868	111,090	408,958
Gas Appliance Directive Approvals	<u>21,532</u>	-	<u>21,532</u>
<b>Total – Development Costs</b>	<b>3,024,025</b>	<b>561,202</b>	<b>3,585,227</b>

Development costs, within the capitalised cost total, comprise mainly costs incurred with the Company's development partners, Prodrive Automotive Technology Limited (Engine development), Enertek International Limited (Gas Appliance) and Sentec Limited (Electrical Controls Unit/Grid Interface). The high cost of development of the Prototype engine in 2007 reflected the commencement of Phase 2 of the Prodrive development and commercialisation contract in March 2007, which is anticipated to be completed in Quarter 1, 2009, providing the Company's funding objectives are met. In late 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 in Quarter 1, 2009, the first production m-CHP engines should be incorporated into production appliances, for further evaluation as a complete unit. In Quarter 2, 2008 a review of the status of the Prodrive contract was undertaken, which resulted in a reassessment of the contract value invoiced to date against status of milestones achieved. As a result of this review, Prodrive agreed to issue credit notes to the value of £136,880, which is included within the above cost breakdown.

Engineering consultancy costs are essentially costs incurred with Adigo Energy Technology AS (formerly 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 capitalisation policy, and other electrical and technical support received during the same period. Tooling and parts for the first APO engines comprise £200,721 of the material and other support costs total.

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Wages and salary costs comprise salary costs for all employees directly involved in the development of the appliance since the commencement of the capitalisation policy. It also comprises an appropriate percentage of the salary costs of the Chief Operating Officer and Chief Executive Officer to reflect the time spent by them 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**

	30 September 2008 (Unaudited) £	31 December 2007 (Audited) £
Long-term liabilities:		
Debenture Loans	662,318	-
<b>Total – Long term Liabilities</b>	<b>662,318</b>	<b>-</b>

The Company completed a convertible debenture in August 2008 for C\$1,375,286 at an interest rate of 8% per annum repayable on 29 August 2010. The debenture can be converted 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 share purchase warrant. Each whole warrant entitles the holder to purchase one additional share at an exercise price of C\$0.40 per warrant until the earlier of the maturity date or two years after the conversion date. At the end of Quarter 3, 2008 the full value of the debenture and accrued interest remain unconverted.

The unconverted balance (C\$766,800) on the debenture which was due to be repaid on August 31, 2008 was repaid in full and the funds subsequently re-invested into this new debenture, as disclosed under Working Capital, Liquidity, and Capital Resources above. C\$540,000 of the remaining balance of the debenture value was received into the Company before the end of quarter two in advance of the closing of the debenture

The convertible debenture has 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%.

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**Shareholders' Equity**

	30 September 2008 (Unaudited) £	31 December 2007 (Audited) £
Shareholders' Equity under UK GAAP:		
Total share capital	8,867,899	8,176,088
Merger reserve	(3,762,559)	(3,762,559)
Other reserves	761,964	858,477
Accumulated deficit	<u>(4,857,515)</u>	<u>(4,182,496)</u>
<b>Total Shareholders' Equity under UK GAAP</b>	<b>1,009,789</b>	<b>1,089,510</b>
Adjustments to Canadian GAAP:		
Amortisation of intellectual property	73,304	51,749
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	<u>(5,307,918)</u>	<u>(5,307,918)</u>
<b>Total Shareholders' Equity under Canadian GAAP</b>	<b>1,083,093</b>	<b>1,141,259</b>

At the start of the year and at 30 September 2008 the Company's authorized share capital was 200,000,000 C Shares and 60,000,000 S Shares. C shares and S shares rank pari passu in all respects.

Total share capital represents shares at nominal value plus any applicable share premium. In the quarter ended 30 September 2008, the share premium on shares issued was £185,764 which was offset by cash expenses incurred of £187,635, issue of warrants to subscribers calculated at £30,796 and issue of agent options to finders calculated at £18,577. The offset value of the warrants and agent options was calculated using the Black-Scholes fair value method.

The Company issued 3,267,000 shares on 11 July 2008 and 2,798,000 shares on 2 September 2008 in closing the first and second tranches of its C\$5million share offering. No shares were issued during Quarter 1 or Quarter 2, 2008.

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 Company completed tranches 1 and 2, totalling C\$1,819,500 of its C\$5 million public offering in Quarter 3, 2008 and is currently continuing with its efforts to raise further funds through this offering.

The directors have prepared financial projections to take the Company through to anticipated commercialisation of its product in 2009 and to future profitability in the reasonable expectation

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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 £735,000 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 GB Longpre, a director of the Company.

**Critical Accounting Estimates**

The Company's significant accounting policies are detailed in Note 1 of the unaudited financial statements for the three and nine months ended 30 September 2008. Details are provided in Note 13 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 few trade creditors denominated in foreign currency.

The Company has no formal credit facility with its bank, Royal Bank of Scotland. During the period all development was funded through the issue of director and other loans.

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

- Loan balance in Disenco Limited of NOK 2,749,607 (Norwegian Kroner). Interest on the Norwegian Krone loan is charged at Norwegian Bank Base Rate plus 2%;
- C\$1,375,286 (Canadian Dollars) Convertible Debenture repayable with interest at 8%;
- 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,

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of which C\$792,645 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 Krone loan and Canadian Dollar debentures 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.

**Warrants and Share Options**

As at 30 September 2008, 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 Jul 2009	919,943	689,957
	23 Jul 2009	126,800	95,100
	11 Jul 2010	3,267,000	1,633,500
	2 Sep 2010	2,798,000	1,399,000
Agent Options	21 Feb 2009	617,045	308,522
	11 Jul 2010	326,700	98,010
	2 Sep 2010	279,800	83,940
Options	16 Oct 2009	659,904	329,952
	16 Oct 2011	4,221,500	1,255,563
	15 Mar 2012	96,000	48,960
	8 May 2012	750,000	322,500
	31 Aug 2012	104,000	53,040
	1 Jan 2013	1,400,000	704,000
	3 Sep 2013	2,725,000	1,362,500
	17 Sep 2013	973,000	486,500

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**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, on the receipt of significant funds from the Company's fundraising programmes.

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 further loans of £50,000 each from Mr J Gunn on 22 October 2007 and 12 February 2008. These loans incur 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%. In 2008, Dover International Limited settled outstanding invoices totalling C\$14,774 on behalf of the Company. This payment amount has been added to the loan facility balance outstanding at 31 December 2007.

In September 2008, the Company paid NOK 509,342 towards the payment of the outstanding balance owing by the Company to Disenco International AS, in relation to that Company's outstanding balance with SND Innovation Bank. The payment comprised NOK 376,607, being all outstanding interest as at 1 June 2008, NOK 109,491, being a contribution towards the outstanding capital balance and NOK 23,254, being a contribution towards outstanding penalty interest. A loan capital balance of NOK 2,749,607, interest of NOK 45,207, and penalty interest of NOK 150,804 remain outstanding at 30 September 2008.

**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

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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 complete the commercialisation of the appliance and to develop further products and services;
- (ii) Uncertainty over timing of commercial release, final costing, designs and performance due to stage of commercial development;
- (iii) Future dependence on successful distributor network and strategic relationships;
- (iv) Proprietary rights and protection over intellectual property;
- (v) The need for market penetration and possible resistance to the arrival of new technology;
- (vi) Any significant shortfall of demand in relation to expectation for the Company's products would have an adverse impact on the Company;
- (vii) The Company may experience competition against its products;
- (viii) The Company is reliant to a certain degree on its suppliers regarding terms of trade, pricing and fulfillment requirements;
- (ix) The Company is subject to the complex regulatory environment in the United Kingdom (the "UK") and overseas markets;
- (x) 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 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 11 employees, in which the senior management 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 recognises that two factors must be and are present:

- 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.

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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 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. 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.

There have been no changes in the Company's internal controls over financial reporting during the period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

**Additional Information**

Additional information relating to Disenco Energy plc can be found on the Company's website at [www.disenco.com](http://www.disenco.com) and on SEDAR at [www.sedar.com](http://www.sedar.com)

Approved on Behalf of the Board

(Signed) "Tony Caplin"

Tony Caplin  
Interim Chief Executive Officer  
November 13, 2008

(Signed) "Colin Mearns"

Colin Mearns  
Chief Financial Officer

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**Disenco Energy plc's Management and Board of Directors**

A Caplin  
Chairman & Interim Chief Executive Officer

C Mearns  
Chief Financial Officer

G B Longpre  
Director of Corporate & Investor Relations

A Dale (appointed May 12, 2008)  
Chief Operations Officer

J W Gunn  
Non-executive Director

S Bernstein  
Non-executive Director

T MacKay  
Non-executive Director

Auditors:  
PKF (UK) LLP

Lawyers (UK):  
Grundberg Mocatta Rakkison LLP  
Kimbells LLP

Lawyers (Canada):  
MacDonald Tuskey Corporate Securities Lawyers

***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.*