

# **DISENCO ENERGY PLC**

Company Number: 5669278

**REPORT AND FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2007**

**DISENCO ENERGY PLC**  
**COMPANY INFORMATION**

|                          |   |
|--------------------------|---|
| <b>Directors</b>         | A Caplin<br>G B Longpre<br>G Bretvin<br>J W Gunn<br>S Ambler<br>C Mearns<br>S Bernstein<br>T J MacKay |
| <b>Secretary</b>         | C Mearns  |
| <b>Company Number</b>    | 5669278   |
| <b>Registered Office</b> | Unit J<br>Sheffield Business Park<br>Europa Link<br>Sheffield<br>S9 1XU                               |
| <b>Auditors</b>          | PKF (UK) LLP<br>2nd Floor<br>Fountain Precinct<br>Balm Green<br>Sheffield<br>S1 2JA                   |
| <b>Bankers</b>           | The Royal Bank of Scotland<br>1 St Paul's Place<br>121 Norfolk Street<br>Sheffield<br>S1 2JF          |
| <b>Lawyers – UK</b>      | Kimbells LLP<br>Power House<br>Harrison Close<br>Knowlhill<br>Milton Keynes<br>MK5 8PA                |
| <b>Lawyers – Canada</b>  | Clark Wilson LLP<br>800 - 885 W Georgia Street<br>Vancouver, BC<br>V6C 3H1<br>Canada                  |

# **DISENCO ENERGY PLC**

## **CONTENTS**

|  | <b>Page</b>    |
|--|----------------|
| <b>DIRECTORS' REPORT</b>   | <b>1 - 5</b>   |
| <b>STATEMENT OF DIRECTORS' RESPONSIBILITIES</b>                      | <b>6</b>       |
| <b>INDEPENDENT AUDITORS' REPORT</b>                                  | <b>7 - 8</b>   |
| <b>INDEPENDENT AUDITORS' REPORT COMPATIBILITY WITH CANADIAN GAAS</b> | <b>9</b>       |
| <b>CONSOLIDATED PROFIT AND LOSS ACCOUNT</b>                          | <b>10</b>      |
| <b>CONSOLIDATED BALANCE SHEET</b>                                    | <b>11</b>      |
| <b>BALANCE SHEET</b>   | <b>12</b>      |
| <b>CONSOLIDATED CASH FLOW STATEMENT</b>                              | <b>13</b>      |
| <b>NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS</b>                | <b>14 - 35</b> |

**DISENCO ENERGY PLC**  
**DIRECTORS' REPORT**  
**YEAR ENDED 31 DECEMBER 2007**

The directors submit their report and the consolidated financial statements for the period ended 31 December 2007.

**Results and dividend**

The group loss for the period, after taxation, amounted to **£1,523,591** (2006: £1,440,601).

The directors do not recommend the payment of a dividend.

**Principal activity**

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

**Business review**

Disenco Energy PLC 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 group 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 group 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.

In February 2007, phase one of a commercialisation and engineering review was completed by Prodrive, the group's engine design partner. The main outcome of this review was a clear recommendation to proceed to initial production. The group therefore entered phase two of the commercialisation programme with its engineering partners, including Prodrive and Enertek. Phase 2 is now expected to be completed at the end of Quarter 2, 2008. The group 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 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.

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

**DISENCO ENERGY PLC**  
**DIRECTORS' REPORT**  
**YEAR ENDED 31 DECEMBER 2007**

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, totalling £1,659,000, covering its short term working capital requirements, thereby maintaining the Company's progress towards the commercialisation of the Disenco HomePowerPlant.

**Key Performance Indicators (KPI)**

a) 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 utilise appropriate Financial KPIs as the Company moves closer to having a commercialised product and an appropriate revenue stream for its business.

b) General Business KPI's

- List on TSX Venture Exchange -  
Receipt for prospectus was received on 29 December 2006, with eventual listing taking place on 21 February 2007.
- 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 commercialization programme -  
Planned, but currently on hold pending receipt of appropriate funding.
- Produce first production intent engines -  
Build and bench test originally scheduled for August 2007 – Commenced November 2007, and expected to continue throughout Quarter 1, 2008.
- Commercial arrangement with major energy utility company -  
Plan to complete before the end of Quarter 2, 2008.
- Commence manufacture of initial production appliances -  
Initial manufacturing volume Memorandum of Understanding documents signed with Autocraft and Malvern Boilers in Quarter 4 2007. Production of appliances expected to commence in Quarter 3, 2008.
- Installation and Commissioning of first production appliances -  
Scheduled for Quarter 3, 2008.

**DISENCO ENERGY PLC**  
**DIRECTORS' REPORT**  
**YEAR ENDED 31 DECEMBER 2007**

**Business risk and uncertainties**

The group's technology is of a disruptive nature, by which the directors mean 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 directors include without limitation:

- (a) additional financing will be required to develop the group's products and services;
- (b) the need for market penetration and possible resistance to the arrival of new technology;
- (c) any significant shortfall of demand in relation to expectation for the group's products would have an adverse impact on the group;
- (d) the group may experience competition against its products;
- (e) the group is reliant to a certain degree on its suppliers regarding terms of trade, pricing and fulfilment requirements;
- (f) the group is subject to the complex regulatory environment in the United Kingdom (the "UK") and overseas markets;
- (g) the group is currently dependent upon its senior management, board of directors and consultants;
- (h) The principal planned activity of the group is to finalise the development of the m-CHP unit and complete the commercialisation of the product. To this end additional financing will be required and will be the single most restrictive factor in the short term rate of growth of the group.

**Financial Instruments**

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

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

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

All borrowings are denominated in pounds sterling, except for a loan balance in Disenco Limited of NOK 2,859,098 (Norwegian Kroner), with outstanding interest of NOK 354,919, loan facilities with outstanding balances totaling C\$1,177,871 plus accrued interest of C\$15,306 (Canadian Dollars) and a convertible debenture repayable at C\$1.2 million (Canadian Dollars). All loans undertaken in 2007 were granted at fixed interest rates, at broadly prevailing market rates.

The group'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 group does not use hedge accounting.

**DISENCO ENERGY PLC**  
**DIRECTORS' REPORT**  
**YEAR ENDED 31 DECEMBER 2007**

**Financial Instruments (continued)**

The group's exposure to the price risk of financial instruments is limited to currency risk on the above Norwegian Kroner loan and Canadian Dollar loan and debenture. The group 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.

**Directors**

The directors who served during the period were and their interests in the company's issued share capital at the balance sheet date and at the start of the period (or date of appointment, if later) were:

|  | <b>S Ordinary<br/>Shares<br/>2007</b> | <b>C Ordinary<br/>Shares<br/>2007</b> | S Ordinary<br>Shares<br>2006 | C Ordinary<br>Shares<br>2006 |
|--|---------------------------------------|---------------------------------------|------------------------------|------------------------------|
| A Caplin                               | -                                     | -                                     | -                            | -                            |
| P H Smith (resigned 26 February 2007)  | <b>See below</b>                      |                                       | 2,130                        | 1,280,872                    |
| G B Longpre                            | <b>251,550</b>                        | <b>22,779,136</b>                     | 25,155                       | 24,429,136                   |
| Sir R F Needham (resigned 11 May 2007) | -                                     | -                                     | -                            | -                            |
| G Bretvin                              | <b>450,000</b>                        | <b>4,455,000</b>                      | 45,000                       | 4,455,000                    |
| J W Gunn                               | <b>126,380</b>                        | <b>9,934,154</b>                      | 12,638                       | 3,260,171                    |
| S Ambler                               | -                                     | -                                     | -                            | -                            |
| C Mearns (appointed 26 February 2007)  | -                                     | -                                     | -                            | -                            |
| S Bernstein (appointed 14 May 2007)    | -                                     | -                                     | -                            | -                            |
| T J MacKay (appointed 6 July 2007)     | -                                     | -                                     | -                            | -                            |

A resolution was passed on 13 January 2007 to convert all £1 "S" shares into 10 shares of £0.10 each. Each holder of £1 "S" shares was granted 10 £0.10 "S" shares to replace the £1 "S" share in issue.

P H Smith held 2,130 £1 "S" shares at 31 December 2006. Each £1 share was converted into 10 £0.10 "S" shares on 13 January 2007. This was the only movement in his shareholding prior to his resignation on 26 February 2007.

Details of director's share options issued throughout the year are disclosed within note 4. (b) to the accounts.

**Policy of payment of creditors**

The group attempts to pay invoices within the payment terms agreed by suppliers. Most payments are usually within 30 days of receipt of goods or services.

At the year end the creditor days stood at **52 days** (2006: 39 days).

**Provision of information to auditors**

So far as each of the directors is aware at the time the report is approved:

- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

**DISENCO ENERGY PLC**  
**DIRECTORS' REPORT**  
**YEAR ENDED 31 DECEMBER 2007**

**Auditors**

The auditors, PKF (UK) LLP, will be proposed for reappointment in accordance with section 385 of the Companies Act 1985.

This report was approved by the board on 4 March 2008 and signed on its behalf.

**C Mearns**  
Secretary

## **DISENCO ENERGY PLC**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the report and the financial statements in accordance with applicable law and Regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Practice (United Kingdom Accounting standards and applicable law). The financial statements are required to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the Disenco Energy plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were originally presented to the website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DISENCO ENERGY PLC**

We have audited the group and parent company financial statements ('the financial statements') of Disenco Energy PLC for the years ended 31 December 2006 and 2007 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and related notes. The financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom accounting standards ('United Kingdom Generally Accepted Accounting Practice') are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
DISENCO ENERGY PLC**

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2007 and 31 December 2006 and of the group's loss for the periods then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

**Emphasis of matter – Going Concern**

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosure made in note 1(b) to the financial statements concerning the group's ability to continue as a going concern. The group incurred a net loss of £1,523,591 during the period ended 31 December 2007 and had a deficiency on profit and loss account of £4,182,496 at that date. This condition, along with the other matters explained in note 1(b) to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

4 March 2008  
Sheffield, UK

**PKF (UK) LLP**  
Registered Auditors

## **INDEPENDENT AUDITORS' REPORT TO DIRECTORS OF DISENCO ENERGY PLC IN RESPECT OF COMPATIBILITY WITH CANADIAN GAAS**

In accordance with the requirement contained in National Instrument 52-107 we report below on the compatibility of Canadian Generally Accepted Auditing Standards ("Canadian GAAS") and International Standards on Auditing (UK and Ireland).

We conducted our audit for the years ended 31 December 2006 and 2007 in accordance with International Standards of Auditing (UK and Ireland). There are no material differences in the form or content of our audit report, except as noted below, as compared to an auditors' report prepared in accordance with Canadian GAAS and if this report were prepared in accordance with Canadian GAAS it would not contain a reservation.

An audit report issued in accordance with Canadian GAAS does not require the Emphasis of Matter paragraph that is included in the United Kingdom Independent Auditors' Report for the years ended 31 December 2006 and 2007 given above. In all other respects, there are no material differences in the form and content of the above noted auditors' report.

4 March 2008  
Sheffield, UK

**PKF (UK) LLP**  
Registered Auditors

**DISENCO ENERGY PLC**  
**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**YEAR ENDED 31 DECEMBER 2007**

|  | Notes    | 2007<br>£          | 2006<br>£   |
|--|----------|--------------------|-------------|
| <b>TURNOVER</b>                                    | <b>1</b> | <b>41,200</b>      | 6,853       |
| Cost of sales                                      |          | <b>(168,521)</b>   | (118,399)   |
|  |          | <hr/>              | <hr/>       |
| <b>Gross loss</b>                                  |          | <b>(127,321)</b>   | (111,546)   |
| Administrative expenses                            |          | <b>(1,245,304)</b> | (1,469,684) |
| Other operating income                             |          | -                  | 114,983     |
|  |          | <hr/>              | <hr/>       |
| <b>OPERATING LOSS</b>                              | <b>2</b> | <b>(1,372,625)</b> | (1,466,247) |
| Interest receivable and similar income             | <b>6</b> | <b>5,210</b>       | 56,763      |
| Interest payable                                   | <b>7</b> | <b>(201,573)</b>   | (31,117)    |
|  |          | <hr/>              | <hr/>       |
| <b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b> |          | <b>(1,568,988)</b> | (1,440,601) |
| Tax on loss on ordinary activities                 | <b>8</b> | <b>45,397</b>      | -           |
|  |          | <hr/>              | <hr/>       |
| <b>LOSS FOR THE FINANCIAL YEAR</b>                 |          | <b>(1,523,591)</b> | (1,440,601) |
|  |          | <hr/> <hr/>        | <hr/> <hr/> |

All amounts relate to continuing operations.

There was no material difference between the reported result and the result calculated on an unmodified historical cost basis.

**LOSS PER SHARE**

|         |          | 2007             | 2006      |
|---------|----------|------------------|-----------|
| Basic   | <b>8</b> | <b>2.2 pence</b> | 2.5 pence |
| Diluted | <b>8</b> | <b>2.2 pence</b> | 2.5 pence |

**DISENCO ENERGY PLC**  
**CONSOLIDATED BALANCE SHEET**  
**31 DECEMBER 2007**

|  |           | 2007               |                    | 2006               |                  |
|--|-----------|--------------------|--------------------|--------------------|------------------|
|  | Notes     | £                  | £                  | £                  | £                |
| <b>FIXED ASSETS</b>  |           |                    |                    |                    |                  |
| Intangible   | 10        |                    | 3,532,777          |                    | 1,683,277        |
| Tangible   | 11        |                    | 28,146             |                    | 28,885           |
|  |           |                    | <hr/>              |                    | <hr/>            |
|  |           |                    | <b>3,560,923</b>   |                    | <b>1,712,162</b> |
| <b>CURRENT ASSETS</b>  |           |                    |                    |                    |                  |
| Debtors: due within one year                                   | 13        | 203,069            |                    | 332,417            |                  |
| Cash at bank and in hand                                       |           | 125,135            |                    | 32,034             |                  |
|  |           |                    | <hr/>              | <hr/>              |                  |
|  |           |                    | <b>328,204</b>     |                    | <b>364,451</b>   |
| <b>CREDITORS: amounts falling due within one year</b>          | <b>14</b> | <b>(2,799,617)</b> |                    | <b>(1,355,250)</b> |                  |
|  |           |                    | <hr/>              | <hr/>              |                  |
| <b>NET CURRENT LIABILITIES</b>                                 |           |                    | <b>(2,471,413)</b> |                    | <b>(990,799)</b> |
|  |           |                    | <hr/>              |                    | <hr/>            |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                   |           |                    | <b>1,089,510</b>   |                    | <b>721,363</b>   |
| <b>CREDITORS: amounts falling due after more than one year</b> | <b>15</b> |                    | <b>-</b>           |                    | <b>(467,554)</b> |
|  |           |                    | <hr/>              |                    | <hr/>            |
| <b>NET ASSETS</b>  |           |                    | <b>1,089,510</b>   |                    | <b>253,809</b>   |
|  |           |                    | <hr/> <hr/>        |                    | <hr/> <hr/>      |
| <b>CAPITAL AND RESERVES</b>                                    |           |                    |                    |                    |                  |
| Called up share capital  | 17        |                    | 7,233,016          |                    | 5,907,806        |
| Share premium account  | 18        |                    | 943,072            |                    | -                |
| Merger reserve   | 18        |                    | (3,762,559)        |                    | (3,762,559)      |
| Warrant reserve  | 18        |                    | 63,020             |                    | 347,280          |
| Share option reserve   | 18        |                    | 780,976            |                    | 502,074          |
| Convertible debenture reserve                                  | 18        |                    | 14,481             |                    | 12,436           |
| Profit and loss account  | 18        |                    | (4,182,496)        |                    | (2,753,228)      |
|  |           |                    | <hr/>              |                    | <hr/>            |
| <b>SHAREHOLDERS' FUNDS</b>                                     | <b>19</b> |                    | <b>1,089,510</b>   |                    | <b>253,809</b>   |
|  |           |                    | <hr/> <hr/>        |                    | <hr/> <hr/>      |

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 4 March 2008.

**C Mearns**  
Director

**S Ambler**  
Director

**DISENCO ENERGY PLC**  
**BALANCE SHEET**  
**31 DECEMBER 2007**

|  | Notes | 2007        |             | 2006        |           |
|--|-------|-------------|-------------|-------------|-----------|
|  |       | £           | £           | £           | £         |
| <b>FIXED ASSETS</b>  |       |             |             |             |           |
| Investments  | 12    |             | 5,593,500   |             | 5,593,500 |
| <b>CURRENT ASSETS</b>  |       |             |             |             |           |
| Debtors: due within one year                                   | 13    | 4,300       |             | 244,809     |           |
| Debtors: due more than one year                                | 13    | 3,892,748   |             | 937,768     |           |
| Cash at bank and in hand                                       |       | 887         |             | 475         |           |
|  |       |             |             | <hr/>       |           |
|  |       | 3,897,935   |             | 1,183,052   |           |
| <b>CREDITORS: amounts falling due within one year</b>          | 14    | (2,052,753) |             | (542,344)   |           |
|  |       |             |             | <hr/>       |           |
| <b>NET CURRENT ASSETS</b>                                      |       |             | 1,845,182   |             | 640,708   |
|  |       |             |             | <hr/>       |           |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                   |       |             | 7,438,682   |             | 6,234,208 |
| <b>CREDITORS: amounts falling due after more than one year</b> | 15    |             | -           |             | (392,554) |
|  |       |             |             | <hr/>       |           |
| <b>NET ASSETS</b>  |       |             | 7,438,682   |             | 5,841,654 |
|  |       |             |             | <hr/> <hr/> |           |
| <b>CAPITAL AND RESERVES</b>                                    |       |             |             |             |           |
| Called up share capital  | 17    |             | 7,233,016   |             | 5,907,806 |
| Share premium account  | 18    |             | 943,072     |             | -         |
| Warrant reserve  | 18    |             | 63,020      |             | 347,280   |
| Share option reserve   | 18    |             | 780,976     |             | 502,074   |
| Convertible debenture reserve                                  | 18    |             | 14,481      |             | 12,436    |
| Profit and loss account  | 18    |             | (1,595,883) |             | (927,942) |
|  |       |             |             | <hr/>       |           |
|  |       |             | 7,438,682   |             | 5,841,654 |
|  |       |             |             | <hr/> <hr/> |           |

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 4 March 2008.

**C Mearns**  
Director

**S Ambler**  
Director

**DISENCO ENERGY PLC**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**YEAR ENDED 31 DECEMBER 2007**

|   | 2007<br>£          | 2006<br>£          |
|---|--------------------|--------------------|
| <b>Reconciliation of operating loss to net cash outflow from operating activities</b> |                    |                    |
| Operating loss  | (1,372,625)        | (1,466,247)        |
| Amortisation of intangible assets   | 52,372             | 46,530             |
| Depreciation of tangible fixed assets   | 13,198             | 9,860              |
| Decrease/(increase) in debtors  | 174,745            | (40,738)           |
| (Decrease)/increase in creditors  | (136,971)          | 502,733            |
| Share based payments  | 346,313            | 727,381            |
|   | <hr/>              | <hr/>              |
| <b>Net cash outflow from operating activities</b>                                     | <b>(922,968)</b>   | <b>(220,481)</b>   |
|   | <hr/>              | <hr/>              |
| <b>CASH FLOW STATEMENT (note 20)</b>  |                    |                    |
| Net cash outflow from operating activities  | (922,968)          | (220,481)          |
| Returns on investments and servicing of finance                                       | (88,421)           | 5,091              |
| Capital expenditure   | (1,914,331)        | (1,168,702)        |
|   | <hr/>              | <hr/>              |
|   | <b>(2,925,720)</b> | <b>(1,384,092)</b> |
| <b>Financing</b>  | <b>3,018,821</b>   | <b>1,298,300</b>   |
|   | <hr/>              | <hr/>              |
| <b>Increase/(decrease) in cash</b>  | <b>93,101</b>      | <b>(85,792)</b>    |
|   | <hr/>              | <hr/>              |
| <b>Reconciliation of net cash flow to movement in net debt (note 21)</b>              |                    |                    |
| Increase/(decrease) in cash in the period   | 93,101             | (85,792)           |
| Cash transferred on merger  | -                  | 117,826            |
| Debt transferred on merger  | -                  | (300,000)          |
| Issue of convertible debenture  | (272,622)          | (392,554)          |
| Issue of loans  | (1,560,355)        | (418,228)          |
| Loan repayments   | 374,021            | -                  |
| Conversion of convertible debenture into equity                                       | 186,060            | -                  |
| Issue of shares for settlement of debt  | 200,000            | -                  |
| Exchange rate movements   | (89,049)           | 66,300             |
|   | <hr/>              | <hr/>              |
| <b>Change in net debt</b>   | <b>(1,068,844)</b> | <b>(1,012,448)</b> |
| <b>Net debt at 1 January 2007</b>   | <b>(1,012,448)</b> | <b>-</b>           |
|   | <hr/>              | <hr/>              |
| <b>Net debt at 31 December 2007</b>   | <b>(2,081,292)</b> | <b>(1,012,448)</b> |
|   | <hr/>              | <hr/>              |

**DISENCO ENERGY PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2007**

**1. ACCOUNTING POLICIES**

**(a) Basis of preparation of financial statements**

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

A group reconstruction of Disenco Energy plc and Disenco Limited, which took place on 13 March 2006, has been accounted for under the merger accounting rules as permitted by Financial Reporting Standard No. 6. The cost was **£5,593,500** and the consideration was satisfied by the issue of 5,593,500 shares in Disenco Energy plc. The net book value of Disenco Limited's assets and liabilities at the date of the merger was £285,582.

The consolidated financial statements comprise the audited financial statements of the company and its subsidiary undertaking made up to 31 December 2007.

A separate profit and loss account for the parent company has not been prepared as permitted by Section 230(2) of the Companies Act 1985.

The loss of the parent company for the period amounted to **£762,264** (2006: £927,942).

**(b) Basis of preparation - going concern basis**

The directors have prepared financial projections to take the group through to expected commercialisation of its product in 2008 and through to anticipated profitability in the reasonable expectation that the company will generate significant amounts of future funding via private equity placements and director and other loans.

They believe that sufficient funds can be raised to meet the net costs for the foreseeable future and until the group becomes profitable. The directors therefore consider it appropriate to prepare the financial statements on a going concern basis.

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

**(c) Turnover**

Turnover represents amounts received from the Carbon Trust in respect of a contract for trials undertaken of the company's m-CHP appliance.

**(d) Intangible fixed assets and amortisation**

Intangible fixed assets are stated at their purchase cost, together with any incidental expenses of acquisition, less amortisation. Amortisation is provided to write off the cost of the intangible fixed assets over their expected useful economic lives on the following bases:

|                              |     |
|------------------------------|-----|
| Intellectual property rights | 5%  |
| Patents and designs          | 25% |

**(e) Tangible fixed assets and depreciation**

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following basis:

|   |           |
|---|-----------|
| Fixtures, fittings, tools and equipment | 25% - 33% |
|---|-----------|

**(f) Investments**

Investments are valued at the fair value of the consideration given for the assets acquired.

**DISENCO ENERGY PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2007**

**1. ACCOUNTING POLICIES (continued)**

**(g) Foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the profit and loss account.

**(h) Research & Development**

Development expenditure that relates to the clearly defined project of developing the Home Power Plant (mCHP) which is proven technically feasible and is commercially viable is capitalised and amortised over its expected useful economic life. Amortisation will commence once the project reaches commercialisation.

Other expenditure on research and development is charged in the profit and loss account as cost of sales in the period in which it is incurred.

**(i) Operating leases**

Operating lease rentals are charged in the profit and loss account on a straight line basis over the term of the lease.

**(j) Grant income**

Grant income relating to revenue expenditure is recognised in the profit and loss account when received.

**(k) Deferred taxation**

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

A net deferred tax asset is recognised only if it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

**(l) Pensions**

The company contributes to a personal defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year.

**(m) Use of estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Areas requiring the use of estimates include the rate of amortisation of intangible fixed assets, the rate of depreciation of tangible assets and the assumptions used in determination of the fair value of share-based payments. Management believes that estimates are reasonable however actual results could differ from those estimates and would impact future results of operations and cash flows.

**DISENCO ENERGY PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2007**

**1. ACCOUNTING POLICIES (continued)**

**(n) Share-based payments**

The company follows FRS 20 'Share-based payments', to account for share-based payments using the fair value based method with respect to all share-based payments to directors, employees, non employees and service providers, including awards that are direct awards of shares and call for settlement in cash or other assets, or share appreciation rights that call for settlement by the issuance of equity instruments. Under this standard, share-based payments for directors, employees and non-employees are recorded as an expense in the period the share-based payment vests or when the awards or rights are granted. For service providers share-based payment charges are recognised over the period in which services are received based on the fair value of the service. A corresponding increase to the share option reserve under shareholders' funds is recognised. When share options are exercised, the money received is transferred to share capital or when share options are forfeited, cancelled or expire, the corresponding fair value is transferred to the profit and loss account.

**2. OPERATING LOSS**

The operating loss is stated after:

|  | <b>Notes</b> | <b>2007</b><br><b>£</b> | <b>2006</b><br><b>£</b> |
|--|--------------|-------------------------|-------------------------|
| Amortisation of intangible assets                    | <b>10</b>    | <b>52,372</b>           | 46,530                  |
| Depreciation of tangible fixed assets:               |              |                         |                         |
| - owned by the company                               | <b>11</b>    | <b>13,198</b>           | 9,860                   |
| Audit fees (company: <b>£13,500</b> (2006: £17,500)) |              | <b>20,500</b>           | 22,500                  |
| Government grants released                           |              | -                       | (113,316)               |
| Share based payments                                 |              | <b>346,313</b>          | 727,381                 |
| Operating lease rentals:                             |              |                         |                         |
| - property rental                                    |              | <b>52,582</b>           | 48,500                  |
|  |              | <hr/> <hr/>             | <hr/> <hr/>             |

Share based payments include **£95,852** (2006: £273,577) in relation to options offered in return for corporate services and assistance in fund raising activities. The fair value of the share based payments is equal to the market value of the services received.

Share based payments also includes **£250,461** (2006: £453,804) in relation to issue of share options to certain executives and service providers of the company. These have been calculated at fair value using the Black-Scholes method and the details are disclosed in note 4(b).

The model has used the following assumptions:

- A volatility rate of 50%. This figure is based upon the experience of similar companies, newly listed, operating in a market with new technology.
- A risk free interest rate of 4.04% based upon the value of Government of Canada benchmark bond yields for 5 years.
- Expected life of options of 3.5 years.
- Bid price discount of 20%.
- Expected dividend rate of £nil.

To view share options exercise prices see note 4(b).

**DISENCO ENERGY PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2007**

**3. AUDIT FEES**

|   | 2007<br>£     | 2006<br>£ |
|---|---------------|-----------|
| Statutory audit remuneration (company <b>£13,500</b> (2006: £17,500)) | <b>20,500</b> | 22,500    |
| Further assurance services  | <b>8,500</b>  | 28,500    |
| Taxation  | <b>6,400</b>  | 1,735     |
|   | <b>35,400</b> | 52,735    |
|   | <b>35,400</b> | 52,735    |

**4. (a) DIRECTORS' EMOLUMENTS AND BENEFITS**

|                       | 2007<br>£      | 2006<br>£ |
|-----------------------|----------------|-----------|
| Directors' emoluments | <b>312,203</b> | 180,776   |
| Pension contributions | <b>2,750</b>   | -         |
|                       | <b>314,953</b> | 180,776   |
|                       | <b>314,953</b> | 180,776   |

One director (2006: None) receives contributions into a personal money purchase pension scheme.

Directors' emoluments include a loss of office payment of £30,000 made to a director in February 2007.

The highest paid director received emoluments and benefits as follows:

|   | 2007<br>£      | 2006<br>£ |
|---|----------------|-----------|
| Emoluments and benefits under long term incentive schemes | <b>108,600</b> | 58,333    |
| Pension contributions                                     | -              | -         |
|   | <b>108,600</b> | 58,333    |
|   | <b>108,600</b> | 58,333    |

**4. (b) DIRECTORS' SHARE OPTIONS**

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the company granted to or held by the directors. Details of those options are as follows:

| Director            | 1<br>January<br>2007 | Granted | Exercised/<br>lapsed | 31<br>December<br>2007 | Exercise<br>Price<br>C\$ | Date from<br>which<br>exercisable | Expiry<br>date | Vesting<br>Period |
|---------------------|----------------------|---------|----------------------|------------------------|--------------------------|-----------------------------------|----------------|-------------------|
| A Caplin<br>Sir R F | 3,000,000            | -       | -                    | 3,000,000              | 0.245                    | 16/10/2006                        | 16/10/2011     | Note (b1)         |
| Needham             | 1,200,000            | -       | (1,200,000)          | -                      | 0.350                    | 16/10/2006                        | 16/10/2011     | Note (b2)         |
| G Bretvin           | 300,000              | -       | -                    | 300,000                | 0.375                    | 16/10/2006                        | 16/10/2011     | Note (b3)         |
| J W Gunn            | 425,000              | -       | -                    | 425,000                | 0.375                    | 16/10/2006                        | 16/10/2011     | Note (b4)         |
| G B Longpre         | 425,000              | -       | -                    | 425,000                | 0.375                    | 16/10/2006                        | 16/10/2011     | Note (b4)         |
| S Ambler            | 2,634,816            | 26,019  | -                    | 2,660,835              | 0.375                    | 16/10/2006                        | 16/10/2011     | Note (b5)         |
| C Mearns            | -                    | 500,000 | -                    | 500,000                | 0.430                    | 08/05/2007                        | 08/05/2012     | Note (b6)         |
|                     | 7,984,816            | 526,019 | (1,200,000)          | 7,310,835              |                          |                                   |                |                   |
| Total               | 7,984,816            | 526,019 | (1,200,000)          | 7,310,835              |                          |                                   |                |                   |

**DISENCO ENERGY PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2007**

**4. (b) DIRECTORS' SHARE OPTIONS (continued)**

Details of options for the comparative period are as follows:

| Director                       | 1<br>January<br>2006 | Granted   | Exercised/<br>lapsed | 31<br>December<br>2006 | Exercise<br>Price<br>C\$ | Date from<br>which<br>exercisable | Expiry<br>date | Vesting<br>Period |
|--------------------------------|----------------------|-----------|----------------------|------------------------|--------------------------|-----------------------------------|----------------|-------------------|
| A Caplin<br>Sir R F<br>Needham | -                    | 3,000,000 | -                    | 3,000,000              | 0.245                    | 16/10/2006                        | 16/10/2011     | Note (b1)         |
| G Bretvin                      | -                    | 1,200,000 | -                    | 1,200,000              | 0.350                    | 16/10/2006                        | 16/10/2011     | Note (b2)         |
| J W Gunn                       | -                    | 300,000   | -                    | 300,000                | 0.375                    | 16/10/2006                        | 16/10/2011     | Note (b3)         |
| G B Longpre                    | -                    | 425,000   | -                    | 425,000                | 0.375                    | 16/10/2006                        | 16/10/2011     | Note (b4)         |
| S Ambler                       | -                    | 425,000   | -                    | 425,000                | 0.375                    | 16/10/2006                        | 16/10/2011     | Note (b4)         |
|                                | -                    | 2,634,816 | -                    | 2,634,816              | 0.375                    | 16/10/2006                        | 16/10/2011     | Note (b5)         |
| Total                          | -                    | 7,984,816 | -                    | 7,984,816              |                          |                                   |                |                   |

1. 1,500,000 share options vested on appointment, 750,000 vested on appointment of a management team, 750,000 vested on the date on which the company obtained a listing on the TSX Venture Exchange.
2. 600,000 share options vested on appointment, 600,000 vested on the date on which the company obtained a listing on the TSX Venture Exchange. During 2007, 1,200,000 share options lapsed on resignation as director of the company.
3. 75,000 share options vested on the date on which the company obtained a listing on the TSX Venture Exchange, 37,500 vest each subsequent 3 months thereafter for a period of 18 months.
4. 106,250 share options vested on the date on which the company obtained a listing on the TSX Venture Exchange, 53,125 vest each subsequent 3 months thereafter for a period of 18 months.
5. In the prior year, 658,704 share options vested on appointment; 658,704 vested on completion of field trials within 12 months, 658,704 vested on the date on which the company obtained a listing on the TSX Venture Exchange, 658,704 were to vest on the company achieving an AIM listing. During 2007, the arrangement was revised whereby 665,209 share options vested on appointment, 665,209 vested on completion of field trials, 332,604 vested on the date on which the company obtained a listing on the TSX Venture Exchange, 665,209 vest on the commercialisation of the m-CHP appliance, 332,604 vest on the company achieving an AIM listing.
6. 250,000 vest on the commercialisation of the m-CHP appliance, 250,000 vest on the company achieving an AIM listing.
7. 500,000 options were granted to S Bernstein and T J MacKay, who are non-executive directors, in January 2008, after the year end.

**DISENCO ENERGY PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2007**

**5. STAFF COSTS**

|  |                |         |
|--|----------------|---------|
| Staff costs, including directors' emoluments, were as follows: | <b>2007</b>    | 2006    |
|  | £              | £       |
| Wages and salaries   | <b>437,736</b> | 286,558 |
| Social security costs  | <b>49,236</b>  | 30,355  |
| Pension  | <b>2,750</b>   | -       |
|  | <hr/>          | <hr/>   |
|  | <b>489,722</b> | 316,913 |
|  | <hr/>          | <hr/>   |

The company incurred staff costs to non-executive directors totalling **£30,118**.

The average monthly number of employees, including executive directors, during the period was:

|                              |             |       |
|------------------------------|-------------|-------|
|                              | <b>2007</b> | 2006  |
|                              | No.         | No.   |
| Manufacturing & distribution | <b>5</b>    | 3     |
| Administration               | <b>7</b>    | 8     |
|                              | <hr/>       | <hr/> |
|                              | <b>12</b>   | 11    |
|                              | <hr/>       | <hr/> |

**6. INTEREST RECEIVABLE AND SIMILAR INCOME**

|                      |              |        |
|----------------------|--------------|--------|
|                      | <b>2007</b>  | 2006   |
|                      | £            | £      |
| Bank interest        | <b>5,210</b> | 8,967  |
| Exchange differences | <b>-</b>     | 47,796 |
|                      | <hr/>        | <hr/>  |
|                      | <b>5,210</b> | 56,763 |
|                      | <hr/>        | <hr/>  |

**7. INTEREST PAYABLE**

|                        |                |        |
|------------------------|----------------|--------|
|                        | <b>2007</b>    | 2006   |
|                        | £              | £      |
| Loan interest          | <b>52,850</b>  | 18,833 |
| Interest on debentures | <b>57,481</b>  | 12,284 |
| Exchange differences   | <b>91,242</b>  | -      |
|                        | <hr/>          | <hr/>  |
|                        | <b>201,573</b> | 31,117 |
|                        | <hr/>          | <hr/>  |

**DISENCO ENERGY PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2007**

**8. TAXATION**

|   | 2007<br>£          | 2006<br>£   |
|---|--------------------|-------------|
| Research and development tax credit regarding prior years   | <b>(45,397)</b>    | -           |
| <b>(a) Factors affecting tax charge for the year</b>  |                    |             |
| The tax assessed for the period does not reflect a credit equivalent to the loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%. The differences are explained below: |                    |             |
| Loss on ordinary activities before tax  | <b>(1,568,988)</b> | (1,440,601) |
| Loss on ordinary activities multiplied by the standard rate of corporation tax of 30%.  | <b>(470,696)</b>   | (432,180)   |
| <b>Effects of:</b>  |                    |             |
| Expenses not deductible for tax purposes  | <b>116,338</b>     | 267,019     |
| Capital allowances in excess of depreciation  | <b>(724,704)</b>   | 5,710       |
| Tax losses carried forward  | <b>1,079,062</b>   | 159,451     |
| <b>Current tax charge for the period</b>  | <b>-</b>           | <b>-</b>    |

There are no taxation liabilities due to losses incurred.

**(b) Factors that may affect future tax charges**

There are estimated accumulated tax losses to carry forward of approximately **£5,423,000** (2006: £1,863,000). The company has received 100% capital allowances on its capitalised development costs totalling **£1,901,872**. The company has received an additional 50% relief on certain of its development expenditure totalling £540,895. £1,145,905 of losses have been surrendered for the company to gain a research and development credit. The tax credit in respect of pending research and development claims of approximately £183,000 has not been recognised as an asset on the basis that it is not virtually certain.

A deferred tax asset has not been recognised as it is uncertain when suitable taxable profits from the future reversal of the underlying timing differences can be deducted will be available. If a deferred tax asset had been provided in respect of the above losses net of other timing differences, it would have amounted to approximately **£678,000** (2006: £558,900) at a corporation tax rate of 28%.

**9. LOSS PER SHARE**

The calculations of both the basic and diluted loss per share are based on the following losses and numbers of shares.

|  | 2007<br>£                         | 2006<br>£                         |
|--|-----------------------------------|-----------------------------------|
| Loss for the financial period                              | <b>1,523,591</b>                  | 1,440,601                         |
|  | <b>2007<br/>No. of<br/>shares</b> | <b>2006<br/>No. of<br/>shares</b> |
| Weighted average number of shares for basic loss per share | <b>68,394,814</b>                 | 57,606,903                        |

The effect of the share options is anti dilutive and therefore basic earnings per share is equal to the dilutive earnings per share.

**DISENCO ENERGY PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2007**

**10. INTANGIBLE FIXED ASSETS**

**Group - 2007**

|                       | Development<br>costs<br>£ | Patents<br>& designs<br>£ | Intellectual<br>property<br>rights<br>£ | Total<br>£  |
|-----------------------|---------------------------|---------------------------|---|-------------|
| <b>Cost</b>           |                           |                           |   |             |
| At 1 January 2007     | 1,123,808                 | 91,186                    | 575,000                                 | 1,789,994   |
| Additions             | 1,900,217                 | 1,655                     | -                                       | 1,901,872   |
|                       | <hr/>                     | <hr/>                     | <hr/>                                   | <hr/>       |
| At 31 December 2007   | 3,024,025                 | 92,841                    | 575,000                                 | 3,691,866   |
|                       | <hr/>                     | <hr/>                     | <hr/>                                   | <hr/>       |
| <b>Amortisation</b>   |                           |                           |   |             |
| At 1 January 2007     | -                         | 44,422                    | 62,295                                  | 106,717     |
| Charge for the year   | -                         | 23,633                    | 28,739                                  | 52,372      |
|                       | <hr/>                     | <hr/>                     | <hr/>                                   | <hr/>       |
| At 31 December 2007   | -                         | 68,055                    | 91,034                                  | 159,089     |
|                       | <hr/>                     | <hr/>                     | <hr/>                                   | <hr/>       |
| <b>Net book value</b> |                           |                           |   |             |
| At 31 December 2007   | 3,024,025                 | 24,786                    | 483,966                                 | 3,532,777   |
|                       | <hr/> <hr/>               | <hr/> <hr/>               | <hr/> <hr/>                             | <hr/> <hr/> |

**Group - 2006**

|                        |             |             |             |             |
|------------------------|-------------|-------------|-------------|-------------|
| <b>Cost</b>            |             |             |             |             |
| Additions              | 1,123,808   | 28,304      | -           | 1,152,112   |
| Transfers on merger    | -           | 62,882      | 575,000     | 637,882     |
|                        | <hr/>       | <hr/>       | <hr/>       | <hr/>       |
| At 31 December 2006    | 1,123,808   | 91,186      | 575,000     | 1,789,994   |
|                        | <hr/>       | <hr/>       | <hr/>       | <hr/>       |
| <b>Amortisation</b>    |             |             |             |             |
| Charge for the period  | -           | 17,778      | 28,752      | 46,530      |
| Transfers on merger    | -           | 26,644      | 33,543      | 60,187      |
|                        | <hr/>       | <hr/>       | <hr/>       | <hr/>       |
| At 31 December 2006    | -           | 44,422      | 62,295      | 106,717     |
|                        | <hr/>       | <hr/>       | <hr/>       | <hr/>       |
| <b>Net book amount</b> |             |             |             |             |
| At 31 December 2006    | 1,123,808   | 46,764      | 512,705     | 1,683,277   |
|                        | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

**DISENCO ENERGY PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2007**

**11. TANGIBLE FIXED ASSETS**

**Group - 2007**

|                       | <b>Fixtures,<br/>fittings,<br/>tools &amp;<br/>equipment<br/>£</b> |
|-----------------------|--|
| <b>Cost</b>           |  |
| At 1 January 2007     | 50,702   |
| Additions             | 12,459   |
|                       | 63,161   |
| At 31 December 2007   | 63,161   |
| <b>Depreciation</b>   |  |
| At 1 January 2007     | 21,817   |
| Charge for the year   | 13,198   |
|                       | 35,015   |
| At 31 December 2007   | 35,015   |
| <b>Net book value</b> |  |
| At 31 December 2007   | 28,146   |

**Group - 2006**

|                        |        |
|------------------------|--------|
| <b>Cost</b>            |        |
| Additions              | 16,590 |
| Transfers on merger    | 34,112 |
|                        | 50,702 |
| At 31 December 2006    | 50,702 |
| <b>Depreciation</b>    |        |
| Charge for year        | 9,860  |
| Transfers on merger    | 11,957 |
|                        | 21,817 |
| At 31 December 2006    | 21,817 |
| <b>Net book amount</b> |        |
| At 31 December 2006    | 28,885 |

**DISENCO ENERGY PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2007**

**12. FIXED ASSET INVESTMENTS**

**Company**

|   | <b>Shares in subsidiary undertakings<br/>£</b> |
|---|--|
| <b>Fair value</b>                         |  |
| As at 1 January 2007 and 31 December 2007 | <b>5,593,500</b>                               |

The company's interest in subsidiary undertakings comprise a 100% interest in the nominal value of the issued share capital of Disenco Limited, a company which is registered and operates wholly within England and Wales. The principal activity of Disenco Limited is the initial establishment and preparation for the development and distribution of m-CHP units.

**13. DEBTORS**

|                                     | Group<br>2007<br>£ | Company<br>2007<br>£ | Group<br>2006<br>£ | Company<br>2006<br>£ |
|-------------------------------------|--------------------|----------------------|--------------------|----------------------|
| <b>Due within one year</b>          |                    |                      |                    |                      |
| Trade debtors                       | 27,730             | -                    | 8,053              | -                    |
| Other debtors                       | 142,396            | -                    | 324,364            | 244,809              |
| Prepayments                         | 32,943             | 4,300                | -                  | -                    |
| <b>Due after one year</b>           |                    |                      |                    |                      |
| Amounts due from group undertakings | -                  | 3,892,748            | -                  | 937,768              |
|                                     | <b>203,069</b>     | <b>3,897,048</b>     | 332,417            | 1,182,577            |
|                                     | <b>203,069</b>     | <b>3,897,048</b>     | 332,417            | 1,182,577            |

**14. CREDITORS: Amounts falling due within one year**

|                               | Group<br>2007<br>£ | Company<br>2007<br>£ | Group<br>2006<br>£ | Company<br>2006<br>£ |
|-------------------------------|--------------------|----------------------|--------------------|----------------------|
| Trade creditors               | 355,266            | -                    | 506,621            | -                    |
| Other tax and social security | 19,569             | -                    | 21,727             | -                    |
| Other creditors               | 300,459            | -                    | 201,132            | 7,315                |
| Accruals and deferred income  | 182,738            | 111,168              | 207,542            | 116,801              |
| Convertible debenture loans   | 513,244            | 513,244              | -                  | -                    |
| Other loans                   | 1,428,341          | 1,428,341            | 418,228            | 418,228              |
|                               | <b>2,799,617</b>   | <b>2,052,753</b>     | 1,355,250          | 542,344              |
|                               | <b>2,799,617</b>   | <b>2,052,753</b>     | 1,355,250          | 542,344              |

Other group creditors include **£264,842** (2006: £158,700) that is secured by a fixed charge over certain of the group's intangible fixed assets dated 24 March 2005, this is supported by a guarantee given by the group in favour of Innovation Bank.

**DISENCO ENERGY PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2007**

**15. CREDITORS: Amounts falling due after more than one year**

|                                       | <b>Group<br/>2007<br/>£</b> | <b>Company<br/>2007<br/>£</b> | <b>Group<br/>2006<br/>£</b> | <b>Company<br/>2006<br/>£</b> |
|---------------------------------------|-----------------------------|-------------------------------|-----------------------------|-------------------------------|
| Convertible debenture loans (note 16) | -                           | -                             | 392,554                     | 392,554                       |
| Other creditors                       | -                           | -                             | 75,000                      | -                             |
|                                       | <hr/>                       | <hr/>                         | <hr/>                       | <hr/>                         |
|                                       | -                           | -                             | 467,554                     | 392,554                       |
|                                       | <hr/>                       | <hr/>                         | <hr/>                       | <hr/>                         |

**16. LOANS**

| Loans fall due for payment as follows: | <b>Group<br/>2007<br/>£</b> | <b>Company<br/>2007<br/>£</b> | <b>Group<br/>2006<br/>£</b> | <b>Company<br/>2006<br/>£</b> |
|--|-----------------------------|-------------------------------|-----------------------------|-------------------------------|
| <b>Convertible debenture loans</b>     |                             |                               |                             |                               |
| Less than one year                     | 513,244                     | 513,244                       | -                           | -                             |
| Between one and two years              | -                           | -                             | 392,554                     | 392,554                       |
|  | <hr/>                       | <hr/>                         | <hr/>                       | <hr/>                         |
| <b>Other loans</b>                     |                             |                               |                             |                               |
| Less than one year                     | 1,428,341                   | 1,428,341                     | 418,228                     | 418,228                       |
|  | <hr/>                       | <hr/>                         | <hr/>                       | <hr/>                         |

A convertible debenture was issued on 12 September 2006 for the sum of C\$1,000,000. This is redeemable on 31 August 2008 at a premium for C\$1,200,000. Due to the premium on redemption, no additional interest is charged during the term of this debenture.

The holder may at any time during the term of the debenture convert all or part into units at a conversion price of C\$0.50 per unit. Each unit consists of one C ordinary share and one-half of one non-transferable share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one additional C ordinary share at an exercise price of C\$0.50 per warrant. During 2007, C\$433,200 of the convertible debenture value was converted into equity.

A convertible debenture was issued on 1 December 2007 for the sum of £275,000. This is repayable with accrued interest at 8% per annum, on 1 December 2008, if unconverted into equity. The holder may at any time during the term of the debenture convert all or part into equity at a conversion price of C\$0.30 per unit. Each unit consists of one C ordinary share and one half of one share purchase warrant. Each whole share purchase warrant entitles the holder to purchased one additional C ordinary share at an exercise price of C\$0.40 per warrant.

Other loans 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 B Longpre, a director of the company.

The company also has loan balances totalling £307,080 with Mr J Gunn, a director of the company, and £431,261 with Dover International, a company in which Mr B Longpre, a director of the company, is both a shareholder and a director. Details of these loan balances are included in note 24.

The convertible debentures have been accounted for in accordance with FRS 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%.

**DISENCO ENERGY PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2007**

**17. SHARE CAPITAL**

| <b>Equity share capital - 2007</b> | <b>Authorised</b> |             | <b>Allotted, called up &amp; fully paid</b> |             |
|------------------------------------|-------------------|-------------|---|-------------|
|                                    | <b>No</b>         | <b>£</b>    | <b>No</b>                                   | <b>£</b>    |
| At 31 December 2006                |                   |             |   |             |
| S Ordinary shares                  | 60,000,000        | 6,000,000   | 559,350                                     | 55,935      |
| C Ordinary shares of C\$0.24 each  | 83,333,333        | 9,792,640   | 58,082,799                                  | 5,851,871   |
|                                    | <hr/>             | <hr/>       | <hr/>                                       | <hr/>       |
|                                    | 143,333,333       | 15,792,640  | 58,642,149                                  | 5,907,806   |
|                                    | <hr/>             | <hr/>       | <hr/>                                       | <hr/>       |
| Movements in period:               |                   |             |   |             |
| S Ordinary shares of £0.10 each    | -                 | -           | -   | -           |
| C Ordinary shares of C\$0.24 each  | 116,666,667       | 12,791,053  | 12,503,713                                  | 1,325,210   |
|                                    | <hr/>             | <hr/>       | <hr/>                                       | <hr/>       |
|                                    | 116,666,667       | 12,791,053  | 12,503,713                                  | 1,325,210   |
|                                    | <hr/>             | <hr/>       | <hr/>                                       | <hr/>       |
| At 31 December 2007                |                   |             |   |             |
| S Ordinary shares of £0.10 each    | 60,000,000        | 6,000,000   | 559,350                                     | 55,935      |
| C Ordinary shares of C\$0.24 each  | 200,000,000       | 22,583,693  | 70,586,512                                  | 7,177,081   |
|                                    | <hr/>             | <hr/>       | <hr/>                                       | <hr/>       |
|                                    | 260,000,000       | 28,583,693  | 71,145,862                                  | 7,233,016   |
|                                    | <hr/> <hr/>       | <hr/> <hr/> | <hr/> <hr/>                                 | <hr/> <hr/> |
| <b>Equity share capital - 2006</b> | <b>Authorised</b> |             | <b>fully paid</b>                           |             |
|                                    | <b>No</b>         | <b>£</b>    | <b>No</b>                                   | <b>£</b>    |
| Movements in period:               |                   |             |   |             |
| S Ordinary shares of £1 each       | 60,000,000        | 6,000,000   | 55,935                                      | 55,935      |
| C Ordinary shares of C\$0.24 each  | 83,333,333        | 9,792,640   | 58,082,799                                  | 5,851,871   |
|                                    | <hr/>             | <hr/>       | <hr/>                                       | <hr/>       |
|                                    | 143,333,333       | 15,792,640  | 58,138,734                                  | 5,907,806   |
|                                    | <hr/>             | <hr/>       | <hr/>                                       | <hr/>       |
| At 31 December 2006                |                   |             |   |             |
| S Ordinary shares of £1 each       | 60,000,000        | 6,000,000   | 55,935                                      | 55,935      |
| C Ordinary shares of C\$0.24 each  | 83,333,333        | 9,792,640   | 58,082,799                                  | 5,851,871   |
|                                    | <hr/>             | <hr/>       | <hr/>                                       | <hr/>       |
|                                    | 143,333,333       | 15,792,640  | 58,138,734                                  | 5,907,806   |
|                                    | <hr/> <hr/>       | <hr/> <hr/> | <hr/> <hr/>                                 | <hr/> <hr/> |

A resolution was passed on 13 January 2007 to convert all £1 "S" shares into 10 shares of £0.10 each. Each holder of £1 "S" shares was granted 10 £0.10 "S" shares to replace the £1 "S" share in issue. This change has been applied retro-actively to the opening balances in the table above in accordance with Canadian GAAP.

The company completed its listing on the TSX Venture Exchange on 21 February 2007, issuing 5,500,000 shares to subscribers at a price of C\$0.50 per share. In addition to this, the company also issued 670,462 shares at C\$0.50 per share to investors from a US private placement, 2,059,642 shares at C\$0.35 per share to convert previously issued special warrants and 207,964 shares at C\$0.35 per share to convert previously issued finders warrants.

On 28 March 2007 the company issued 240,000 C shares and 120,000 warrants as consideration for conversion of C\$120,000 of the debt owing to the holders of the company's convertible debenture.

**DISENCO ENERGY PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2007**

**17. SHARE CAPITAL (continued)**

A further 626,400 C shares and 313,200 warrants were issued on 10 April 2007 as consideration for conversion of C\$313,200 of the debt owing to the holders of the company's convertible debenture.

A resolution was passed at the Annual General Meeting on 14 May 2007 to increase the company's authorised share capital by C\$28,000,000 divided into 116,666,667 C shares of C\$0.24.

On 3 March 2007, the company agreed with Dover International and Mr B Longpre to repay loans due to them totalling £200,000 with the issue of 1,120,343 S class shares in the company. On 15 May 2007 the company received a request from these shareholders to convert those shares into C class shares. This request was agreed and the shares were duly issued to the shareholder on 5 June 2007.

On 16 May 2007 the company issued a total of 184,017 C shares as shares for debt settlement for debts owing to Mr P Smith (£10,000), Edengene Limited (£15,000) and Life IC Limited (£15,000).

On 5 July 2007 the company issued 55,000 C shares at C\$0.28 per share to investors who invested in the company in 2006 but had yet to receive their share certificates.

On 11 July 2007 the company issued 1,839,885 C shares and 1,046,743 warrants at C\$0.50 on closure of a North American private placement.

**Rights**

As a result of a resolution passed on 13 January 2007, £0.10 S shares and C\$0.24 C shares rank pari passu in all respects.

**Outstanding share options at the period end**

Options have been granted under the following option schemes to subscribe for ordinary shares of the company. As at 31 December 2007 the following options were outstanding:

|   | Number<br>of shares<br>under option | Weighted average<br>subscription<br>price per share<br>C\$ | Exercise<br>period<br>expires |
|---|-------------------------------------|--|-------------------------------|
| Executive share options                 | 7,984,816                           | 0.322  | 16/10/2011                    |
| Service providers                       | 1,700,000                           | 0.409  | 16/10/2011                    |
| Service providers                       | 659,904                             | 0.500  | 16/10/2009                    |
| IPO fundraisers                         | 617,045                             | 0.500  | 21/02/2009                    |
|   | <hr/>                               | <hr/>  |                               |
| Options outstanding at 31 December 2006 | 10,961,765                          | 0.357  |                               |
| Issued during the period:               |                                     |  |                               |
| Executive share options                 | 750,000                             | 0.430  | 08/05/2012                    |
| Executive share options                 | 26,019                              | 0.375  | 16/10/2011                    |
| Service providers                       | 96,000                              | 0.510  | 15/03/2012                    |
| Service providers                       | 104,000                             | 0.510  | 15/03/2012                    |
| Cancelled during the period:            |                                     |  |                               |
| Executive share options                 | (1,200,000)                         | 0.350  |                               |
|   | <hr/>                               | <hr/>  |                               |
| Options outstanding at 31 December 2007 | 10,737,784                          | 0.365  |                               |
|   | <hr/> <hr/>                         | <hr/> <hr/>  |                               |

**DISENCO ENERGY PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2007**

**17. SHARE CAPITAL (continued)**

On 15 March 2007, 96,000 options were granted to a service provider. The options are exercisable at any time up to 15 March 2012 at a price of C\$0.51 per share. A further 104,000 options were granted to the service provider on 31 August 2007, which are exercisable at any time up to 31 August 2012 at a price of C\$0.51 per share.

On 28 March 2007, the company granted an additional 26,019 options to Mr S Ambler to ensure consistency with his employment contract, which entitled Mr S Ambler to options totalling 4% of the issued share capital in existence immediately after listing on the TSX Venture Exchange.

On 8 May 2007, 750,000 options were granted under the company's executive share option scheme. The options vest on the achievement of certain company milestones at a price of C\$0.43 and are exercisable up until 8 May 2012.

Details of the share options held by directors included in the above table can be found in note 4 (b).

Options granted to service providers have been valued at the fair value of the services received which is market value.

**18. RESERVES**

|   | <b>2007<br/>Group<br/>£</b> | <b>2007<br/>Company<br/>£</b> | <b>2006<br/>Group<br/>£</b> | <b>2006<br/>Company<br/>£</b> |
|---|-----------------------------|-------------------------------|-----------------------------|-------------------------------|
| <b>Share premium account</b>                    |                             |                               |                             |                               |
| At 1 January 2007                               | -                           | -                             | -                           | -                             |
| Premium on shares issued during the period      | <b>1,026,119</b>            | <b>1,026,119</b>              | 129,054                     | 129,054                       |
| Cash expenses of share issue                    | <b>(202,606)</b>            | <b>(202,606)</b>              | (87,142)                    | (87,142)                      |
| Issue of warrants                               | <b>(63,020)</b>             | <b>(63,020)</b>               | (41,912)                    | (41,912)                      |
| Issue of share options to finders               | <b>(26,912)</b>             | <b>(26,912)</b>               | -                           | -                             |
| Conversion of special warrants into equity      | <b>109,939</b>              | <b>109,939</b>                | -                           | -                             |
| Conversion of convertible debenture into equity | <b>99,552</b>               | <b>99,552</b>                 | -                           | -                             |
|   | <hr/>                       | <hr/>                         | <hr/>                       | <hr/>                         |
| At 31 December 2007                             | <b>943,072</b>              | <b>943,072</b>                | -                           | -                             |
|   | <hr/>                       | <hr/>                         | <hr/>                       | <hr/>                         |
| <b>Merger reserve</b>                           |                             |                               |                             |                               |
| At 1 January 2007 and 31 December 2007          | <b>(3,762,559)</b>          | -                             | (3,762,559)                 | -                             |
|   | <hr/>                       | <hr/>                         | <hr/>                       | <hr/>                         |
| <b>Warrant reserve</b>                          |                             |                               |                             |                               |
| At 1 January 2007                               | <b>347,280</b>              | <b>347,280</b>                | -                           | -                             |
| Issue of warrants during the period             | <b>63,020</b>               | <b>63,020</b>                 | -                           | -                             |
| Issue of special warrants during the period     | -                           | -                             | 340,295                     | 340,295                       |
| Issue of finders warrants during the period     | -                           | -                             | 6,985                       | 6,985                         |
| Conversion of special warrants into equity      | <b>(347,280)</b>            | <b>(347,280)</b>              | -                           | -                             |
|   | <hr/>                       | <hr/>                         | <hr/>                       | <hr/>                         |
| At 31 December 2007                             | <b>63,020</b>               | <b>63,020</b>                 | 347,280                     | 347,280                       |
|   | <hr/>                       | <hr/>                         | <hr/>                       | <hr/>                         |
| <b>Share option reserve</b>                     |                             |                               |                             |                               |
| At 1 January 2007                               | <b>502,074</b>              | <b>502,074</b>                | -                           | -                             |
| Options granted during the period               | <b>373,225</b>              | <b>373,225</b>                | 502,074                     | 502,074                       |
| Cancellation of share options in period         | <b>(94,323)</b>             | <b>(94,323)</b>               | -                           | -                             |
|   | <hr/>                       | <hr/>                         | <hr/>                       | <hr/>                         |
| At 31 December 2007                             | <b>780,976</b>              | <b>780,976</b>                | 502,074                     | 502,074                       |
|   | <hr/>                       | <hr/>                         | <hr/>                       | <hr/>                         |

**DISENCO ENERGY PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2007**

**18. RESERVES (continued)**

|  | 2007<br>Group<br>£ | 2007<br>Company<br>£ | 2006<br>Group<br>£ | 2006<br>Company<br>£ |
|--|--------------------|----------------------|--------------------|----------------------|
| <b>Convertible debenture reserve</b>             |                    |                      |                    |                      |
| At 1 January 2007                                | 12,436             | 12,436               | -                  | -                    |
| Issue of convertible debenture during the period | 7,432              | 7,432                | 12,436             | 12,436               |
| Conversion of convertible debenture into equity  | (5,387)            | (5,387)              | -                  | -                    |
|  | <hr/>              | <hr/>                | <hr/>              | <hr/>                |
| At 31 December 2007                              | 14,481             | 14,481               | 12,436             | 12,436               |
|  | <hr/>              | <hr/>                | <hr/>              | <hr/>                |
| <b>Profit and loss account</b>                   |                    |                      |                    |                      |
| At 1 January 2007                                | (2,753,228)        | (927,942)            | -                  | -                    |
| Loss for the period                              | (1,523,591)        | (762,264)            | (1,440,601)        | (927,942)            |
| Transfer to profit and loss account on merger    | -                  | -                    | (1,312,627)        | -                    |
| Cancellation of share options                    | 94,323             | 94,323               | -                  | -                    |
|  | <hr/>              | <hr/>                | <hr/>              | <hr/>                |
|  | (4,182,496)        | (1,595,883)          | (2,753,228)        | (927,942)            |
|  | <hr/>              | <hr/>                | <hr/>              | <hr/>                |

**19. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

|   | 2007<br>£   | 2006<br>£   |
|---|-------------|-------------|
| Loss for year                                   | (1,523,591) | (1,440,601) |
| New shares issued                               | 2,113,987   | 6,036,860   |
| Share issue costs                               | (202,606)   | (129,054)   |
| Transfer to profit and loss account on merger   | -           | (1,312,627) |
| Other reserves                                  | -           | (3,640,586) |
| Issue of convertible debenture                  | 7,432       | 12,436      |
| Share based payments                            | 346,313     | 727,381     |
| Conversion of convertible debenture into equity | 94,166      | -           |
|   | <hr/>       | <hr/>       |
|   | 835,701     | 253,809     |
| Opening funds                                   | 253,809     | -           |
|   | <hr/>       | <hr/>       |
| At 31 December 2007                             | 1,089,510   | 253,809     |
|   | <hr/>       | <hr/>       |

**DISENCO ENERGY PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2007**

**20. GROSS CASH FLOWS**

|  | 2007<br>£   | 2006<br>£   |
|--|-------------|-------------|
| <b>Returns on investments and servicing of finance</b> |             |             |
| Interest received                                      | 5,210       | 6,636       |
| Interest paid  | (2,389)     | (10,538)    |
| Exchange rate (losses)/gains                           | (91,242)    | 8,993       |
|  | (88,421)    | 5,091       |
| <b>Capital expenditure</b>                             |             |             |
| Payments to acquire intangible fixed assets            | (1,901,872) | (1,152,112) |
| Payments to acquire tangible fixed assets              | (12,459)    | (16,590)    |
|  | (1,914,331) | (1,168,702) |
| <b>Financing</b>                                       |             |             |
| Issue of share capital                                 | 1,755,467   | 204,788     |
| Expenses paid in connection with the issue of shares   | (175,980)   | (108,804)   |
| Issue of convertible debenture                         | 275,000     | 443,793     |
| Expenses paid in connection with convertible debenture | (22,000)    | -           |
| Issue of special warrants                              | -           | 340,295     |
| Issue of loans   | 1,560,355   | 418,228     |
| Repayment of loans                                     | (374,021)   | -           |
|  | 3,018,821   | 1,298,300   |

**21. ANALYSIS OF CHANGES IN NET DEBT**

|                          | At 1 January<br>2007<br>£ | Cash<br>flows<br>£ | Other<br>non cash<br>transactions<br>£ | Exchange<br>rate differences<br>£ | At 31 December<br>2007<br>£ |
|--------------------------|---------------------------|--------------------|--|-----------------------------------|-----------------------------|
| Cash at bank and in hand | 32,034                    | 93,101             | -                                      | -                                 | 125,135                     |
| Debt due within 1 year   | (576,928)                 | (1,458,956)        | (110,456)                              | (60,087)                          | (2,206,427)                 |
| Debt due after 1 year    | (467,554)                 | -                  | 496,516                                | (28,962)                          | -                           |
|                          | (1,012,448)               | (1,365,855)        | 386,060                                | (89,049)                          | (2,081,292)                 |

**22. OTHER NON CASH TRANSACTIONS**

|                              | 2007<br>£ | 2006<br>£ |
|------------------------------|-----------|-----------|
| Conversion of debt to equity | 386,060   | -         |

**DISENCO ENERGY PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2007**

**23. OTHER COMMITMENTS**

**Group**

At 31 December 2007 the group had annual commitments under operating leases as follows:

|                            | <b>Land &amp;<br/>buildings<br/>2007<br/>£</b> | <b>Land &amp;<br/>buildings<br/>2006<br/>£</b> |
|----------------------------|--|--|
| <b>Expiry date:</b>        |  |  |
| Between two and five years | <b>56,000</b>                                  | 52,000   |

**24. TRANSACTIONS WITH RELATED PARTIES**

The group owes £332,836 (2006: £268,817) to Disenco International AS, a company in which G Bretvin and G B Longpre are both directors and shareholders.

The group owed £32,400 to Dover International Limited, a company in which G B Longpre is a director and shareholder, in relation to expenses incurred on the company's behalf. The group also owed an additional £150,000 to Dover International Limited in relation to a loan provided. The loan was interest free and was to be repaid on the exercise of the special warrants issued by the company on 18 May 2006.

The group also owed £5,793 to G B Longpre for expenses settled on the company's behalf and owed £50,000 in respect of a loan granted on 4 December 2006. The loan incurred interest at 6%, payable on date of repayment, which was within 5 days of receipt of the proceeds from the listing on the TSX Venture Exchange.

On 3 March 2007 however, Mr Longpre agreed to a share for debt settlement for £200,000 of the company's outstanding loans to himself and Dover International. This was accepted by the TSX Venture Exchange and relevant securities commissions in May 2007. The remaining outstanding balance of £38,892 will be repaid on receipt of significant funds from the current round of fundraising.

The group owes C\$12,500 to J Gunn, a director and shareholder of the company, in relation to expenses incurred on the company's behalf. At 31 December 2006 the company owed £180,035 to J Gunn. This was repaid on 27 February 2007 on receipt of significant funds raised from the TSX Listing.

The group also owes an additional £50,000 to J Gunn in relation to a loan granted on 30 April 2007. The loan incurs interest at 6% payable on date of repayment, which is on receipt of significant funds from the current round of fundraising.

The group also owes J Gunn £50,000 in respect of a loan granted on 22 October 2007. The loan incurs interest at 7% payable at the date of repayment, which is on receipt of significant funds from the current round of fundraising.

**DISENCO ENERGY PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2007**

**24. TRANSACTIONS WITH RELATED PARTIES (continued)**

In the period from August to December 2007 the company received funds totalling C\$777,871 as drawdown instalment from the C\$1,000,000 loan facility agreement that it has with Dover International Limited. This facility is repayable at any time from one year of date of commencement of the facility, which was 12 October 2006, following receipt of seven 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%.

Throughout the year the company were granted several loans from Warburg International. These were consolidated on 1 January 2008 into one loan of £690,000. B Longpre, a director of the company, is a guarantor on this loan amount. £690,000 was the total balance outstanding at the year end. The loan bears an interest rate of 7% per annum. Total interest outstanding at the year end stood at £18,060.

No disclosure has been made within these financial statements of any transactions with group companies in accordance with the exemptions allowed by Financial Reporting Standard No.8.

**25. FINANCIAL INSTRUMENTS**

The group finances working capital through issue of equity and through borrowings at prevailing market interest rates. The group does not use hedge accounting.

The group's financial instruments comprise cash recourses raised through the issue of equity, directors and other loans, the issue of a convertible debenture and various other items, such as trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the group's operations.

It is, and has throughout the period under review been, the group's policy that no trading in financial instruments shall be undertaken.

The group's exposure to the price risk of financial instruments is limited to currency risk on a Norwegian Kroner loan and Canadian Dollar loans and debenture. The group does not undertake any forward currency purchases to hedge against this risk.

**DISENCO ENERGY PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2007**

**26. SIGNIFICANT DIFFERENCES FROM CANADIAN GAAP**

The audited financial statements of the company for the period ended 31 December 2007 have been prepared in accordance with United Kingdom Generally Accepted Accounting Principles ("UK GAAP") which, as applied in the financial statements, conforms in all material respects to those accounting principles generally accepted under Canadian Generally Accepted Accounting Principles ("CDN GAAP"), except as described below:

a) Basis of consolidation

On 13 March 2006, Disenco Energy plc acquired the whole of the share capital of Disenco Limited in exchange for 5,593,500 ordinary shares of £1 each, being the directors estimate of the fair value of the consideration given.

Under UK GAAP, the combination of Disenco Energy plc and Disenco Limited has been accounted for under the merger accounting rules.

Under Canadian GAAP, the acquisition has been accounted for using the purchase method. Accordingly, the directors have considered the value of the assets acquired and their fair value at the date of acquisition and believe that there is no material difference between the fair value of the assets and their book value. Accordingly, the purchase price has been allocated as follows:

|   | <b>£</b>               |
|---|------------------------|
| Intellectual property rights            | <b>535,707</b>         |
| Patents and designs                     | <b>33,093</b>          |
| Fixtures, fittings, tools and equipment | <b>20,512</b>          |
| Net current liabilities                 | <b>(153,730)</b>       |
| Long term liabilities                   | <b>(150,000)</b>       |
|   | <b>285,582</b>         |
| <br>Issuance of capital stock           | <br><b>(5,593,500)</b> |
| <br>Allocated to deficit                | <br><b>(5,307,918)</b> |

In accordance with CICA section 3840, the transaction was a non-monetary transaction between related parties with no amount to independently substantiate the exchange amount, and accordingly no gain is recognised.

b) Patents and Intellectual property rights

Under UK GAAP Intangible fixed assets are stated at their purchase cost, together with any incidental expenses of acquisition, less amortisation. Amortisation is provided to write off the cost of intangible fixed assets over their expected useful economic lives.

Under Canadian GAAP, an intangible asset that is acquired either individually or with a group of other assets should be initially recognized and measured at cost. An intangible asset is not written down or written off in the period of acquisition, unless it becomes impaired during this period.

When an intangible asset has a finite useful life, but the precise length of that life is not known, the intangible asset is amortised over the best estimate of its useful life. When an intangible asset has an infinite useful life, the intangible is tested annually for impairment.

For Canadian GAAP purposes, intellectual property is recorded at cost and tested for impairment on an annual basis. No amortisation is taken. For UK GAAP amortisation is provided to write off the cost of intellectual property rights over their expected useful economic lives.

**DISENCO ENERGY PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2007**

**26. SIGNIFICANT DIFFERENCES FROM CANADIAN GAAP (continued)**

c) Related party transactions

Under Canadian GAAP separate disclosure is required for transactions incurred with related parties. Such disclosure includes a description of the terms of the transaction as well as a description of the relationship. Debt totalling £332,836 is owed to Disenco International AS, a company in which G Bretvin and G B Longpre, who are both directors of the company, are shareholders. The debt is paid in equal instalments of £75,000. The company reached an agreement with Innovation Bank in Norway, who underwrite the loan, to delay the payment of £75,000 due on 1 June 2007 to 1 March 2008. The interest on the debt is calculated at Norwegian Bank base rate plus 2%. Interest of £9,446 has been accrued relating to the seven months ended 31 December 2006. Interest of £23,431 has been accrued for the year ending 31 December 2007. This includes penalty interest of £5,709 for negotiated delayed repayment of capital. All interest incurred and accrued prior to 1 June 2006 was repaid during 2006.

d) Loss per share

Loss per share is calculated based on the weighted average number of common shares outstanding during the year. The company uses treasury stock methods for calculating diluted earnings per share. However, diluted loss per share has not been presented as the potential exercise of options and warrants outstanding would have the effect of reducing the loss per share. Therefore, basic and diluted loss per share are the same.

e) Income tax losses

Under Canadian GAAP certain disclosures relating to income tax and future income tax are required as follows:

Reconciliation of income tax provision recorded at statutory rates to the recorded income tax provision:

|  | <b>2007</b>        | 2006      |
|--|--------------------|-----------|
|  | <b>£</b>           | £         |
| Income tax benefit computed at UK statutory rates                      | <b>(470,696)</b>   | (432,180) |
| Permanent differences  | <b>116,188</b>     | 269,019   |
| Other temporary differences  | <b>(554,078)</b>   | 5,710     |
| Unrecognised tax losses  | <b>908,586</b>     | 159,451   |
|  | <hr/>              | <hr/>     |
|  | -                  | -         |
|  | <hr/>              | <hr/>     |
| The components of future income tax assets are as follows:             |                    |           |
| Future income tax assets   | <b>6,001,290</b>   | 1,863,000 |
| Non-capital loss carry-forwards for United Kingdom income tax purposes | -                  | -         |
|  | <hr/>              | <hr/>     |
| Tax rate   | <b>30%</b>         | 30%       |
|  | <hr/>              | <hr/>     |
| Less: Valuation allowance  | <b>1,800,387</b>   | 558,900   |
|  | <b>(1,800,387)</b> | (558,900) |
|  | <hr/>              | <hr/>     |
|  | -                  | -         |
|  | <hr/>              | <hr/>     |

**DISENCO ENERGY PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2007**

**26. SIGNIFICANT DIFFERENCES FROM CANADIAN GAAP (continued)**

e) Income tax losses (continued)

The valuation allowance reflects the Company's estimate that the tax assets, more likely than not, will not be realised.

The Company has available non-capital losses that may be carried forward to apply against future years' income for United Kingdom income tax purposes. There is no time limit for utilisation of these losses.

**i Reconciliation of total assets, liabilities and stockholders' equity:**

|   | 2007<br>£          | 2006<br>£   |
|---|--------------------|-------------|
| <b>Total assets per UK GAAP</b>                                   | <b>3,889,127</b>   | 2,076,613   |
| Adjustments to Canadian GAAP                                      |                    |             |
| Intellectual property amortisation                                | <b>51,749</b>      | 23,010      |
|   | <hr/>              | <hr/>       |
| <b>Total assets per Canadian GAAP</b>                             | <b>3,940,876</b>   | 2,099,623   |
|   | <hr/>              | <hr/>       |
| <b>Total liabilities per UK GAAP</b>                              | <b>2,799,617</b>   | 1,822,804   |
| Adjustments to Canadian GAAP                                      | -                  | -           |
|   | <hr/>              | <hr/>       |
| <b>Total liabilities per Canadian GAAP</b>                        | <b>2,799,617</b>   | 1,822,804   |
|   | <hr/>              | <hr/>       |
| <b>Total equity per UK GAAP</b>                                   | <b>1,089,510</b>   | 253,809     |
| Adjustments to Canadian GAAP                                      |                    |             |
| Intellectual property amortisation                                | <b>51,749</b>      | 23,010      |
| Merger reserve  | <b>3,762,559</b>   | 3,762,559   |
| Pre-acquisition losses  | <b>1,545,359</b>   | 1,545,359   |
| Excess of consideration over assets acquired allocated to deficit | <b>(5,307,918)</b> | (5,307,918) |
|   | <hr/>              | <hr/>       |
| <b>Total equity per Canadian GAAP</b>                             | <b>1,141,259</b>   | 276,819     |
|   | <hr/>              | <hr/>       |
| <b>Total liabilities and equity per Canadian GAAP</b>             | <b>3,940,876</b>   | 2,099,623   |
|   | <hr/>              | <hr/>       |

**ii Reconciliation of net loss reported in Canadian GAAP and UK GAAP**

**Statement of Operations**

|  |                    |             |
|--|--------------------|-------------|
| <b>Net loss per UK GAAP</b>                      | <b>(1,523,591)</b> | (1,440,601) |
| Add:   |                    |             |
| Net loss under merger accounting                 | <b>1,523,591</b>   | 1,440,601   |
| Net loss under the purchase method of accounting | <b>(1,523,591)</b> | (1,207,869) |
| Amortisation of intellectual property rights     | <b>28,739</b>      | 23,010      |
|  | <hr/>              | <hr/>       |
| <b>Net loss per Canadian GAAP</b>                | <b>(1,494,852)</b> | (1,184,859) |
|  | <hr/>              | <hr/>       |

**DISENCO ENERGY PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2007**

**26. SIGNIFICANT DIFFERENCES FROM CANADIAN GAAP (continued)**

**iii Statement of Cash Flows under Canadian GAAP**

|  | 2007<br>£          | 2006<br>£          |
|--|--------------------|--------------------|
| <b>Net loss per Canadian GAAP</b>                | <b>(1,494,852)</b> | <b>(1,184,859)</b> |
| Add:   |                    |                    |
| Depreciation of fixed assets                     | 13,198             | 8,217              |
| Depreciation of patents and designs              | 23,633             | 14,625             |
| Share based payments                             | 346,313            | 727,381            |
|  | <hr/>              | <hr/>              |
|  | <b>(1,111,708)</b> | <b>(434,636)</b>   |
| <b>Changes in non-cash working capital:</b>      |                    |                    |
| Accounts receivable/payable                      | 100,319            | 144,340            |
|  | <hr/>              | <hr/>              |
| <b>Cash outflow from operating activities</b>    | <b>(1,011,389)</b> | <b>(290,296)</b>   |
|  | <hr/>              | <hr/>              |
| <b>Investing activities</b>                      |                    |                    |
| Purchase of fixed assets                         | (1,914,331)        | (1,168,702)        |
| Cash acquired on acquisition                     | -                  | 192,732            |
|  | <hr/>              | <hr/>              |
| <b>Cash used in investing activities</b>         | <b>(1,914,331)</b> | <b>(975,970)</b>   |
|  | <hr/>              | <hr/>              |
| <b>Financing activities</b>                      |                    |                    |
| Net proceeds from share issue                    | 1,579,487          | 95,984             |
| Net proceeds from issue of convertible debenture | 253,000            | 443,793            |
| Issue of special warrants                        | -                  | 340,295            |
| Issue of loans                                   | 1,560,355          | 418,228            |
| Loan repayments                                  | (374,021)          | -                  |
|  | <hr/>              | <hr/>              |
|  | <b>3,018,821</b>   | <b>1,298,300</b>   |
|  | <hr/>              | <hr/>              |
| <b>Increase in cash during the period</b>        | <b>93,101</b>      | <b>32,034</b>      |
| Opening cash                                     | 32,034             | -                  |
|  | <hr/>              | <hr/>              |
| <b>Ending cash</b>                               | <b>125,135</b>     | <b>32,034</b>      |
|  | <hr/> <hr/>        | <hr/> <hr/>        |