TERSUS ENERGY PLC

FINANCIAL STATEMENTS

31 DECEMBER 2007

Company no 5314207

INDEX

TERSUS ENERGY PLC

CHAIRMAN'S STATEMENT

Introduction

2007 was a difficult year for Tersus Energy Plc. Our wholly owned subsidiaries, Navitas and Envinta, both saw reduced levels of activity and delays in bringing new products into the market. Our cash position was such that we had to release almost all our employees during the year and the directors deferred their salaries for the year.

However, more positively, we continue to believe that Navitas and Envinta will be successful in their markets given time; we were able to bolster our cash reserves in December with a £500,000 loan from a major shareholder; and, subsequent to the year end, we realised US $3.64 million by way of a distribution and part realisation of our investment in HT Blade.

We have now repaid the shareholder loan, brought our payment of our creditors up to date, and have sufficient cash to continue the business well into 2009.

We remain of the opinion that the Company's assets have value but it will take time to realise this value. We continue to review the cost base of the Company with the intention of reducing the monthly spend and thus increasing the period of time which our current resources will provide to us to realise the Company's assets.

Financial Highlights

- Revenue of £2.08 million consisting of: Navitas £1.46 million; Envinta £0.54 million; Advisory Services £0.08 million. (2006 £4.52 million consisting of: Navitas £2.35 million; Envinta £0.35 million; Advisory Services £1.82 million)
- Pre tax loss of £0.75 million (2006 £0.68 million*)
- This result includes a net write-up of £1.93 million in relation to Tersus' investment in HT Blade and write-downs in other investments of £1.18 million, principally in relation to Enviro-Control Limited.
- Net assets of £4.59 million (2006 £5.11 million*)
- Tersus has increased the carrying value of HT Blade following the transactions detailed below. The investment was originally carried at a cost of £1.18 million, including transaction costs of the original investment. £0.50 million was added to the value at 30 June 2007 and a further £1.82 million was added to the value on 31 December 2007 thus resulting in the current carrying value of £3.50 million. Provision has also been made for the amount of £0.39 million payable on realisation of the investment at this value under incentive arrangements.

Transactions involving HT Blade

In January 2006 Tersus invested US $2 million in Tang Wind Energy LP ('TWELP', a Texan limited partnership) as a convertible secured loan subsequently converted into a 12.1 per cent. partnership interest.

TWELP owned 100 per cent. of Tang Wind Energy LLC ('TWELLC', a Cayman company) which in turn owned 25 per cent. of Zhong Hang (Baoding) Huiteng Wind Power Equipment Company Ltd ('HT Blade'). The remaining 75 per cent. of HT Blade was owned and continues to be owned by Chinese State Owned Enterprises.

Last year, an international private equity firm with offices in Shanghai acquired an interest in TWELLC from TWELP in return for US $20 million. This money was used by TWELP for transaction expenses, TWELP costs and a loan to HT Blade. The balance was retained by TWELP in reserve.

In February 2008, the same private equity investor exercised an option which it was given as part of the 2007 transaction and bought a further stake in TWELLC paying a further US $20 million to TWELP. That investor

* Restated following the adoption of IFRS for the year ended 31 December 2007.

now has a shareholding in TWELLC of approximately 42 per cent, with TWELP owning the remaining approximately 58 per cent. Therefore, at that date, TWELLC and the private equity investor owned (indirectly) approximately 14.5 per cent. and approximately 10.5 per cent. respectively of HT Blade, with Tersus owning (indirectly) an approximately 1.75 per cent. stake in HT Blade.

In April 2008, TWELP transferred some US $32 million of cash and receivables into a new partnership TWELP 2. This amount represented the US $40 million received from the private equity investor, less transaction costs and TWELP running costs.

In April 2008, TWELP 2 made a distribution to its partners as a result of which Tersus has received approximately US $1.45 million in cash. The amount remaining in TWELP 2 is being retained to meet its future potential funding needs.

Also in April 2008, TWELP's limited partners sold a 9 per cent. interest in TWELP to an international venture capital firm. Included in this 9 per cent. stake was a disposal by Tersus of 25 per cent. of its 12.1 per cent. interest in TWELP. Tersus has received approximately US $2.19 million in cash in relation to this disposal.

As a result of this disposal Tersus now owns approximately 9 per cent. of TWELP resulting in Tersus owning (indirectly) approximately 1.3 per cent. of HT Blade.

The Board believes that the value of the indirect holding in HT Blade will be a function of TWELP's ability to create further exit opportunities, the business performance of HT Blade and the willingness of the Chinese State Owned Enterprises to proceed to an IPO. The Board also believes the value of this stake may be affected by the possible dilution caused by the creation of an incentive pool for the benefit of HT Blade management and the manner in which the cost of such incentive pool may be borne by shareholders in HT Blade.

Tersus Asian Renewables

Elsewhere in Asia, progress has been extremely slow.

- In South Korea Tersus has, through its 50:50 joint venture with Hahn Renewable Energy plc, submitted a number of proposals which may lead to memoranda of understanding. In order to verify and pursue these opportunities development capital will be needed and in due course project capital will be sought possibly through Tersus or more probably through the introduction of a third partner.
- In the Philippines Tersus has made little demonstrable progress during 2007. Tersus has been informed by its joint venture partner that the Philippines authorities have granted the land lease for the first site (40mw) but the directors have not been able to obtain any evidence for this. Assuming the grant of this land lease can be verified, the opportunity exists to exploit the project and the next step will be to appoint a Philippines based full time developer or to introduce a locally active third party developer.
- Tersus' activities through its 50 per cent. owned Indian company, Jasfour Power Private Ltd ('Jasfour'), have not progressed. Tersus remains in dispute with its joint venture partner. The financial exposure from this disagreement is limited but Tersus has made no further progress with its desire to develop a wind farm portfolio in India.

Tersus Energy Controls

- Navitas Technologies Limited ('Navitas'), our 100 per cent. owned developer and manufacturer of electronic control equipment, has had a mixed year. Despite cash constraints a programme of product development has been maintained. However, the introduction of the new products has been significantly delayed although the new products are now with initial prospective customers and testing is believed to be progressing satisfactorily. Navitas revenue for 2007 was Canadian $3.14 million compared to Canadian $4.91 million for the previous year. There was a loss before interest, tax and depreciation (EBITDA) in 2007 of Canadian $0.59 million compared to earnings of Canadian $0.26 million in the previous year. Navitas continues to operate at a loss thus far in 2008 and some staff have been laid off.

- Envinta Corporation Inc (‘Envinta’), our 100 per cent. owned developer of energy and environmental information software, has made progress in 2007. New customer contracts have been signed with EDF and Siemens, representing the first significant sales in the EU market. Further sales are under discussion with other prospective blue chip customers. Revenue for 2007 was US $1.09 million (compared to US $0.65 million for the previous year). EBITDA for 2007 was US $0.03 million compared to a loss before interest, tax and depreciation of US $0.27 million for 2006. For the first quarter 2008, revenue was approximately US $0.27 million.

Tersus Bio Energy (TBE)

- Little progress has been made with our interest in Enviro-Control Limited (‘ECL’) and ECL Developments Limited, the 50:50 joint development company established by Tersus and ECL. Both companies are mainly focused on anaerobic digestion opportunities (producing bio-gas and renewable power) using the proprietary thermophilic technology developed by ECL. Tersus has provided in full against the carrying value of its investments in these companies although the Board remains hopeful that a number of the project development opportunities which are being pursued will result in developable projects. Development activities continue regarding projects in Belgium, Bulgaria, the UK, Brazil and the US. ECL has recently received a small consulting contract from a Maryland (US) institutional client to assess the feasibility of an anaerobic digester demonstration unit to take local mixed organic wastes.

Tersus Advisory

- Tersus continues to provide advisory services in relation to the Bens Run salt cavern gas storage project but will only receive an income if these advisory services lead to a disposal of that asset by the current owner.

Conclusion

- Following receipt of the monies relating to HT Blade transaction previously described, Tersus has repaid the £500,000 loan provided last December by a major shareholder and has sufficient funds to trade for the foreseeable future.

- Following the termination of the employment contracts of almost all our people other than directors during 2007, Tersus’ opportunities for development are limited but the Board does believe, however, that there is value in Tersus’ investments. The Board will continue to work to realise that value.

John Devaney
Chairman

27 June 2008

TERSUS ENERGY PLC

REPORT OF THE DIRECTORS

The directors present their annual report on the affairs of the Group, together with the audited financial statements of the Company and the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activities of the Group continue to be to invest in, operate and advise businesses in the renewable energy sector with particular emphasis on Asian renewables, biofuels and energy consumption controls.

BUSINESS REVIEW

A review of the Group's performance and activities is contained in the Chairman's statement.

The principal objective of the business is to realise the value of its investments in order to maximise the return to shareholders.

The principal risks associated with this objective are normal business risks applicable to the underlying businesses, political risk associated with our investment in HT Blade, together with the need to maintain sufficient funds to provide enough time for the investments to be optimally realised. The Board believes there is value in the Group's investments and will continue to work to realise that value.

RESULTS AND DIVIDENDS

The results for the year ended 31 December 2007 are shown in the Consolidated Income Statement on page 21. The Group loss for the year after tax amounted to £702,344 (2006 – £695,578). The directors are not proposing the payment of a dividend for the year (2006 – nil).

DIRECTORS

*J F Devaney (Non-executive chairman)
*S J Clayton (Non-executive director)
*N N Trulsvik (Non-executive director)
S P Levine (Chief Executive Officer)
D T Wilson (Chief Operating Officer and Finance Director)
H J Killen (Non-executive director) – resigned 18 July 2007

John Devaney (62) (Non-executive Chairman)

John Devaney is co-founder and chairman of BizzEnergy Group Ltd and also chairman of Telent plc. He has been chairman of EXEL plc and executive chairman of Eastern Electricity plc and has served as a non-executive director on the boards of HSBC Bank Plc and British Steel Plc.

Steven Levine (56) (Chief Executive Officer)

Steve Levine is an energy services professional and attorney with extensive experience developing and financing domestic and international energy projects. He was previously VP of New Energy, Inc. (now Constellation New Energy), one of the largest US deregulated electricity power retailers. He is a former president of Metro Energy, L.L.C., a private New York City based utility.

David Wilson (60) (Chief Operating Officer and Finance Director)

David Wilson is co-founder and a non-executive director of BizzEnergy Ltd, having previously been its finance director. He has been a director of Hilton International Plc with responsibilities for finance and for

* Members of the Audit Committee. The chairman of the Audit Committee is N N Trulsvik.

identifying and negotiating new business opportunities and was previously a partner in Ernst &Young with responsibility for services to small and medium-sized enterprises.

Sharon Clayton (44) (Non-executive Director)

Sharon Clayton is Chairman of the management board of MCC Global NV, having previously been the owner of Presentations, an international strategic consulting firm that included New Energy, Inc. (now Constellation New Energy) amongst its clients. Prior to launching Presentations, she was an international vice president of business development for Dimax Controls Company, Inc., a multi-national energy engineering company based in Canada.

Nils Trulsvik (59) (Non-executive Director)

Nils Trulsvik has worked in the oil and gas sector since 1974. In 1981, he, together with a group of geologists and geophysicists, formed Nopec. He worked as a petroleum exploration consultant for Nopec on assignments in Northwest Europe, Africa and the Far East, started Nopec (UK) Ltd in 1984 and from 1987 to 1993 was managing director of Nopec. In 1994, he led an investment group that took an equity position in Fountain Oil Incorporated and served as managing director of Fountain until 1998, when he left to form The Bridge Group. He is currently on secondment from The Bridge Group to Force Petroleum Ltd where he is chief executive officer.

Directors and their shareholdings

The directors who served during the year and their interests in the shares of the Company as recorded in the register of directors' interests were as follows:

	As at 31 December 2007		*As at 31 December 2006*	
	Number of ordinary shares	*Percentage of issued share capital*	*Number of ordinary shares*	*Percentage of issued share capital*
J F Devaney (1)	133,333	0.35	133,333	0.35
S J Clayton (2)	1,084,998	2.85	1,084,998	2.85
N N Trulsvik	–	–	–	–
S P Levine	1,793,102	4.71	1,793,702	4.71
D T Wilson (1)	147,271	0.39	147,271	0.39
H J Killen	–	–	–	–

(1) J F Devaney and D T Wilson each have been granted options by Moore, Clayton & Co. Inc., now part of MCC Global NV, over 300,000 existing ordinary shares held by Moore, Clayton & Co. Inc. in Tersus Energy Plc, which are exercisable for nominal consideration.

(2) S J Clayton is a controlling shareholder in Moore, Clayton & Co., Inc. which holds ordinary shares in the Company, in which she is therefore interested.

Details of directors' interests in options to acquire shares of the Company are set out in note 5 to the accounts.

No changes in the directors' share interests have taken place between 31 December 2007 and 28 June 2008.

Under the provisions of the Company's Memorandum and Articles of Association, all the directors shall retire from office at the annual general meeting of the Company. All the directors offer themselves for re-election.

OTHER MATTERS

All directors have service agreements or, in the case of non-executive directors, letters of appointment. The Company has the power to determine the service agreements on six or twelve months' notice without payment of compensation (other than statutory compensation), and the letters of appointment on three months' notice.

The non-executive directors retire by rotation in the same manner as the executive directors, in accordance with the Company's Articles of Association.

Communication with shareholders on remuneration matters is largely undertaken by way of this report and the detailed disclosure of remuneration provided by note 5 to the accounts.

Executive directors are permitted to accept external directorships only with the Company's prior permission and provided their ability to act in the best interest of the Group is not impaired.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

The Companies Act 1985 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and Company 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 apply them consistently
- make judgements and estimates that are reasonable and prudent
- for the Group and Company financial statements, 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 Group and the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Company 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 Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the directors have taken all 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

CORPORATE GOVERNANCE

AIM listed companies are not required to comply with the Combined Code of Corporate Governance. However, the directors recognise the value and importance of high standards of corporate governance and believe that appropriate policy and procedures are in place so that as far as practicable, and having regard to the size and development of the Company, the general recommendations of the Code are followed.

In applying the principle that the Board should maintain a sound system of internal control to safeguard shareholders' investments and the Group's assets, the directors recognise they have overall responsibility for ensuring the Group maintains proper accounting records and a system of internal control to provide them with reasonable assurance regarding effective and efficient operations, internal financial control and compliance with laws and regulations. However, there are inherent limitations in any system of internal control and, accordingly, even the most effective system can provide only reasonable, and not absolute, assurance particularly against misstatement or loss.

As might be expected in a Group of this size, a key control procedure during the year was the day to day supervision of the business by the executive directors. Given the close involvement of the executive directors in all activities, the directors do not consider that an internal audit function is necessary.

BOARD RESPONSIBILITIES

The Board meets at least quarterly, and met formally on 6 occasions during the year to 31 December 2007.

The Board is responsible for the overall strategy and direction of the Group. All significant investment decisions, including capital expenditure, are considered by the Board for authorisation. The Board is also responsible for management performance and significant financial matters.

The Board monitors exposure to key business risks and reviews the strategic direction of the Company and its subsidiaries and their development programmes. The Board also considers employee issues and key appointments. The financial risk management objectives, policies and disclosures on exposure to risk are set out in note 21.

The Company has an Audit Committee which operates within defined terms of reference and is responsible for ensuring that the financial performance of the Group is properly reported on and monitored, and for reviewing the auditor's reports relating to accounts and internal control systems. The Audit Committee meets as and when required. The members of this Committee are the three non-executive directors, with N N Trulsvik as chairman.

In view of the significant reduction in the number of employees during 2007, the Board has disbanded both the Remuneration Committee and Nomination Committee. All matters previously dealt with by these Committees are now dealt with by the Board as a whole.

Clear management responsibilities have been determined, with authorisation limits and segregation of duties being established for the operating functions of the Group. Financial reports are made regularly to the Board.

EMPLOYEES

During the year, the Group has provided employees with relevant information and sought their views on matters of common concern. Priority has been given to ensuring that employees are aware of all significant matters affecting the Group's trading position and of any significant organisational changes.

REMUNERATION POLICY

The Group's policy relating to remuneration is to provide appropriate remuneration, including arrangements providing long term incentives, to attract, motivate and retain its executives. In setting the remuneration policy, the Group has regard to factors including:

- the actual and potential contribution of each employee
- the competitive environment in which the Company operates.

Following the disbandment of the Remuneration Committee, the Board collectively determines the individual remuneration packages of each director including, where appropriate, bonuses, incentive payments and share options in accordance with the policy above.

REPORT OF THE DIRECTORS

A number of arrangements have been established to provide long term incentives for employees and directors. These are summarised below and in note 22 to the accounts.

The remuneration of the non-executive directors is recommended by the executive directors and takes account of time spent on Committee matters, with final determinations being made by the Board as a whole.

An explanation and details of directors' remuneration and share options are set out in note 5 to the accounts. None of the directors' remuneration is pensionable.

LONG TERM INCENTIVES

The Group has a number of arrangements in place to provide long term incentives. The arrangements under which long term incentives have already been granted or under which the Group intends to grant such incentives in the foreseeable future are summarised in note 22 to the accounts. These arrangements comprise:

- Share Option Plans
- Advisory Income Participation Arrangement
- Investment Gain Participation Arrangement.

Long term incentives under any of the above may be granted to employees and executive directors. Awards under the Advisory Income Participation Arrangement and Investment Gain Participation Arrangement may be made to contract personnel. Non-executive directors may participate in the Non-Approved Part of the New Share Option Plan.

VALUATION POLICY

Investment strategy

The Group has a documented investments strategy and as a result the financial investments are fair valued through the income statement.

Investments have been valued by the directors in compliance with the principals of IAS 39 "Financial Instruments: Recognition and Measurement" and the International Private Equity and Venture Capital Guidelines as recommended by the British Venture Capital Association.

Principles of valuation of unlisted investments

Investments are stated at amounts considered by the directors to be a reasonable assessment of their fair value, subject to the requirement to apply a degree of caution in making the necessary estimates. Fair value is the amount at which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. In estimating fair value, the directors use a methodology which is appropriate in light of the nature, facts and circumstances of the investment and its materiality in the context of the total investment portfolio. All investments are valued on one of the following bases:

- Price of Recent Investment
- Earnings multiple
- Discounted cash flows from the investment.

The Price of Recent Investment method has been used to value the investment in HT Blade which the Group holds through its investment in the TWELP partnership. The valuation is based on the price at which a third party has recently acquired an interest in the partnership, discounted to reflect the inherent uncertainties in realising future value. It has given rise to a significant uplift in the carrying value which has been recognised through the income statement.

The remaining investments, all of which are unlisted, have been fair valued, largely on the basis of the estimated discounted cash flows from the investments.

Principles of valuation for impairment reviews undertaken in respect of subsidiary companies

The Earnings multiple methodology was used to review the investments in the Company's wholly-owned subsidiaries, Navitas Technologies Limited and Envinta Corporation Inc, for the purpose of assessing if there had been any impairment in goodwill and other assets. Forecast profits before interest and tax for 2008 (Navitas) and for both 2008 and 2009 (Envinta) and appropriate and reasonable price/earnings multiples were used to support the carrying amount of the investments. In the case of Navitas, where there have been recent offers to purchase the business, the valuation is underpinned by the valuation determined using the Price of Recent Investment methodology. The reviews concluded that there had been no impairment in the value of either investment.

Valuation review procedures

Valuations are prepared by the directors.

GOING CONCERN

The directors confirm that they are satisfied that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements. There are some uncertainties that are outlined further in the Principal Accounting Policies.

POST BALANCE SHEET EVENTS

Post balance sheet events are disclosed in note 25 to the accounts.

PAYMENT OF CREDITORS

The Group does not follow any published code or standard on payment practice in respect of any of its suppliers. The Group's policy in respect of the majority of its trade creditors is to negotiate terms and conditions with the suppliers and, provided the suppliers comply with these, payments are made in accordance with the agreed terms and conditions. Where payment terms are not specifically agreed, suppliers are paid in accordance with local commercial practice.

AUDITORS

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD

D T Wilson
Director
27 June 2008

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF TERSUS ENERGY PLC

We have audited the group financial statements (the 'financial statements') of Tersus Energy Plc for the year ended 31 December 2007 which comprise the principal accounting policies, the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement, and notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Tersus Energy Plc for the year ended 31 December 2007.

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 auditor's 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 group financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 group financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's statement that is cross referred from the Business Review section of the Directors' Report.

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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 which 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.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF TERSUS ENERGY PLC

OPINION

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its loss for the year then ended
- the group 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 the Principal Accounting Policies – Going Concern concerning the Group's ability to continue as a going concern. This disclosure indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS

London
27 June 2008

TERSUS ENERGY PLC

PRINCIPAL ACCOUNTING POLICIES

For the year ended 31 December 2007

BASIS OF PREPARATION

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

The Group has adopted standards and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee that are relevant to its operations and effective for the Group's financial year end on 31 December 2007. The adoption of these standards and interpretations for the current year has resulted in changes to the Group's accounting policies. These changes and the impact of the adoption of IFRS on the opening reserves and on the results for the year ended 31 December 2006 are set out in note 26. Comparative information for the year ended 31 December 2006 has been restated in accordance with IFRS. The date of transition to IFRS was 1 January 2006 (the transition date).

The financial statements have been prepared in accordance with applicable International Financial Reporting Standards (IFRS) as adopted by the EU and issued by the International Accounting Standards Board and the Companies Act 1985, applicable to companies reporting under IFRS. The Group has adopted all of the standards and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee that are relevant to its operations.

As at the date of approval of these consolidated financial statements, the following interpretations were in issue but not yet effective:

- IAS 1 Presentation of Financial Statements (revised 2007) (effective 1 January 2009)
- IAS 23 Borrowing Costs (revised 2007) (effective 1 January 2009)
- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations arising on Liquidation (effective 1 January 2009)
- IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective 1 July 2009)
- Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (effective 1 January 2009)
- IFRS 3 Business Combinations (Revised 2008) (effective 1 July 2009)
- IFRS 8 Operating Segments (effective I July 2009)
- IFRIC 11 IFRS2 – Group and Treasury Share Transactions (effective 1 March 2007)
- IFRIC 12 Service Concession Arrangements (effective 1 January 2008)
- IFRIC 13 Customer Loyalty Programmes (effective 1 July 2008)
- IFRIC 14 IRS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008)

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group. The Group does not intend to apply any of these pronouncements early.

GOING CONCERN

The Group meets its working capital and project development requirements from its cash balances. The nature of the Company's business is such that there can be considerable uncertainties in the amounts and timing of cash flows generated from its investments.

Bearing this in mind, the directors have prepared cash flow forecasts for the period to 30 June 2009. The directors' forecasts show that the Group will have adequate resources for this period. The directors continue to review the cost base with the intention of increasing the period of time which the Group's current resources provide to realise the value in the Company's assets.

The financial statements do not include any adjustments or disclosures that would be required if the company was not a going concern.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and all subsidiary undertakings made up to 31 December each year. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities.

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

BUSINESS COMBINATIONS COMPLETED PRIOR TO THE DATE OF TRANSITION TO IFRS

The Group has elected not to apply IFRS 3 "Business Combinations" retrospectively to business combinations prior to the date of transition.

Accordingly the classification of a combination (acquisition or merger) remains unchanged from that used under UK GAAP. Assets and liabilities are recognised at the date of transition as they would be recognised under IFRS, and are measured using their UK GAAP carrying amount immediately post-acquisition as deemed cost under IFRS, unless IFRS requires fair value measurement. Deferred tax is adjusted for the impact of any consequential adjustments after taking advantage of the transitional provisions.

MERGER ACCOUNTING

The transfer to the Group of the ownership of Tersus Energy Services Inc. and its subsidiary companies on 21 January 2005 was accounted for in accordance with the principles of merger accounting. Under merger accounting, the results are reported for the Group as if the Group had been in existence in its current form throughout the current and previous financial years. No purchased goodwill was created in the transaction and the assets and liabilities of Tersus Energy Services Inc. were not adjusted to reflect their fair value.

REVENUE

Revenue is measured at the fair value of the consideration received or receivable from third parties for goods and services provided in the normal course of business, net of value added tax and other sales taxes. Intra-group sales are excluded.

Group businesses are remunerated for integrated strategic and financial advisory services provided to third parties by a combination of cash retainers and success fees, with the former generally being earned on a time basis and the latter when predetermined milestones are achieved. Revenue is recognised on the basis of the arrangements made with third parties.

GOODWILL

Goodwill representing the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses. A discount on acquisition is recognised immediately after acquisition in the income statement.

In accordance with the exemption in paragraph B1A of IFRS 1, no fair value adjustments as at the date of acquisition have been made for business combinations that took place prior to the date of transition to IFRS. Accordingly, the carrying amounts of goodwill as at the date of transition are unchanged. Goodwill written off to reserves prior to that date remains in reserves. Goodwill previously written off to reserves is not written back to profit or loss on subsequent disposal.

INTANGIBLE ASSETS

Assets acquired as part of a business combination

In accordance with IFRS 3 "Business Combinations", an intangible asset acquired in a business combination (eg software licence) is deemed to have a cost to the group of its fair value at the acquisition date. The fair value of an intangible asset reflects market expectations about the future economic benefits embodied in the asset that will flow to the Group. Where an intangible asset might be separable, but only together with a related tangible or intangible asset, the group of assets is recognised as a single asset separately from goodwill where individual fair values of the assets in that group are not reliably measurable. Where individual fair values of complementary assets are reliably measurable, the group recognises them as a single asset provided the individual assets have similar useful lives.

Research and development

Expenditure on research (or the research phase of an internal project) is recognised as an expense in the period in which it is incurred.

Development costs, comprising labour and materials, that are incurred on specific projects are capitalised when all the following conditions are satisfied:

- completion of the intangible asset is technically feasible so that it will be available for use or sale
- the group intends to complete the intangible asset and use or sell it
- the group has the ability to use or sell the intangible asset
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting the criteria for capitalisation are expensed as incurred.

The directors apply careful judgement when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the information available at each balance sheet date.

PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment.

DEPRECIATION AND AMORTISATION

Depreciation and amortisation is calculated to write down the cost less estimated residual value of non current assets other than Goodwill, over their estimated useful economic lives. The residual values and useful lives are reviewed annually. The rates generally applicable are:

Software licences	10 per cent., by equal annual instalments
Tools and equipment	25 per cent. – 45 per cent., by equal annual instalments
Furniture and fittings	20 per cent., by equal annual instalments

Development costs are amortised against unit sales achieved, with the amount charged on each sale determined on the basis that total costs will be fully amortised over the product life cycle, which for this purpose is generally taken to be 3 years.

Depreciation and amortisation is included in Administrative expenses in the income statement.

IMPAIRMENT TESTING OF GOODWILL, OTHER INTANGIBLE ASSETS AND PROPERTY PLANT AND EQUIPMENT

Assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units) for the purposes of assessing impairment. As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination: these represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill, other individual assets or cash-generating units that include goodwill and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The extent of an impairment loss is the amount by which the estimated recoverable amount is less than the asset’s or cash-generating unit’s carrying amount. The recoverable amount is the higher of fair value less costs to sell (reflecting market conditions) and the value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units to which goodwill has been allocated are credited initially to the carrying amount of goodwill with any remaining impairment loss being charged *pro rata* to the other assets in the cash generating unit.

When an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior periods. A reversal of an impairment loss is recognised in the income statement immediately.

DISPOSAL OF ASSETS

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the income statement.

FINANCIAL ASSETS

Financial assets are recognised when the Group has become a party to the contracts that give rise to them.

Financial investments

Investments are classified by the directors at each reporting date.

All financial investments are classified as fair value through profit or loss as the performance of the Group depends on the gains or losses arising from the investment activity of the Group. They are valued in compliance with IAS 39 "Financial Instruments: Recognition and Measurement" and the International Private Equity and Venture Capital Guidelines as recommended by the British Venture Capital Association.

The principles used to value unlisted investments and the bases used for their valuation are set out in the report of the directors.

Gains and losses on the realisation of financial investments are dealt with through the income statement. Financial investments are not held for immediate realisation.

An assessment for impairment is undertaken at least annually, at each balance sheet date.

Trade receivables

Trade receivables are accounted for at fair value when the asset arises. Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. All receivables are considered for impairment.

FINANCIAL LIABILITIES

Financial liabilities comprise interest bearing loans and borrowings. On initial recognition, financial liabilities are measured at fair value.

Trade payables

Trade payables are not interest bearing and are stated at their fair value.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash at bank and in hand and short-term deposits with banks realisable at more than 24 hours' notice.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Costs of ordinarily interchangeable items are assigned using the first in, first out cost basis. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity.

TAXATION

Current tax is the tax currently payable based on taxable profits for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity, in which case the related deferred tax is also charged or credited directly to equity.

FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the profit or loss in the period in which they arise. Exchange differences arising on the re-translation of non-monetary items are included in the statement of recognised income and expense where a gain or loss relating to that non-monetary item would also be recognised directly in equity: otherwise such gains and losses are recognised in the income statement.

The assets and liabilities in the financial statements of foreign subsidiaries and related goodwill are translated at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at the average rates of exchange. The exchange differences arising from the re-translation of the opening net investment in subsidiaries are taken directly to the Foreign currency translation reserve in equity.

The Group has taken advantage of the exemption in IFRS 1 and has deemed cumulative translation differences for all foreign operations to be nil at the date of transition to IFRS. The gain or loss on disposal of these operations excludes translation differences that arose before the date of transition to IFRS and includes later translation differences.

SHARE BASED PAYMENTS

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2006 are recognised in the financial statements.

The Group issues equity-settled share-based payments to certain directors and employees. These payments are measured at fair value at the date of the grant and this fair value is recognised as an expense in the income statement with a corresponding entry to the Share option reserve on a straight line basis over the vesting period, based on the Group's estimate of the number of shares or share options that will eventually vest.

Fair value is measured by use of the Black Scholes Pricing Model. See note 22 for a further description of the share-based payment plans.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Although these estimates are based on management's best knowledge of the amount, event or action, actual results may differ materially from those estimates.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities relate to:

- the valuation of the Group's unlisted investments held at fair value through profit and loss, which are valued on the bases set out in the Report of the directors
- the determination of the initial fair value of the assets and liabilities acquired in a business combination
- the assessment of whether there has been any impairment of goodwill and other assets in respect of subsidiaries
- the basis on which development costs are capitalised or expensed as incurred, with account being taken of the fact that development is well-advanced with products in pre-production stage.

TERSUS ENERGY PLC

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the year ended 31 December 2007

	Note	*2007* £	*2006* £
Revenue	1	2,078,013	4,519,350
Cost of sales		(1,072,435)	(3,025,738)
Gross profit		1,005,578	1,493,612
Administrative expenses		(2,441,524)	(2,826,543)
Finance income	4	32,802	164,753
Finance cost	4	(99,809)	(6,023)
Gains and losses on financial investments at fair value through profit and loss:			
Gains		1,930,116	492,470
Losses		(1,175,333)	–
Loss before tax	3	(748,170)	(681,731)
Taxation	6	45,826	(13,847)
Loss for the period attributable to equity shareholders of the parent		(702,344)	(695,578)
Loss per share			
Basic	7	(1.8)p	(1.8)p
Diluted	7	(1.8)p	(1.8)p

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	Note	*2007* £	*2006* £
Exchange differences on translation of foreign operations	17	39,320	(127,633)
Net income/(expense) recognised directly in equity		39,320	(127,633)
Loss for the year	17	(702,344)	(695,578)
Total recognised income and expense for the year attributable to the equity shareholders of Tersus Energy Plc		(663,024)	(823,211)

The accompanying accounting policies and notes form an integral part of these statements.

TERSUS ENERGY PLC

CONSOLIDATED BALANCE SHEET

Year ended 31 December 2007

	Note	*2007* £	*2006* £
ASSETS			
Non-current assets			
Goodwill	8	1,053,779	1,019,459
Other intangible assets	8	783,180	750,958
Property, plant and equipment	9	37,174	93,302
Financial assets	10	3,610,033	2,466,136
		5,484,166	4,329,855
Current assets			
Inventories	11	307,996	302,301
Trade and other receivables	12	439,482	859,664
Cash and cash equivalents		483,151	565,755
		1,230,629	1,727,720
Total assets		6,714,795	6,057,575
LIABILITIES			
Current liabilities			
Trade and other payables	13	1,329,356	804,810
Short-term borrowings	14	677,393	4,160
Current tax payable		–	8,500
		2,006,749	817,470
Non-current liabilities			
Deferred tax	15	117,338	132,918
		117,338	132,918
Total liabilities		2,124,087	950,388
Net assets		4,590,708	5,107,187
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	16	190,231	190,231
Share premium account	17	6,417,112	6,417,112
Merger reserve	17	1,499,766	1,499,766
Share option reserve	17	280,755	134,210
Foreign currency translation reserve	17	(88,313)	(127,633)
Profit and loss account	17	(3,708,843)	(3,006,499)
Total equity		4,590,708	5,107,187

The financial statements were approved by the Board of directors on 27 June 2008.

S P Levine
Director

D T Wilson
Director

The accompanying accounting policies and notes form an integral part of these statements.

TERSUS ENERGY PLC

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007	*2006*
	£	*£*
Cash flow from operating activities		
Loss before taxation	(748,170)	(681,731)
Adjustments for:		
Depreciation and amortisation	96,478	14,031
Development costs – write-off	120,144	–
Investments – adjustments	9,855	–
Gains on financial investments	(1,930,116)	(592,650)
Losses on financial investments	1,175,333	–
Foreign exchange	(89,916)	32,548
Share option expense	146,545	105,436
Net finance cost/(income)	67,007	(158,730)
Change in inventories	40,352	(4,084)
Change in trade and other receivables	379,649	47,239
Change in trade and other payables	111,658	31,891
Cash outflow from operations	(621,181)	(1,206,050)
Taxation refund	33,252	–
Taxation paid	(8,934)	(5,347)
Net cash outflow from operating activities	(596,863)	(1,211,397)
Cash flows from investing activities		
Acquisition of Envinta, net of cash	–	(908,845)
Additions to investments	(2,065)	(2,142,119)
Additions to intangible fixed assets	(150,119)	(222,173)
Proceeds from the sale of investments	–	1,026,232
Additions to property, plant and equipment	(3,439)	(24,123)
Interest received	10,878	63,688
Net cash used in investing activities	(144,745)	(2,207,340)
Cash flows from financing activities		
Proceeds from issue of share capital	–	665,000
Proceeds of short-term loan from shareholder	500,000	–
Proceeds/(repayment) of bank loan	172,546	(51,029)
Interest paid	(12,689)	(6,023)
Net cash generated from financing activities	659,857	607,948
Net change in cash and cash equivalents	(81,751)	(2,810,789)
Exchange differences on cash and cash equivalents	(853)	(11,031)
Cash and cash equivalents at beginning of period	565,755	3,387,575
Cash and cash equivalents at end of period	483,151	565,755
Cash and cash equivalents comprise:		
Cash at bank and in hand	133,944	81,329
Cash on deposit	349,207	484,426
	483,151	565,755

The accompanying accounting policies and notes form an integral part of these statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

1. REVENUE

Revenue, which excludes value added tax and other sales taxes, represents the invoiced value of goods and services supplied and excludes intra-group sales. The revenue and pre-tax loss are wholly attributable to the ordinary activities of the various businesses within the Group. The revenue of the Canadian business Navitas comprises battery control products for battery powered vehicles. Envinta is based in the USA and the revenue of this business is generated from the development, sale, implementation and maintenance of energy and environmental information software products. Further revenue is generated in the USA and UK from the Group's strategic and financial advisory services.

2. SEGMENT REPORTING

Tersus identifies three operating segments: manufacturing of electronic control equipment; development and sale of energy and environmental information software; and advisory services to the renewable energy sector.

Primary reporting by business segment

Year ended 31 December 2007	*Manufacturing* £	*Software development* £	*Advisory services (Note (a))* £	*Total* £
Revenue	1,459,974	543,819	74,220	2,078,013
Gross profit	603,682	353,096	48,800	1,005,578
Administrative expense	(897,638)	(391,505)	(1,152,381)	(2,441,524)
Finance cost			(67,007)	(67,007)
Gains and losses on financial investments at fair value through profit and loss:				
Gains			1,930,116	1,930,116
Losses			(1,175,333)	(1,175,333)
Loss before tax	(293,956)	(38,409)	(415,805)	(748,170)
Taxation				45,826
Loss for period				(702,344)
Other segment items included in the income statement				
Depreciation and amortisation	18,568	51,618	26,292	96,478
Development costs – write-off	120,144	–	–	120,144
Share option expense	–	–	146,545	146,545

Information regarding segment assets and liabilities as at 31 December 2007 and capital expenditure for the period:

	Manufacturing £	*Software development* £	*Advisory services (Note (a))* £	*Total* £
Total assets	1,177,649	1,258,025	4,279,121	6,714,795
Total liabilities	(453,816)	(101,193)	(1,569,078)	(2,124,087)
Intangible asset additions	150,119	–	–	150,119
Financial assets additions	–	–	11,899	11,899
Property, plant and equipment additions	3,439	–	–	3,439

(a) Head office costs, group finance income/ (cost), gains and losses on financial investments, and assets and liabilities relating to group finance and taxation/deferred taxation are included in Advisory services.

Year ended 31 December 2006	*Manufacturing* £	*Software development* £	*Advisory services (Note (a))* £	*Total* £
Revenue	2,349,650	353,625	1,816,075	4,519,350
Gross profit	881,815	192,256	419,541	1,493,612
Administrative expense	(780,666)	(336,535)	(1,709,342)	(2,826,543)
Finance income			158,730	158,730
Gains and losses on financial investments at fair value through profit and loss:				
Gains			492,470	492,470
Losses			–	–
Profit/(loss) before tax	101,149	(144,279)	(638,601)	(681,731)
Taxation				(13,847)
Loss for period				(695,578)
Other segment items included in the income statement				
Depreciation and amortisation	14,031	–	–	14,031
Share option expense	–	–	105,436	105,436

Information regarding segment assets and liabilities as at 31 December 2006 and capital expenditure for the period:

	Manufacturing	*Software development*	*Advisory services (Note (a))*	*Total*
	£	£	£	£
Total assets	1,183,290	1,401,470	3,472,815	6,057,575
Total liabilities	(308,654)	(290,445)	(351,289)	(950,388)
Intangible asset additions	195,881	1,251,723	26,292	1,473,896
Financial assets additions	–	–	2,142,119	2,142,119
Property, plant and equipment additions	24,123	55,379	–	79,502

(a) Head office costs, group finance income/ (cost), gains and losses on financial investments, and assets and liabilities relating to group finance and taxation/deferred taxation are included in Advisory services.

Secondary reporting by geographical area

	Revenue from external customers 2007	*Profit/(loss) before tax 2007*	*Total assets less total liabilities 2007*	*Revenue from external customers 2006*	*Profit/(loss) before tax 2006*	*Total assets less total liabilities 2006*
	£	£	£	£	£	£
Canada – Navitas	1,459,974	(305,722)	723,833	2,349,650	95,610	874,636
USA – Envinta	543,819	(38,409)	1,156,832	353,625	(144,279)	1,111,025
USA – advisory services	64,220	(152,206)	(1,309,194)	1,667,634	(519,998)	(1,176,192)
UK – advisory services (Note (a))	10,000	(251,833)	4,019,237	148,441	(113,064)	4,297,718
	2,078,013	(748,170)	4,590,708	4,519,350	(681,731)	5,107,187

(a) Head office costs, group finance income/ (cost), gains and losses on financial investments, and assets and liabilities relating to group finance and taxation/deferred taxation are included.

There is no material difference between the origin and destination of turnover with the exception of Navitas sales, of which £1,014,373 (2006 – £2,186,965) was supplied from Canada to USA, £28,915 to Belgium (2006 – nil) and £22,782 to China (2006 – nil).

3. LOSS BEFORE TAX

The loss before taxation is stated after charging/(crediting):

	2007	*2006*
	£	*£*
Auditors' remuneration – fees payable to the Company's auditors:		
for the audit of the Group Accounts	15,000	17,000
for the audit of the Company's subsidiaries	15,000	16,078
for taxation services	–	1,500
under accrued in prior year	3,785	–
for corporate finance services	–	5,000
other services	6,000	15,000
Depreciation and amortisation:		
Intangible assets	82,298	–
Property, plant and equipment	14,180	14,031
Development costs – write-off	120,144	–
Operating leases	93,849	85,514
Net exchange gains and losses	(22,505)	24,591

4. FINANCE INCOME/COST

	2007	*2006*
	£	*£*
Interest receivable		
Bank deposits	10,460	53,960
Investments – convertible loans	3,827	97,728
Other balances	18,515	13,065
Finance income	32,802	164,753
Interest payable and similar charges		
Investments – convertible loans (a)	(85,640)	–
On bank overdrafts and other short term loans	(12,689)	(6,023)
Short term loan from shareholder	(1,480)	–
Finance cost	(99,809)	(6,023)
Net finance (cost)/income	(67,007)	158,730

(a) Adjustment for interest accrued in prior years no longer receivable following (i) exercise of conversion rights (£57,117) and (ii) assessment of fair value of the related convertible loans at the year-end (£28,523).

5. DIRECTORS AND EMPLOYEES

The average number of employees:

	2007	*2006*
Production	16	23
Advisory	6	18
Sales	7	4
Administration	5	5
	34	50

Staff costs during the year were as follows:

	2007 £	*2006* £
Wages and salaries	1,169,114	1,586,602
Social security costs	122,705	163,158
	1,291,819	1,749,760

The remuneration of the directors, who are the key management personnel of the Group, is set out below using the categories specified in IAS 24 "Related Party Disclosures":

	2007 £	*2006* £
Short-term employee benefits	377,934	321,334
Termination benefits	–	81,000
Share-based payments	56,435	45,166
	434,369	447,500

Directors' emoluments

For the year ended 31 December 2007

	Salary £	*Fees* £	*Benefits in kind* £	*Total* £
Executive Directors				
S P Levine	96,000	4,000	7,122	107,122
D T Wilson	85,000	–	–	85,000
Non-Executive Directors				
J F Devaney	–	50,000	–	50,000
S J Clayton	–	30,000	–	30,000
N N Trulsvik	–	20,000	–	20,000
H J Killen	–	20,000	–	20,000
	181,000	124,000	7,122	312,122

S P Levine also received payments of £49,178 under participation arrangements for work done in relation to the sale of the shares in Dynamotive Energy Systems Corporation in 2006.

Payment of directors' emoluments totalling £268,333 (2006 – nil) was deferred at 31 December 2007.

TERSUS ENERGY PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

Directors' share options

A summary of the share option schemes is given in note 22.

At 31 December 2007, certain directors held the following options to subscribe for ordinary shares:

	Type of option scheme	*Date of Grant*	*Ordinary shares under option*	*Exercise price £*	*Exercise dates From*	*To*
J F Devaney	Stand-alone	1/02/2005	400,000	0.500	4/02/2005	3/02/2010
J F Devaney	New Plan	31/05/2006	200,000	0.500	31/05/2006	30/05/2016
J F Devaney	New Plan	23 /03/2007	400,000	0.150	23/03/2007	23/03/2012
S P Levine	Rollover	1/05/2002	1,114,813	0.134	Vested	30/04/2012
S P Levine	New Plan	15/10/2005	400,000	0.500	Vested	14/10/2015
S P Levine	New Plan	31/05/2006	300,000	0.500	31/05/2006	30/05/2016
S P Levine	New Plan	23 /03/2007	400,000	0.150	23/03/2007	23/03/2012
D T Wilson	Stand-alone	1/02/2005	400,000	0.500	4/02/2005	3/02/2010
D T Wilson	New Plan	15/10/2005	800,000	0.500	Vested	14/10/2015
D T Wilson	New Plan	31/05/2006	300,000	0.500	31/05/2006	30/05/2016
D T Wilson	New Plan	23 /03/2007	800,000	0.150	23/03/2007	23/03/2012
N N Trulsvik	Stand-alone	1/02/2005	200,000	0.500	4/02/2005	3/02/2010
N N Trulsvik	New Plan	23 /03/2007	200,000	0.150	23/03/2007	23/03/2012
			5,914,813			

The Stand-alone Options, which were granted to J F Devaney, D T Wilson and N N Trulsvik pursuant to agreements dated 1 February 2005, are all exercisable at £0.50. The options vest in four equal tranches, the first on 4 February 2005 and the remainder on the same date in each of the following three years. The options are exercisable within 5 years.

The options granted to S P Levine and D T Wilson under the New Share Option Scheme on 15 October 2005 are all exercisable at £0.50. The options are exercisable within 10 years.

The options granted to J F Devaney, S P Levine and D T Wilson under the New Share Option Scheme on 31 May 2006 are all exercisable at £0.50. The options vest in these equal tranches, the first on 31 May 2006 and the remainder on the same date in each of the following two years. The options are exercisable within 10 years.

The options granted to J F Devaney, S P Levine, D T Wilson and N N Trulsvik under the New Share Option Scheme on 23 March 2007 are all exercisable at £0.15. The options vest in monthly instalments over the first twelve months and are exercisable within 5 years.

6. TAXATION

The tax charge is based on the loss for the year and represents:

	2007 £	*2006* £
Overseas taxation refund – prior years	(33,252)	–
Total tax receivable	(33,252)	–
Overseas taxation paid – prior years	3,834	3,578
Overseas taxation	–	927
UK taxation – prior years	(3,400)	842
UK taxation	–	8,500
Deferred taxation	(13,008)	–
Total tax (credit)/payable	(12,574)	13,847
Total tax (credit) /charge	(45,826)	13,847

The tax assessed for the period is lower than the standard rate of corporation tax in the United Kingdom 30 per cent. (2006 – 30 per cent.). The differences are explained below:

	2007 £	*2006* £
Loss on ordinary activities before tax	(748,170)	(681,731)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 30% (2006 – 30%)	(224,451)	(204,519)
Effects of:		
Higher effective tax rates on overseas earnings	(27,920)	(30,357)
Expenses not deductible for tax purposes	57,110	32,171
Tax losses carried forward	408,688	212,132
Net unrealised gains on financial investments	(226,435)	–
	(13,008)	9,427
Taxation – prior years	(32,818)	4,420
Total tax (credit)/ charge for the year	(45,826)	13,847

The Group has tax losses of approximately £5,870,000 at 31 December 2007 (2006 – £4,591,000), of which £5,098,000 (2006 – £4,591,000) arise overseas. These tax losses will be available to reduce the tax due on future profits.

The credit of £13,008 for deferred taxation comprises the release of part of the balance arising on recognition of the fair value of intangible assets on acquisition of Envinta. There is no charge for deferred tax on the net unrealised gains on financial investments recognised in the period as tax losses of £755,000 have been off-set against the deferred tax liability of £211,500 arising on these net unrealised gains (see note 15).

With the exception of the tax losses referred to in the above paragraph, no deferred tax asset has been recognised due to the uncertainty of the timing of recoverability of the asset. The asset will be recovered in line with future profits. The unrecognised deferred tax asset comprises the following:

	2007 £	*2006* £
Tax losses carried forward	1,789,000	1,607,000
Share based payments	70,500	31,630
	1,859,500	1,638,630

7. LOSS PER ORDINARY SHARE

The calculation is based on a loss of £702,344 (2006 – loss of £695,578) and on a weighted average number of shares in issue of 38,046,376 (2006 – 37,932,378).

At the year end, there were 10,172,973 share options (2006 – 9,329,483) and 6,000,000 warrants (2006 – nil) outstanding which, if exercised, could potentially dilute basic earnings per share in the future. These were not included in the calculation of diluted earnings per share in 2007 or 2006 as in each year the loss per share would be reduced.

8. INTANGIBLE ASSETS

	Goodwill	*Development*	*Software licences*	*Total*
	£	*£*	*£*	*£*
Cost				
At 31 December 2005	349,013	80,450	–	429,463
Additions – on acquisition of Envinta	751,723	–	500,000	1,251,723
Additions – other	–	195,881	26,292	222,173
Exchange movements	(81,277)	(26,373)	(25,292)	(132,942)
At 31 December 2006	1,019,459	249,958	501,000	1,770,417
Additions	–	150,119	–	150,119
Transfer from Property, plant & equipment	–	–	49,955	49,955
Disposals/ write-off	–	(120,144)	–	(120,144)
Exchange movements	34,320	44,107	(8,967)	69,460
At 31 December 2007	1,053,779	324,040	541,988	1,919,807
Amortisation				
At 31 December 2005	–	–	–	–
Additions	–	–	–	–
At 31 December 2006	–	–	–	–
Additions	–	4,553	77,745	82,298
Exchange movements	–	434	116	550
At 31 December 2007	–	4,987	77,861	82,848
Net book amount				
At 31 December 2007	1,053,779	319,053	464,127	1,836,959
At 31 December 2006	1,019,459	249,958	501,000	1,770,417
At 31 December 2005	349,013	80,450	–	429,463

The net book amount at 31 December 2006 has been restated following the adoption of IFRS for the first time in 2007. The movement in the figures previously reported for 2006 under UK GAAP is shown in note 26, which explains the changes made.

The goodwill relates to the acquisition by the Group of Navitas Technologies Limited (Navitas) and Envinta Corporation Inc (Envinta) in 2005 and 2006 respectively.

Goodwill is allocated to the relevant cash-generating unit (CGU) for the purpose of testing for impairment, with Navitas goodwill of £302,056 (2006 – £267,736) being allocated to the business of Navitas and Envinta goodwill of £751,723 (£751,723) being allocated to the business of Envinta.

The recoverable amounts of both CGUs were determined as their fair value less costs to sell using the earnings multiple methodology. In the case of Navitas, where there have been recent offers to purchase the business, the valuation was underpinned by a valuation determined using the Price of Recent Investment methodology. The calculation of the recoverable amounts for each CGU was based on the forecast profits before interest and tax for 2008 (Navitas) and for both 2008 and 2009 (Envinta), and an appropriate and reasonable price/earnings multiple for each business.

In each case, the impairment review concluded that the recoverable amount was not less than the carrying amount and hence that there had been no impairment of goodwill in 2007.

9. PROPERTY, PLANT AND EQUIPMENT

	Furniture & fixtures £	*Tools & equipment* £	*Leasehold* £	*Total* £
Cost				
At 31 December 2005	2,944	42,202	–	45,146
Additions – on acquisition of Envinta	55,379	–	–	55,379
Additions – other	218	13,066	10,839	24,123
Exchange movements	(3,178)	(6,191)	(923)	(10,292)
At 31 December 2006	55,363	49,077	9,916	114,356
Additions	1,318	2,121	–	3,439
Transfer to Intangible assets	(49,955)	–	–	(49,955)
Exchange movements	(531)	8,273	1,636	9,378
At 31 December 2007	6,195	59,471	11,552	77,218
Depreciation				
At 31 December 2005	491	8,853	–	9,344
Additions	455	11,769	1,807	14,031
Exchange movements	(98)	(2,069)	(154)	(2,321)
At 31 December 2006	848	18,553	1,653	21,054
Additions	697	11,373	2,110	14,180
Exchange movements	192	4,145	473	4,810
At 31 December 2007	1,737	34,071	4,236	40,044
Net book amount				
At 31 December 2007	4,458	25,400	7,316	37,174
At 31 December 2006	54,515	30,524	8,263	93,302
At 31 December 2005	2,453	33,349	–	35,802

10. FINANCIAL ASSETS

	Investments £
Carrying amount	
At 31 December 2005	337,625
Additions at cost	2,142,119
Exchange movements	(13,608)
At 31 December 2006	2,466,136
Additions at cost	11,899
Revaluation uplift recognised in profit and loss	2,319,116
Impairment losses recognised in profit and loss	(1,175,333)
Adjustments to cost	(9,855)
Exchange movement	(1,930)
At 31 December 2007	3,610,033

Investments are categorised as at fair value through profit or loss. Where the fair value can be reliably measured the fair value of the asset is reflected in the balance sheet and any changes are reported in profit or loss. Investments whose fair value cannot be reliably measured are held at cost less any impairment.

The investments comprise strategic investments which have been made in line with the Group's business strategy of focusing on the energy efficiency and alternative fuels/ renewable energy sectors, with some being obtained in return for providing advisory services.

The investments include both investments in shares and convertible loans. The terms on which some investments are made include the right for the Group to participate in future projects. All investments are unlisted.

All the investments are stated at amounts which the directors consider to be a reasonable assessment of their fair value, having regard to the requirement to apply a degree of caution in making the necessary estimates. The assessments have been made using one of the following bases:

- Price of Recent Investment
- Discounted cash flows from the investment

The basis considered most appropriate in light of the nature, facts and circumstances of each investment has been used.

The revaluation uplift relates to the Group's indirect investment in HT Blade, held through its investment in the TWELP partnership. This has been valued at £3,500,000 based on the price at which a third party has recently acquired an interest in the partnership, discounted to reflect the inherent uncertainties in realising future value. These uncertainties include the ability of TWELP to create further exit opportunities, the business performance of HT Blade and the willingness of the Chinese State Owned Enterprises (the majority shareholders) to proceed to an IPO. The value of the investment may also be affected by dilution caused by the creation of an incentive pool for the benefit of HT Blade management. The amount ultimately realised could be materially more or less than its present carrying value. A provision of £389,000 has also been made for the amount that would be payable under incentive arrangements if the investment were realised at this value, so that the net unrealised gain recognised through profit and loss for this investment is £1,930,116.

The remaining investments have been fair valued, largely on the basis of the estimated discounted cash flows from the investments. Of the impairment losses recognised through profit and loss, £840,237 (2006 – nil) relates to investment in shares and £335,096 (2006 – nil) to investments in convertible loans, with the impairment in the latter being wholly attributable to changes in the credit risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

11. INVENTORIES

The inventories principally comprise raw materials and bought-in parts. In 2007, a total of £700,705 of inventories was included in profit and loss as an expense (2006 – £1,264,810).

12. TRADE AND OTHER RECEIVABLES

	2007	*2006*
	£	*£*
Trade receivables	365,124	581,546
Accrued income	30,741	192,809
Prepayments and other debtors	43,617	85,309
	439,482	859,664

The carrying value of trade receivables is considered a reasonable approximation of fair value.

All of the receivables have been reviewed for indicators of impairment and a provision of £95,912 (2006 – £39,246) made.

The age of the trade receivables past due but not impaired is as follows:

	2007	*2006*
	£	*£*
Not more than 3 months	46,103	48,738
More than 3 months but not more than 6 months	33,139	31,955
More than 6 months but not more than 1 year	1,736	149,803
More than 1 year	120,620	15,686
	201,598	246,182

13. TRADE AND OTHER PAYABLES

	2007	*2006*
	£	*£*
Trade payables	367,327	508,760
Other payables	29,318	18,684
Other taxation and social security	11,407	31,369
Accruals and deferred income	921,304	245,997
	1,329,356	804,810

All amounts are short-term. The carrying values are considered to be a reasonable approximation of fair value.

14. SHORT TERM BORROWINGS

	2007	*2006*
	£	*£*
Bank loans and overdrafts	177,393	4,160
Short term loan from shareholder (a)	500,000	–
	677,393	4,160

(a) This loan, details of which are given in note 24, was repaid in full on 2 May 2008.

The short-term borrowings carry interest at market rate and hence they are considered to be carried at fair value.

15. DEFERRED TAX

The movement in the year in the net deferred tax position for the Group was as follows:

	2007	*2006*
	£	*£*
At 1 January	132,918	–
Additions – on acquisition of Envinta	–	140,000
Released to income in the year	(13,008)	–
Exchange movements	(2,572)	(7,082)
At 31 December	117,338	132,918

A deferred tax liability arose in the period to 31 December 2006 following the adoption of IFRS for the first time in 2007. The movement in the figures previously reported for 2006 under UK GAAP is shown in note 26, which explains the changes made.

The major deferred tax liabilities recognised by the Group and the movements thereon during the period are:

	Intangible assets recognised at acquisition	*Net unrealised gains on financial investments*	*Effects of tax losses*	*Total*
	£	*£*	*£*	*£*
At 31 December 2005	–	–	–	–
Arising on acquisition of Envinta	140,000	–	–	140,000
Exchange movements	(7,082)	–	–	(7,082)
At 31 December 2006	132,918	–	–	132,918
Charge in year	(13,008)	211,500	(211,500)	(13,008)
Exchange movements	(2,572)	–	–	(2,572)
At 31 December 2007	117,338	211,500	(211,500)	117,338

See note 6 for information on the Group's tax expense.

16. SHARE CAPITAL

	2007 £	2006 £
Authorised		
200,000,000 ordinary shares of 0.5p each	1,000,000	1,000,000
Issued and fully paid		
At 1 January	190,231	186,307
Issued in consideration for the acquisition of Envinta Corporation Inc	–	3,924
At 31 December	190,231	190,231

	Ordinary Shares	*Ordinary Shares*
At 1 January	38,046,376	37,261,297
Issued in consideration for the acquisition of Envinta Corporation Inc	–	785,079
At 31 December	38,046,376	38,046,376

In connection with the short-term loan of £500,000 made to the Company by Bronsstadet AB (see note 24), the Company issued 6 million warrants on 17 December 2007 that are exercisable over 6 million ordinary shares at £0.01p each at any time within three years. The fair value of the warrants has been assessed to be not material.

The various share option plans are described in note 22. The total number of share options outstanding at 31 December 2007, the periods in which they were granted and the periods in which they may be exercised are given below:

Date of grant	*Type of scheme*	*Note*	*Ordinary shares under option*	*Exercise price (£)*	*From*	*To*
1/05/2002	Rollover	(i)	1,114,813	0.134	Vested	30/04/2012
1/06/2003	Rollover	(ii)	929,010	0.134	Vested	31/05/2008
15/09/2003	Rollover	(ii)	148,641	0.134	Vested	31/08/2008
1/02/2004	Rollover	(ii)	445,924	0.134	Vested	31/01/2009
1/04/2004	Rollover	(ii)	218,502	0.134	Vested	31/03/2009
1/06/2004	Rollover	(ii)	222,962	0.134	Vested	31/05/2009
30/08/2004	Rollover	(ii)	359,158	0.134	Vested	29/08/2009
31/08/2004	Rollover	(ii)	22,296	0.134	Vested	30/08/2009
4/02/2005	Stand-alone		750,000	0.500	Vested	3/02/2010
4/02/2005	Stand-alone		250,000	0.500	4/02/2008	3/02/2010
15/10/2005	New Plan		70,000	0.500	Vested	30/4/2009
15/10/2005	New Plan		1,450,000	0.500	Vested	14/10/2015
31/05/2006	New Plan		1,061,111	0.500	Vested	28/05/2016
31/05/2006	New Plan		530,556	0.500	31/05/08	28/05/2016
23/03/2007	New Plan		2,166,667	0.150	Vested	23/03/2012
23/03/2007	New Plan		433,333	0.150	23/01/2008	23/03/2012
			10,172,973			

(i) The final exercise date has been extended to 30 April 2012.

(ii) The dates of grant shown for Rollover options are the original option grant dates under the Tersus Energy Services Inc. share option scheme.

Movements in the number of share options outstanding and the weighted average exercise price are as follows:

	2007 Number	*2007* Weighted average exercise price (£)	*2006* Number	*2006* Weighted average exercise price (£)
Outstanding at 1 January	9,329,483	0.302	7,554,483	0.256
Granted	3,000,000	0.150	1,775,000	0.500
Expired	(1,330,094)	0.134	–	–
Lapsed	(826,416)	0.223	–	–
Outstanding at 31 December	10,172,973	0.286	9,329,483	0.302
Thereof exercisable	8,959,084	0.274	6,873,546	0.247

17. EQUITY

	Share premium account £	*Merger reserve* £	*Share option reserve* £	*Foreign currency translation reserve* £	*Profit and loss account* £
At 31 December 2005	6,075,603	1,499,766	28,774	–	(2,310,921)
Loss for the year	–	–	–	–	(695,578)
Premium on shares issued in relation to the acquisition of Envinta Corporation Inc	341,509	–	–	–	–
Share option expense	–	–	105,436	–	–
Exchange movements	–	–	–	(127,633)	–
At 31 December 2006	6,417,112	1,499,766	134,210	(127,633)	(3,006,499)
Loss for the year	–	–	–	–	(702,344)
Share option expense	–	–	146,545	–	–
Exchange movements	–	–	–	39,320	–
At 31 December 2007	6,417,112	1,499,766	280,755	(88,313)	(3,708,843)

The balances at 31 December 2006 have been restated following the adoption of IFRS for the first time in 2007. The movement in the figures previously reported for 2006 under UK GAAP is shown in note 26, which explains the changes.

The Merger reserve arose on the group reconstruction on 21 January 2005 when Tersus Energy Services Inc. was acquired by the Company. This has been accounted for using merger accounting rules as explained in the section on the Basis of Consolidation on page 15 and the consolidated accounts have been prepared as if the Company had always been in existence.

The Foreign currency translation reserve comprises the cumulative exchange differences arising after 1 January 2006 on the translation of foreign operations.

18. CAPITAL COMMITMENTS

There were no capital commitments at 31 December 2007 or 31 December 2006.

19. CONTINGENT LIABILITIES

There were no contingent liabilities at 31 December 2007 or 31 December 2006.

20. OPERATING LEASE COMMITMENTS

At 31 December 2007, the Group had commitments to make future minimum payments under non-cancellable operating leases as follows:

	2007	*2006*
	£	*£*
Within 1 year	92,585	85,514
Within 1 – 5 years	204,649	287,419
	297,234	372,933

21. FINANCIAL INSTRUMENTS

The disclosures below are as required by IFRS 7 "Financial Instruments: Disclosures".

The Group manages its treasury function in accordance with policies that are reviewed and agreed by the Board. The objective is to reduce financial risk by ensuring that sufficient liquidity is available to meet the Group's foreseeable needs.

The Group's financial instruments comprise cash and short-term deposits, bank overdrafts and short-term borrowings as well as trade receivables, trade payables and accruals that arise directly from its operations.

The major financial risks for the Group are interest rate risks and liquidity risks. The policies for managing each of the risks are summarised below.

Liquidity and funding risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs.

Interest rate risk

Group funds are invested in deposit accounts with the objective of maintaining a balance between accessibility of funds and competitive rates of return.

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables and investments.

The credit risk from bank balances and cash is negligible because the counter-parties are banks with high credit ratings.

The Group has no significant concentration of credit risk, as exposure is spread over a number of counter-parties and customers. The directors monitor the Group's credit risk by actively reviewing and approving the terms of, and parties to, significant commercial contracts where payment is not anticipated in advance.

Foreign currency risks

The Group carries out operations through a number of foreign subsidiaries. The day to day transactions of overseas subsidiaries are carried out in local currencies. The Group's exposure to currency risk at a transactional level is monitored and reviewed regularly. The Group does not have a hedging programme in place at this time.

The Group will use forward currency contracts where appropriate to mitigate its exposure to exchange risk fluctuations. No forward currency contracts existed at either 31 December 2007 or 31 December 2006.

Information on the various financial risks identified above is given below.

Liquidity and funding risk analysis

At 31 December 2007, the Group had short term borrowings totalling £677,393 (2006 – £4,160). These included a loan from a shareholder, which was repaid in full on 2 May 2008.

Interest rate risk analysis

The Group is exposed to interest rate risk in respect of the cash balances held with banks. If the interest rate had increased/decreased by half a per cent. during the year, the net result for the year would have been increased/reduced by £1,350 (2006 – £6,490).

Credit risk analysis

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	2007	*2006*
	£	*£*
Classes of financial assets – carrying amounts		
Financial assets – convertible loans	–	1,568,959
Trade and other receivables	365,124	581,546
Cash and cash equivalents	483,151	565,755
	848,275	2,716,260

The Group's credit risk relating to its investments in convertible loans was eliminated in 2007, following the exercise of conversion rights and recognition of impairment losses during the year.

Foreign currency risk analysis

The table below shows the Group's exposure to foreign currency denominated financial assets and liabilities at the year end, translated at the closing rate:

	2007	*2007*	*2006*	*2006*
	£	*£*	*£*	*£*
Foreign currency	*US Dollars*	*Canadian Dollars*	*US Dollars*	*Canadian Dollars*
Financial assets	188,277	234,030	474,209	283,017
Financial liabilities	(116,304)	(307,190)	(237,790)	(225,740)
Short-term exposure	71,973	(73,160)	236,419	57,277

The following table illustrates the sensitivity of the net result for the year and equity in regards to the Group's financial assets and financial liabilities and the US Dollar-Sterling and the Canadian Dollar-Sterling.

It assumes a +/–10 per cent. change of the US Dollar-Sterling and Canadian Dollar-Sterling exchange rate for the year ended 31 December 2007 (2006 +/–10 per cent. change). These percentages have been determined based on the approximate average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each balance sheet date.

If sterling had weakened against the US Dollar and Canadian Dollar by 10 per cent., this would have had the following impact:

Foreign currency	*2007* *£* *US Dollars*	*2007* *£* *Canadian Dollars*	*2006* *£* *US Dollars*	*2006* *£* *Canadian Dollars*
Net result for the year	(21,179)	(33,969)	(71,586)	10,623
Equity	(21,227)	(37,204)	(67,342)	9,718

If sterling had strengthened against the US Dollar and Canadian Dollar by 10 per cent., this would have had the following impact:

Foreign currency	*2007* *£* *US Dollars*	*2007* *£* *Canadian Dollars*	*2006* *£* *US Dollars*	*2006* *£* *Canadian Dollars*
Net result for the year	17,329	27,793	58,571	(8,692)
Equity	17,368	30,440	93,296	(16,096)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. The analysis is considered to be broadly representative of the Group's exposure to currency risk.

22. LONG TERM INCENTIVES

A number of arrangements are in place to provide long term incentives. The arrangements under which long term incentives have already been granted or under which the Group intends to grant such incentives in the foreseeable future are summarised below.

Share options

New Share Option Plan

The Company has established a New Share Option Plan to facilitate the provision of equity incentives to employees and directors.

The New Share Option Plan is divided into two parts, one which is approved by the Inland Revenue (the "Approved Part") and one which offers awards in excess of the Inland Revenue limits (the "Non-approved Part"). The Company may also grant "Incentive Stock Options" in the USA on terms no more favourable than under the Non-approved Part. It is intended that options will only be granted under this plan in future.

Under this scheme, the total acquisition price of the ordinary shares under option to an individual will ordinarily be no more than twice their remuneration with a provision to grant options worth up to four times their remuneration in certain circumstances. The basis on which the options can be exercised will be set at the time they are granted, including both the price and a vesting schedule. The exercise price for options may be lower than the market price of an ordinary share at the date the option is granted, but no less than the nominal value. The Company's current policy is that one third of options granted will vest and become exercisable immediately with the remainder vesting in equal tranches on the anniversary of the date of the grant in each of the following two years. No option can be exercised more than ten years after its date of grant.

When an option holder ceases to work for the Group, unvested options lapse but, under certain circumstances, vested options may be exercised for a period after cessation of employment.

In the year ended 31 December 2007, 3,000,000 options were issued under the Share Option Plan at a price of £0.15 (31 December 2006 – 1,775,000 issued at a price of £0.50).

Rollover Options

The Company has Rollover Options in place as a result of arrangements whereby options granted prior to the group reorganisation to the then employees and management of Tersus Energy Services Inc. were rolled over under the terms of the existing Tersus Energy Services Inc. share option scheme into options over ordinary shares of the Company, exercisable at £0.134 per ordinary share. At 31 December 2007, there were 2,346,493 options exercisable in the period up to 30 August 2009 and 1,114,813 options exercisable in the period up to 30 April 2012.

Stand alone Options

The Company granted Stand-alone Options to J F Devaney, D T Wilson and N N Trulsvik pursuant to agreements dated 1 February 2005, at an exercise price of £0.50. The options vest in four equal tranches, the first on 4 February 2005 and the remainder on the same date in each of the following three years. The options, which are exercisable within 5 years, provide that if any of the holders leave the Company in certain circumstances, they are permitted to retain vested options and exercise the same within three months of the date of departure.

Advisory Income Participation Arrangement

The Company has established an Advisory Income Participation Arrangement whose objective is to reward and incentivise those employees and contract personnel who assist the Group in consummating cash-generative transactions with advisory clients. Under this arrangement, an amount of up to 30 per cent. of the net cash received by the Group on a transaction (after taking account of the payment of various related expenses to third parties and basic remuneration) may be paid in compensation to employees who had an active role in the transaction, provided that those employees have met certain minimum criteria. In relation to one assignment, the maximum participation has been increased to 50 per cent., of which 45 per cent. is to a director.

In the year to 31 December 2007 one payment of £11,379 (2006 – £3,096) was made under this arrangement which related to the disposal of shares in Dynamotive Energy Systems Corporation which had been received as consideration for advisory work.

Investment Gain Participation Arrangement

The Company has established an Investment Gain Participation Arrangement whose objective is to reward and incentivise those employees and contract personnel who assist the Group in acquiring, managing or realising an investment. Under this arrangement, an amount of up to 20 per cent. of the net realised gain made by the Group on an investment may be made available and allocated amongst the members of the investment management team from time to time. The net gain is calculated after a first return to the Group the amount of which will reflect the amount and type of capital invested and the expected return at the time of investment. Non-refundable advances may be paid where an investment is judged to have secured an increase in value giving rise to an unrealised gain and/or is operating profitably. No such advances have been made to date. Participations granted under this arrangement will normally vest over a period of up to 3 years.

In the year to 31 December 2007 payments amounting to £50,425 were made (2006 – £27,924) which related to the disposal of shares in Dynamotive Energy Systems Corporation.

23. EQUITY SETTLED SHARE OPTION PLAN

The Group provides for a grant price equal to the average quoted market price of the Group shares on the date of grant.

Details of the share options in issue are provided in note 16. The fair values of share options were calculated using the Black-Scholes Pricing Model. The inputs into the model are outlined below.

	New share option plan	*Rollover options*	*Stand alone options*
Fair value	£0.03–£0.06	£0.02–£0.26(1)	£0.06
Share price	£0.15–£0.41	£0.134–£0.50	£0.50
Exercise price	£0.15–£0.50	£0.134–£0.50	£0.50
Expected volatility	30.0%–27.0%	27.0%	27.0%
Expected life	5	3	3
Risk free rate	4.4%	4.4%	4.4%
Expected dividends yield	nil	nil	nil

(1) 426,349 options were issued when mid market price was £0.50.

The Group recognised a total expense of £146,545 relating to equity settled share option scheme transactions in 2007 (2006 – £105,436).

Expected volatility was determined by calculating the historical volatility of the Group's share price over the period from flotation on the Alternative Investment Market in February 2005 through to March 2007. The expected useful life used in the model equals the life of the options.

24. RELATED PARTY TRANSACTIONS

Moore, Clayton & Co., Inc. ("MCCI"), now part of MCC Global NV., is a related party, by virtue of its significant shareholding in Tersus Energy Plc and by the fact that one of its directors and controlling shareholders, S J Clayton, is a director of the Company. During the year £11,558 (2006 – £39,922) was payable to companies in the MCCI group in respect of certain general management and administrative services provided while £ nil (2006 – £138,695) was receivable from a wholly-owned subsidiary of MCCI under an agreement that facilitates business activities undertaken on behalf of clients that are regulated in either the USA or UK (Regulated Activities Fee Agreement). The arrangements have been made on normal commercial terms. On 31 December 2007 £118,695 of the amount receivable at the end of 2006 was still outstanding along with £30,741 of interest.

Bronsstadet AB is a related party, by virtue of the fact that it is controlled by P Gyllenhammar, who has a significant shareholding in Tersus Energy Plc. On 17 December 2007, Bronsstadet AB made a short-term loan to the Company of £500,000 at an interest rate of 9 per cent. The loan, which was repayable within 15 months and was secured by a floating charge over the assets of the Company, was repaid in full on 2 May 2008, together with interest. Attached to the loan were 6.0 million warrants exercisable over 6.0 million ordinary shares at £0.01 each at any time within three years.

25. POST BALANCE SHEET EVENTS

In April 2008, the Company received US $3.64 million by way of a distribution and part realisation of its indirect investment in HT Blade, held through its investment in the TWELP partnership. Information on the transactions involving HT Blade is contained in the Chairman's statement.

On 2 May 2008, the short-term loan of £500,000 from a shareholder was repaid in full.

26. EXPLANATION OF TRANSITION TO IFRS

As stated in the Basis of Preparation, these are the Group's first consolidated annual financial statements prepared in accordance with the recognition and measurement rules of IFRS.

Companies adopting IFRS for the first time may elect to use certain exemptions from the full requirements of IFRS in the transition period. These financial statements have been prepared on the basis of the following exemptions:

(a) Business combinations prior to 1 January 2006, the Group's date of transition to IFRS, have not been restated to comply with IFRS 3 "Business Combinations". Goodwill arising from these business combinations of £302,056 has not been restated other than as set out in note (ii) below.

(b) Cumulative translation differences for all foreign operations are deemed to be nil at 1 January 2006, the Group's date of transition to IFRS.

(c) The requirements of FRS 20 "Share-Based payments" have been applied to all grants after 7 November 2002 that had not vested as of 1 January 2006 in accordance with the transitional provisions.

The reconciliations set out on the following pages show the movement from previously reported results prepared under UK GAAP to the restated results used in these financial statements prepared under IFRS.

The effect of adopting IFRS has no impact on the cash flows previously reported, but has led to a change in the format of the cash flow statement.

TERSUS ENERGY PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

(a) Reconciliation of equity at 1 January 2006

	UK GAAP	*(i)*	*(ii)*	*IFRS*
	£	£	£	£
Non-current assets				
Goodwill	349,013	–	–	349,013
Other intangible assets	80,450	–	–	80,450
Property, plant and equipment	35,802	–	–	35,802
Financial assets	337,625	–	–	337,625
Current assets				
Inventories	397,380	–	–	397,380
Trade and other receivables	1,333,893	–	–	1,333,893
Other current assets	319,181	–	–	319,181
Cash and cash equivalents	3,387,575	–	–	3,387,575
Current liabilities				
Trade and other payables	(698,647)	–	–	(698,647)
Short-term borrowings	(62,743)	–	–	(62,743)
Net assets	5,479,529	–	–	5,479,529
Equity				
Share capital	186,307	–	–	186,307
Share premium account	6,075,603	–	–	6,075,603
Merger reserve	1,499,766	–	–	1,499,766
Share option reserve	28,774	–	–	28,774
Profit and loss account	(2,310,921)	–	–	(2,310,921)
Total equity	5,479,529	–	–	5,479,529

See (d) for notes relating to adjustments (i) and (ii).

(b) Reconciliation of equity at 1 January 2007

	UK GAAP	*(i)*	*(ii)*	*(iii)*	*IFRS*
	£	£	£	£	£
Non-current assets					
Goodwill	1,341,061	(360,000)	38,398	–	1,019,459
Other intangible assets	276,250	474,708	–	–	750,958
Property, plant and equipment	93,302	–	–	–	93,302
Financial assets	2,466,136	–	–	–	2,466,136
Current assets					
Inventories	302,301	–	–	–	302,301
Trade and other receivables	859,664	–	–	–	859,664
Cash and cash equivalents	565,755	–	–	–	565,755
Current liabilities					
Trade and other payables	(804,810)	–	–	–	(804,810)
Short-term borrowings	(4,160)	–	–	–	(4,160)
Current tax payable	(8,500)	–	–	–	(8,500)
Non-current liabilities					
Deferred tax	–	(132,918)	–	–	(132,918)
Net assets	5,086,999	(18,210)	38,398	–	5,107,187
Equity					
Share capital	190,231	–	–	–	190,231
Share premium account	6,417,112	–	–	–	6,417,112
Merger reserve	1,499,766	–	–	–	1,499,766
Share option reserve	134,210	–	–	–	134,210
Foreign currency translation reserve	–	–	–	(127,633)	(127,633)
Profit and loss account	(3,154,320)	(18,210)	38,398	127,633	(3,006,499)
Total equity	5,086,999	(18,210)	38,398	–	5,107,187

(c) Reconciliation of profit for the year to 31 December 2006

	UK GAAP	*(i)*	*(ii)*	*IFRS*
	£	£	£	£
Continuing operations				
Revenue	4,519,350	–	–	4,519,350
Cost of sales	(3,025,738)	–	–	(3,025,738)
Gross profit	1,493,612	–	–	1,493,612
Administrative costs	(2,865,941)	–	39,398	(2,826,543)
Finance cost – interest receivable	164,753	–	–	164,753
interest payable	(6,023)	–	–	(6,023)
Other operating income	492,470	–	–	492,470
Loss before tax	(721,129)	–	39,398	(681,731)
Taxation	(13,847)	–	–	(13,847)
Loss for the period	(734,976)	–	39,398	(695,578)

See (d) for notes relating to adjustments (i), (ii) and (iii).

(d) Notes to the reconciliations

(i) The Group acquired Envinta Corporation Inc (Envinta) on 8 May 2006. Application of IFRS 3 to this business combination resulted in identification of the Software licence as an intangible asset. Under IFRS 3 this has been recognised separately in the balance sheet at its fair value at the date of the combination. Under UK GAAP this intangible asset was subsumed within goodwill. The result of this adjustment is to decrease goodwill and increase intangible assets by US$930,000 (£500,000) at the date of the combination. At 31 December 2006 the value of goodwill reduced by £500,000 while that of intangible assets increased by £474,708, with the difference being charged to the Foreign currency translation reserve. Goodwill was also adjusted for deferred tax of US$260,400 (£140,000) that was provided on the increase in the value of the intangible asset.

(ii) Goodwill recognised by the Group on the acquisition of Navitas Technologies Limited (Navitas) and Envinta under UK GAAP was being amortised over a period of 20 years. Under IFRS goodwill is not amortised, but is tested annually for impairment. The goodwill amortisation charge recognised in accordance with UK GAAP in 2006 has been written back. The result of this adjustment is to reduce the amortisation charge in the income statement for that year by £39,398, with the carrying value of goodwill being increased correspondingly. The increase at 31 December 2006 was £38,398 (at the year-end exchange rate), with £10,398 relating to Navitas and £28,000 to Envinta.

(iii) Exchange differences arising after 1 January 2006 on the translation of foreign operations have been transferred to a Foreign currency translation reserve from the Profit and loss account. The cumulative translation differences on foreign operations as at 1 January 2006, the transition date, are deemed to be nil.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF TERSUS ENERGY PLC

We have audited the parent company financial statements (the ‘financial statements’) of Tersus Energy Plc for the year ended 31 December 2007 which comprise the principal accounting policies, the company balance sheet and notes 1 to 12. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of Tersus Energy Plc for the year ended 31 December 2007. That report is modified by the inclusion of an emphasis of matter.

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 auditor’s 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 parent company financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors’ Responsibilities.

Our responsibility is to audit the parent company 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 parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors’ Report is consistent with the financial statements. The information given in the Directors’ Report includes that specific information presented in the Chairman’s Statement that is cross referred from the Business Review section of the Directors’ Report.

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 other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Directors’ Report and the Chairman’s Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

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 parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company 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 parent company financial statements.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF TERSUS ENERGY PLC

OPINION

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007;
- the parent company 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 the Principal Accounting Policies – Going Concern concerning the Company's ability to continue as a going concern. This disclosure indicates 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.

GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS

London
27 June 2008

TERSUS ENERGY PLC

COMPANY BALANCE SHEET

Year ended 31 December 2007

	Note	*2007*	*2006*
		£	*£*
FIXED ASSETS			
Intangible assets	3	–	26,292
Investments	4	3,097,824	4,280,948
		3,097,824	4,307,240
Current assets			
Debtors – amounts due within one year	5	182,834	1,204,106
Debtors – amounts due after more than one year	5	865,567	1,192,129
Cash at bank and in hand		295,044	226,390
		1,343,445	2,622,625
Creditors: amounts falling due within one year	6	(1,050,010)	(238,345)
Net current assets		293,435	2,384,280
Total assets less current liabilities		3,391,259	6,691,520
Capital and reserves			
Called up share capital	7	190,231	190,231
Share premium account	8	6,417,112	6,417,112
Share option reserve	8	280,755	134,210
Profit and loss account	8	(3,496,839)	(50,033)
Shareholders' funds		3,391,259	6,691,520

The financial statements were approved by the Board of directors on 27 June 2008.

S P Levine
Director

D T Wilson
Director

The accompanying accounting policies and notes form an integral part of these statements.

1. SIGNIFICANT ACCOUNTING POLICIES

The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by that Act, the separate financial statements have been prepared in accordance with all applicable UK accounting standards. The principal accounting policies which differ from those set out in the Principal Accounting Policies for the consolidated financial statements on pages 14 to 20 are noted below.

The financial statements have been prepared on the historical cost basis.

Fixed Asset Investments

Fixed asset investments, including subsidiaries, are shown at cost, less provision for any permanent impairment of value. Cost includes the associated costs of acquisition. Where equity or rights to equity are obtained in consideration of providing advisory services, no value is attributed to such equity or rights until this is independently verifiable.

Deferred Taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Share Based Payments

The requirements of FRS 20 Share-Based payments are the same as those set out in the Principal Accounting Policies for the consolidated financial statements.

2. LOSS FOR THE FINANCIAL YEAR

The Company has taken advantage of section 230(2) of The Companies Act 1985 and has not included its own profit and loss account in these financial statements. The loss of the Company for the year ended 31 December 2007 was £3,446,806 (2006 – loss of £119,529).

The average monthly number of employees of the Company (including directors) during the year was 7 (2006 – 10) and their aggregate remuneration comprised:

	2007	*2006*
	£	*£*
Wages and salaries	433,333	603,751
Social security costs	31,937	57,039
	465,270	660,790

The auditors' remuneration for audit services to the Company was £10,000 (2006 – £10,000).

3. INTANGIBLE ASSETS

At 31 December 2006, the Company held at cost a Software licence which it had acquired during that year for £26,292. Full provision was made against the carrying cost during 2007 and, accordingly, the net book amount at 31 December 2007 was nil.

4. INVESTMENTS

Cost	*Shares in group companies* £	*Loans to group companies* £	*Investments* £	*Total* £
At 31 December 2006	1,180,824	736,116	2,364,008	4,280,948
Additions at cost	–	–	2,064	2,064
Adjustments to cost	–	–	(9,855)	(9,855)
At 31 December 2007	1,180,824	736,116	2,356,217	4,273,157
Provision for impairment in value				
At 31 December 2006	–	–	–	–
Additions in year	–	–	1,175,333	1,175,333
At 31 December 2007	–	–	1,175,333	1,175,333
Net book amount				
At 31 December 2007	1,180,824	736,116	1,180,884	3,097,824
At 31 December 2006	1,180,824	736,116	2,364,008	4,280,948

The fixed asset investments comprise strategic investments which have been made in line with the Company's business strategy of focusing on the energy efficiency and alternative fuels/ renewable energy sectors, with some being obtained in return for providing advisory services.

The fixed asset investments include both investments in shares and convertible loans. The terms on which some investments are made include the right for the Company to participate in future projects. All investments are unlisted.

The subsidiary companies affecting the results of the Group and their activities during the year were:

Subsidiary	*Country of registration and operation*	*Class of share*	*Percentage held*	*Activities*
Tersus Energy Services Inc.[(i) (ii)] (formerly MCC Energy Group Inc.)	Delaware, USA	Ordinary	100%	Strategic advisor in energy sector
MCEG Technologies, Inc.	Delaware, USA	Ordinary	100%	Investment holding company
Navitas Technologies Limited[(i)]	Ontario, Canada	Ordinary	100%	Supply of battery control products to battery powered vehicles
Envinta Corporation Inc[(i)]	Delaware, USA	Ordinary	100%	Developer of energy and environmental information software
Tersus Energy Services Limited	England & Wales	Ordinary	100%	Strategic advisor in energy sector

(i) Held directly by Tersus Energy Plc

(ii) Name changed on 6 February 2007

5. DEBTORS

	2007	2006
	£	£
Amounts falling due within one year		
Trade debtors	12,229	5,775
Amounts owed by subsidiary companies	153,234	1,092,857
Accrued income	–	85,640
Prepayments and other debtors	17,371	19,834
	182,834	1,204,106
Amounts falling due after more than one year		
Amounts owed by subsidiary companies	865,567	1,192,129
	865,567	1,192,129
	1,048,401	2,396,235

6. CREDITORS

	2007	2006
	£	£
Short term loan from shareholder (a)	500,000	–
Trade creditors	121,225	45,229
Amounts owed to subsidiary companies	100	100
Other taxation and social security	4,693	28,980
Accruals and deferred income	423,992	164,036
	1,050,010	238,345

(a) This loan, details of which are given in note 12, was repaid in full on 2 May 2008.

7. CALLED UP SHARE CAPITAL

	2007	2006
	£	£
Authorised		
200,000,000 ordinary shares of 0.5p each	1,000,000	1,000,000
Issued and fully paid		
At 1 January	190,231	186,307
Issued in consideration for the acquisition of Envinta Corporation Inc	–	3,924
At 31 December	190,231	190,231

At 31 December 2007 and 31 December 2006 38,046,376 ordinary shares of 0.5p each were issued and fully paid.

In connection with the short-term loan of £500,000 made to the Company by Bronsstadet AB (see note 12), the Company issued 6 million warrants on 17 December 2007 that are exercisable over 6 million ordinary shares at £0.01p each at any time within three years. The fair value of the warrants has been assessed to be not material.

At 31 December 2007 there were share options outstanding over 10,172,973 ordinary shares. Details of the share options, including the periods in which they were granted and the periods in which they may be exercised, are given in note 16 of the consolidated financial statements. The various share option plans are described in note 22 of the consolidated financial statements.

During the year 3,000,000 share options were granted at £0.15. Of the share options initially granted, 600,000 lapsed prior to the year-end.

8. SHARE PREMIUM ACCOUNT AND RESERVES

	Share premium account	*Share option reserve*	*Profit and loss account*
	£	*£*	*£*
At 31 December 2006	6,417,112	134,210	(50,033)
Loss for the year	–	–	(3,446,806)
Share option expense	–	146,545	–
At 31 December 2007	6,417,112	280,755	(3,496,839)

9. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2007	*2006*
	£	*£*
Loss for the financial year	(3,446,806)	(119,529)
Share option expense	146,545	105,436
Issue of shares	–	345,433
Net movement in shareholders' funds	(3,300,261)	331,340
Opening equity shareholders' funds	6,691,520	6,360,180
Closing equity shareholders' funds	3,391,259	6,691,520

10. CAPITAL COMMITMENTS

There were no capital commitments at 31 December 2007 or 31 December 2006.

11. CONTINGENT LIABILITIES

There were no contingent liabilities at 31 December 2007 or 31 December 2006.

12. RELATED PARTY TRANSACTIONS

Moore, Clayton & Co., Inc. ("MCCI"), now part of MCC Global NV., is a related party, by virtue of its significant shareholding in Tersus Energy Plc and by the fact that one of its directors and controlling shareholders, S J Clayton, is a director of the Company. During the year £11,558 (2006 - £39,922) was payable to companies in the MCCI group in respect of certain general management and administrative services provided while £ nil (2006 - £138,695) was receivable from a wholly-owned subsidiary of MCCI under an agreement that facilitates business activities undertaken on behalf of clients that are regulated in either the USA or UK (Regulated Activities Fee Agreement). The arrangements have been made on normal commercial terms. On 31 December 2007 £118,695 of the amount receivable at the end of 2006 was still outstanding along with £30,741 of interest.

Bronsstadet AB is a related party, by virtue of the fact that it is controlled by P Gyllenhammar, who has a significant shareholding in Tersus Energy Plc. On 17 December 2007, Bronsstadet AB made a short-term loan to the Company of £500,000 at an interest rate of 9 per cent. The loan, which was repayable within 15 months and was secured by a floating charge over the assets of the Company, was repaid in full on 2 May 2008, together with interest. Attached to the loan were 6.0 million warrants exercisable over 6.0 million ordinary shares at £0.01 each at any time within three years.

SHAREHOLDER INFORMATION

Company registration number	5314207
Registered office	343 Linen Hall 162 – 168 Regent Street London W1B 5TD
Directors	J F Devaney (*Non-executive Chairman*) S J Clayton N N Trulsvik S P Levine (*Chief Executive Officer*) D T Wilson (*Chief Operating Officer and Finance Director*)
Secretary	Kevin Alexander
Bankers	Lloyds TSB City Office London
Stockbroker	KBC Peel Hunt Ltd 4th Floor 111 Old Broad Street London EC2N 1PH
Registrars	Equiniti The Causeway Worthing West Sussex BN99 6DA
Solicitors	Norton Rose 3 More London Riverside London SE1 2AQ
Auditors	Grant Thornton UK LLP Melton Street Euston Square London NW1 2EP

United Kingdom office	343 Linen Hall 162 – 168 Regent Street London W1B 5TD	Enquiries: slevine@tersusenergy.com dwilson@tersusenergy.com