

Interim report 2006



Tersus Asian Renewables »
Tersus BioEnergy »
Tersus Energy Controls »

Highlights

Operational

- » Expansion of the bioenergy portfolio with an investment in Enviro-Control Ltd (ECL) of £0.75m. Tersus and ECL have established 50:50 ownership of a project development company using ECL technology
- » Acquisition of 100% of the shares of EnVinta Corporation Inc. (EnVinta) for US\$2.1m consolidating interests in the energy efficiency sector
- » Investment of US\$2.0m in a leading Chinese wind blade manufacturer via a US partnership
- » Project development with Dynamotive Energy Systems Corporation (Dynamotive) actively pursued with ten projects identified in Canada, the USA and Scotland
- » £0.22m profit booked from the disposal of Dynamotive shares derived from advisory work and a convertible loan, with a further profit of £0.3m realised since the end of the half year
- » Formalisation of the 50% interest in Jasfour Power and the opening of a local office to support the progress of wind farm development in India

Financial

- » Revenue of £1.66m for the half year – (2005 half year: £1.26m; full year: £2.73m)
- » Pre-tax loss of £0.31m – (2005 half year: £0.31m*; full year: £0.93m*)
- » Net Assets of £5.57m – (2005 half year: £2.14m; full year: £5.48m)

*Restated to reflect the adoption of FRS 20

Contents

- 1 Chairman's statement
- 7 Consolidated profit and loss account
- 8 Consolidated balance sheet
- 9 Consolidated cash flow statement
- 10 Consolidated statement of total recognised gains and losses
- 10 Notes

Chairman's statement

Introduction

The first six months of 2006 have seen the social, political and economic fundamentals that underpin the renewable energy and energy efficient sectors become more relevant and supportive than ever before.

Internationally, continuing concerns over security of energy supply and high oil and gas prices coupled with increasing awareness of the threat posed by climate change have increased interest in alternative energy solutions and technologies that limit carbon emissions.

The continuing strength of emerging markets such as China and India has also provided a receptive environment for the company.

Tersus's strategy for its Asian Renewables and Bioenergy businesses is to develop projects with or without joint venture partners, to invest in the projects alongside third party investors and lenders, and subsequently operate those projects.

Tersus Energy Controls' strategy is to build an energy controls business of significant scale primarily in North America through the acquisition of controlling interests in businesses operating in this fragmented market.

In just over 18 months since listing on London's AIM in February 2005 the company has raised £7.0m, much of which has been invested in various companies and joint ventures worldwide. The most significant of these projects are discussed below. During the first half of 2006 the emphasis has been to build on the foundation set down last year. The company now has a significant platform of joint ventures and investments providing potential future opportunities. The management team has recently been strengthened in order to drive projects forward over the next few months and to continue to identify investment opportunities.

Financial results

In the six months to 30 June 2006 the consolidated turnover was £1.66m, an increase of £0.39m or 31% over the first six months last year. Turnover includes £0.37m from advisory fees, £1.23m from Navitas as well as £0.06m from EnVinta, a subsidiary acquired in May 2006.

The consolidated loss before tax for the period was £0.31m of which £0.30m was due to the activities of the advisory and investment business. Navitas contributed a profit of £0.03m for the six months; the results also include a loss of £0.04m for EnVinta for the trading period since acquisition.

Turnover includes £0.16m relating to the disposal of Dynamotive warrants received for advisory work. The profit from the disposal is shown in gross profit and amounts to £0.10m. Other operating income of £0.12m is the profit on the partial realisation of the Dynamotive convertible loan. Since the end of the half year a further profit of £0.30m has been realised. If the remainder of the investment is realised at current share prices it would result in an additional profit of £0.18m.

Building for the future

During August and September the team at Tersus has been strengthened in order to accelerate the completion of the many development opportunities available to the company. TC Kundi, who has over 15 years' experience in the development of renewable and green energy projects has joined as a development senior vice president. He will initially support the new projects in India, as well as the 50:50 joint ventures which have been set up to develop projects based on ECL technology. Dave Townley, who has been associated with the company on a consultancy basis, will join the team next month to further enhance project development in North America and brings over 25 years' experience with utility, electric technology and renewable energy developments. Helena Cooke has also joined as CFO which will enable David Wilson to spend more time on strategy and development. In July 2006 Heather Killen joined the board as non executive director bringing over 16 years' experience in investment and international business development.

In anticipation of active involvement in raising finance for third party investments into Tersus's project developments, application has been made to establish Tersus Energy Capital Limited as an FSA-regulated business. This business is expected to earn fees from its finance raising activities.

Tersus Asian Renewables (TAR)

The 50% interest in Jasfour Power has been formalised creating a vehicle for wind power development interests in India. A local office for the project has now been set up in Bangalore and an investment of US\$0.1m was made at the end of August 2006. Negotiations for the financing of the initial project in India are due to complete later in the year. This 15MW wind energy project is in Tamil Nadu and is expected to have a capital value of approximately US\$15m. Projects with an expected capital value of US\$100m are under consideration including the evaluation of two new sites.

The 168MW wind project with First Philippines Wind Corporation (FPWC) continues to move forward with the engagement of an independent firm to perform a wind resource assessment at the Pagali site, where the first 80MW of wind turbine generators are to be installed. Negotiations have commenced with a strategic local partner to assist in the final stages of development and make a significant investment in the project. Tersus holds a 25.5% interest in the joint venture with FPWC, subject to dilution associated with the financing of the project.

Tersus holds a 50% pre-financing interest in the Namwon Solar Project. This is a 10MW photovoltaic project which is to be located in Namwon City in North Jeolla Province, South Korea. A memorandum of understanding has been executed between the city of Namwon and Tersus's partner Hahn Renewable Energy (Hahn) for the development, financing, construction and operation of the project. Discussions are taking place with the City of Namwon for the acquisition of the project site. This project has an expected capital cost in excess of US\$70.0m.

Tersus and Hahn each have a 50% pre-financing interest in a 500MW wind project in Incheon Metropolitan City in South Korea. A memorandum of understanding is currently being negotiated with the city covering the exclusive rights to develop, finance, construct and operate the project.

In February 2006 US\$2.0m was invested in a leading Chinese wind blade manufacturer ZhongHang (Baoding) Huiteng Wind Power Equipment Co. Ltd (HT Blade) via Tang Wind Energy

(TWE), a US partnership. The combination of higher production levels at HT Blade along with a healthy order book is expected to increase profitability significantly in 2006. TWE has now transferred its interests in HT Blade to a Cayman Island company, with the same effective ownership, in anticipation of a listing of HT Blade in due course.

Work continues with Tang Group LLP to create opportunities to invest and co-develop wind and clean coal projects primarily in China.

Tersus Asian Renewables (TAR)

Partner	Description	Relationship	Future opportunities
	Developer and operator of wind projects in India.	50% shareholder in project development company	>5 projects representing >US\$500m of capital investment
	168MW onshore wind farm in The Philippines	Co-developer under Joint Development Agreement. Tersus acts as lead developer with 25.5% interest	4 phases @ 42MW per phase > US\$200 million of capital investment
	On and offshore wind and solar electric in South Korea	50:50 joint venture between Tersus and Hahn	3 wind and 2 solar projects > US\$1.5bn of capital investment
	One of China's largest domestic developers and manufacturers of wind blades	3% of HT Blade through investment in Tang Wind Energy	Further investments in HT Blade is possible subject to price negotiation and continuing progress towards IPO
	US/China based project development company Wind and clean coal	US\$500k secured convertible debt 33.3% shareholder	Multiple sites under negotiation

Most of the arrangements above include the right to invest into future projects and earn fees through securing equity and debt for projects.

Tersus BioEnergy (TBE)

In May 2006 Tersus invested £0.75m into the biomass waste-to-energy market through Enviro-Control Limited (ECL), the developer of a patented thermophilic anaerobic digestion process. Tersus is aiming to develop, invest into and operate ECL projects. As part of the investment Tersus and ECL established 50:50 ownership of two ECL related companies. The first, ECL Developments, is a project development company with exclusive rights to develop projects using ECL technology. The second company, ECL Organics, is a sales and marketing company with exclusive rights to sell high quality fertiliser and other by-products generated in the ECL anaerobic digestion process. ECL Developments has over 15 projects in the pipeline representing approximately US\$300m in capital value; development is accelerating and proposals are being finalised for North American and European opportunities.

The US\$0.5m convertible debt investment in Dynamotive, a fast pyrolysis wood waste to BioOil technology provider has generated nearly US\$0.10m of profit to date (see highlights). The investment terms involve a joint project development agreement which initially focuses on 10 projects in North America, with additional potential opportunity for projects in Europe and elsewhere. Tersus and Dynamotive will be joint owners in these projects, the actual ownership structure being dependant on the contribution of each partner to the project. The projects will exclusively use systems developed by Dynamotive with Tersus providing the commercial development. Capacity of the initial projects range from 200 to 400 tonnes per day and the projects have been selected based on the ability economically to support a cogeneration power cycle. The design of subsequent projects will consider bio-oil refinery without power cycle.

Tersus BioEnergy (TBE)

Partner	Description	Relationship	Future opportunities
	Thermophilic anaerobic digestion. Organic waste to BioGas, organic fertiliser, electricity co-generation	13.6% of ECL, the IP holding company, option to increase to 20%. 50% of project development co. for ECL technology; 50% of byproduct co. selling and marketing ECL by-product	15+ projects in US, UK and Asia >US\$300m of capital investment
	Fast Pyrolysis. Wood waste to BioOil & Char and electricity co-generation	US\$0.5m secured convertible debt in OTCBB stock currently being realised Project development for US and overseas with right to invest, and to earn fees through project introductions	>10 projects in USA and Europe >US\$175m of capital investment

Tersus Energy Controls (TEC)

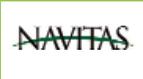
In the first six months of 2006 Navitas Technologies Inc (Navitas) has improved sales by over 20% compared to the first half of last year. However exchange differences and a change in product mix have reduced the profit impact of this increase in trade. The management at Navitas has been strengthened by the recent appointment of a new CEO and a Director of Engineering. The new team are charged with ensuring that plans for growth are successfully implemented and profitability continues to improve. A further investment is being made in Navitas to fund the development of a new product line which will be available at the end of the year.

EnVinta was acquired on 8 May 2006 for US\$2.1m and one month of their trading results has been included in the Tersus Energy Plc consolidated profit and loss account. Since acquisition EnVinta

has secured three major contracts valued at US\$1.8m over a two year period. These contracts support the design and implementation of the Sustainable Energy Efficiency Development (SEED) program for Southern California Edison and the provision of EnVinta software for San Diego Gas & Electric.

In the first half of 2006 Tersus invested US\$0.1m out of its option to invest US\$0.4m in Thor Power Corporation. A joint venture agreement is being finalised under which Tersus will use Thor technologies to pursue growth in the electric and hybrid motor vehicle market. In the first half of 2006 Thor had completed the development of a 5KW motor and controller for the industrial tool and appliances market and extensive product testing is now in progress.

Tersus Energy Controls (TEC)

Partner	Description	Relationship	Future opportunities
	Designs, manufactures and markets high performance electronic control systems for DC motors for wide variety of electric vehicles	100% owner	US\$500k committed as additional equity to broaden product range
	US-based developer of energy and environmental information software. Installed base >100 utilities and large private, public clients	100% owner	Expand software product range and expand sales effort
	Developer of brushless DC ("BLDC") motor and controller technology. More efficient than traditional AC = 200% power for half the size	6.25% shareholding, options to increase holding to 21%	JV agreement to target electric and hybrid motor vehicle markets

Other Activities

Proteus, into which Tersus invested US\$0.2m in 2005, is negotiating to acquire marginal oil fields with the intent of redeveloping and exploiting such fields with non-conventional technology and is in the process of negotiating terms and conditions in connection with both corporate and "field" financings. The completion of Proteus's financing activities will generate US\$0.3m of fee income for Tersus which will be reinvested. Tersus will then have invested US\$0.5m which will be equivalent to approximately 2.5% ownership of the company. An option agreement has been executed whereby Tersus has the right to purchase approximately 3% of the company for US\$0.43m.

Tersus continues to offer advisory services where the assignment is relevant to Tersus's core skills and where significant fees or equity can be raised from successful completion. Advisory clients include Bens Run and California Wind.

Tersus is in the process of establishing an FSA-regulated business through a new subsidiary Tersus Energy Capital Ltd, which is expected to generate fee income.

Conclusion

Sentiment remains strongly behind renewable energy and energy management activities. The continuing strength of emerging markets also provides a receptive environment. With a strengthened management team and an exciting pipeline of opportunities the Company is in a strong position to accelerate the development of all areas of its business.

John Devaney
Chairman

22 September 2006

Other Activities

Partner	Description	Relationship	Future opportunities
	Acquirer, redeveloper and operator of oil and gas fields. Optimising oil production via superior technology and operations	US\$200k equity investment Financial advisor	1) Exercise US\$300k of options in Proteus equity, 2) US\$22m fundraising through Dubai Islamic Bank, 3) Project opportunities linked to DIB fundraise
	20bcf salt dome unique salt cavern gas storage business development opportunity	Advisory client (sell-side)	Fees earned on successful sale of site
	3 mature wind projects totalling 375MW being developed in Southern California	Advisory client (buy-side)	US\$4m development capital >US\$400m total capex

Consolidated profit and loss account

	Note	(Unaudited) 6 months ended 30 June 2006 £	Restated (Unaudited) 6 months ended 30 June 2005 £	Restated 12 months ended 31 Dec 2005 £
Turnover	2	1,655,780	1,263,533	2,734,141
Cost of sales		(936,116)	(950,956)	(2,042,874)
Gross profit ⁽ⁱ⁾		719,664	312,577	691,267
Administrative expenses ⁽ⁱⁱⁱ⁾		(1,238,917)	(648,661)	(1,675,204)
Other operating income ⁽ⁱⁱ⁾		117,672	–	–
Operating loss		(401,581)	(336,084)	(983,937)
Net interest		90,180	23,132	53,362
Loss on ordinary activities before taxation		(311,401)	(312,952)	(930,575)
Taxation		–	(22,362)	–
Retained loss for the financial period		(311,401)	(335,314)	(930,575)
Loss per share				
Basic	4	(0.8p)	(1.4p)	(3.6p)
Diluted		n/a	n/a	n/a

⁽ⁱ⁾ Gross profit includes £104k arising from the disposal of Dynamotive warrants received for advisory work.

⁽ⁱⁱ⁾ Other operating income is the profit on the partial realisation of the Dynamotive convertible loan. Since the end of the half year a further £299k of profit has been realised on disposals of this loan. The remainder of the investment is expected to be realised during 2006 which would result in an additional profit of £182k at current share prices.

⁽ⁱⁱⁱ⁾ Includes six months of trading for Navitas Technologies Limited (six months ended 30 June 2005: 11 weeks' trading) and eight weeks of trade for EnVinta which was acquired on 8 May 2006.

Consolidated balance sheet

	(Unaudited) As at 30 June 2006 £	Restated (Unaudited) As at 30 June 2005 £	Restated As at 31 Dec 2005 £
Fixed assets			
Intangible assets	1,521,178	259,327	429,463
Tangible assets	107,540	42,079	35,802
Investments	2,415,362	–	337,625
	4,044,080	301,406	802,890
Current assets			
Stock	421,239	222,937	397,380
Debtors	1,135,062	476,432	1,333,893
Investments	319,488	–	319,181
Cash at bank and in hand	491,064	1,578,824	3,387,575
	2,366,853	2,278,193	5,438,029
Creditors: amounts falling due within one year	(841,352)	(442,516)	(761,390)
Net current assets	1,525,501	1,835,677	4,676,639
Total assets less current liabilities	5,569,581	2,137,083	5,479,529
Capital and reserves			
Called up share capital	190,231	130,751	186,307
Share premium account	6,417,113	2,290,147	6,075,603
Merger reserve	1,499,766	1,579,625	1,499,766
Share option reserve	95,933	6,318	28,774
Profit and loss account	(2,633,462)	(1,869,758)	(2,310,921)
Shareholders' funds	5,569,581	2,137,083	5,479,529

Debtors include £239k held in a broker's client account arising from the sale of Dynamotive shares.

Consolidated cash flow statement

	Note	(Unaudited) 6 months ended 30 June 2006 £	Restated (Unaudited) 6 months ended 30 June 2005 £	12 months ended 31 Dec 2005 £
Net cash outflow from operating activities	6	(803,660)	(304,130)	(1,021,184)
Returns on investments and servicing of finance				
Interest received		44,930	23,132	37,764
Interest paid		(156)	–	(426)
Net cash inflow from returns on investments and servicing of finance		44,774	23,132	37,338
Capital expenditure and financial investment				
Purchase of intangible fixed assets		(45,511)	–	(73,169)
Purchase of tangible fixed assets		(21,671)	(24,930)	(23,866)
Net cash outflow from capital expenditure and financial investment		(67,182)	(24,930)	(97,035)
Acquisitions and disposals				
Purchases:				
EnVinta Corporation Inc., including associated cost		(892,843)	–	–
Navitas business, including associated costs		–	(506,425)	(500,981)
Fixed asset investments and associated costs		(2,081,855)	–	(336,920)
Net cash outflow from acquisitions and disposals		(2,974,698)	(506,425)	(837,901)
Cash outflow before financing and management of liquid resources		(3,800,766)	(812,353)	(1,918,782)
Management of liquid resources				
Purchase of current asset investments		(88,269)	–	(319,181)
Sale of current asset investments-net proceeds		324,079	–	–
Sale/(purchase) of short term deposits		2,890,000	–	(3,250,000)
Financing				
Issue of shares				
– on listing		–	3,000,000	3,000,000
– on placing in December 2005 ^(a)		665,000	–	3,335,000
– other		–	75,001	75,001
Share issues expenses		–	(754,103)	(913,092)
(Reduction)/increase in bank loan		(1,800)	–	62,743
Net cash inflow from financing		663,200	2,320,898	5,559,652
(Decrease)/increase in cash		(11,756)	1,508,545	71,689

^(a) £665k relates to cash for the December 2005 share issue received in January 2006.

Consolidated statement of total recognised gains and losses

	(Unaudited) 6 months ended 30 June 2006 £	Restated (Unaudited) 6 months ended 30 June 2005 £	Restated 12 months ended 31 Dec 2005 £
Loss for the financial period	(311,401)	(335,314)	(930,575)
Exchange differences	(11,140)	(90,208)	63,890
Total recognised gains and losses for the financial period	(322,541)	(425,522)	(866,685)

Notes

1 Basis of preparation

These unaudited interim financial statements, which are for six months ended 30 June 2006, do not constitute Statutory Accounts within the meaning of section 240 of the Companies Act 1985. They have been prepared in accordance with applicable accounting standards and under the historical cost convention using the principal accounting policies of the Group set out in the Group's 31 December 2005 annual report and financial statements with the exception of the adoption of FRS 20 (Share-based Payments). The costs relating to share-based payments have been included in administrative expenses and amount to £67k for the six months ended 30 June 2006 (£6k for the six months ended 30 June 2005; £29k for the 12 months ended 31 December 2005). The financial statements at 31 December 2005 and at 30 June 2005 have been restated to reflect this change in accounting policy. The interim financial statements were approved by the Board on 22 September 2006.

2 Segmental information

	(Unaudited) 6 months ended 30 June 2006 £	(Unaudited) 6 months ended 30 June 2005 £	12 months ended 31 Dec 2005 £
Turnover			
Canada – Navitas	1,226,998	417,108	1,499,242
USA – EnVinta	63,488	–	–
USA – advisory services	234,099	841,425	1,227,597
UK – advisory services	131,195	5,000	7,302
	1,655,780	1,263,533	2,734,141

Notes continued

3 Acquisition note

On 8 May 2006 the company acquired 100% of EnVinta Corporation Inc., a company incorporated in Delaware, USA.

	Book value £	Fair value adjustment £	Fair value £
Assets and liabilities acquired:			
Fixed assets	53,766	1,613	55,379
Debtors	128,118	–	128,118
Creditors	(24,606)	–	(24,606)
Cash	9,794	–	9,794
Net assets acquired	167,072	1,613	168,685
Shares issued in part consideration			345,435
Cash			646,556
Loan made to company to settle liabilities on acquisition			194,892
Capitalised costs associated with acquisition			51,395
Fair value of consideration paid			1,238,278
Provisional goodwill			1,069,593

4 Earnings per share

	(Unaudited) 6 months ended 30 June 2006 £	Restated (Unaudited) 6 months ended 30 June 2005 £	Restated 12 months ended 31 Dec 2005 £
Loss for the financial period	(311,401)	(335,314)	(930,575)
	Number of shares	Number of shares	Number of shares
Weighted average number of shares			
For basic earnings per share	37,491,182	24,487,198	25,599,499

The number of shares has increased from the comparative period as a result of shares issued in December 2005 to raise finance and the issue of share capital as part of the consideration for the acquisition of EnVinta Corporation Inc. in May 2006.

5 Dividends

No dividends have been paid or proposed for the period.

Notes continued

6 Net cash outflow from operating activities

	(Unaudited) 6 months ended 30 June 2006 £	Restated (Unaudited) 6 months ended 30 June 2005 £	Restated 12 months ended 31 Dec 2005 £
Operating loss	(401,581)	(336,084)	(983,937)
Share options	67,159	6,318	28,774
Depreciation and amortisation	8,784	–	8,498
Net profit on sale of current asset investment	(221,659)	–	–
Exchange differences written off	(322)	(15,335)	(17,049)
Increase in stock	(27,638)	(105,155)	(308,609)
(Increase)/decrease in debtors	(300,092)	139,569	4,343
Increase in creditors	71,689	6,557	246,796
Net cash outflow from operating activities	(803,660)	(304,130)	(1,021,184)

7 Reconciliation of net cash flow to movement in net debt

	(Unaudited) 6 months ended 30 June 2006 £	(Unaudited) 6 months ended 30 June 2005 £	12 months ended 31 Dec 2005 £
(Decrease)/increase in cash in the period	(6,511)	1,512,938	71,689
(Decrease)/increase in liquid resources	(2,890,000)	–	3,250,000
Decrease/(increase) in bank loan	2,418	–	(62,743)
	(2,894,093)	1,512,938	3,258,946
Net funds at the beginning of the period	3,324,832	65,886	65,886
Net funds at the end of the period	430,739	1,578,824	3,324,832

8 Share capital

	(Unaudited) As at 30 June 2006 £	Restated (Unaudited) As at 30 June 2005 £	Restated As at 31 Dec 2005 £
Authorised			
200,000,000 ordinary shares of 0.5p each	1,000,000	1,000,000	1,000,000
Issued and fully paid			
38,046,376 ordinary shares of 0.5p each	190,231	130,751	186,307

On 8 May 2006 785,079 shares were issued at £0.44 as part consideration for the acquisition of EnVinta Corporation Inc.

Notes continued

9 Directors interests in ordinary shares

The interests of the Directors in ordinary shares, all of which are beneficial, are as follows:

Directors	As at 30 June 2006		On Admission	
	No. of ordinary shares	Percentage of issued share capital	No. of ordinary shares	Percentage of issued share capital
J F Devaney ⁽¹⁾	133,333	0.35	133,333	0.36
S J Clayton ⁽²⁾	1,084,998	2.85	1,084,998	2.91
S P Levine	1,793,102	4.71	1,793,102	4.81
DT Wilson ⁽¹⁾	147,271	0.39	147,271	0.40
N N Trulsvik	—	—	—	—

Note:

⁽¹⁾ J F Devaney and DT Wilson have been granted options by Moore, Clayton & Co., Inc. over 300,000 existing ordinary shares held by Moore, Clayton & Co., Inc. 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.

⁽³⁾ A R Moore and K I Denos resigned as directors on 20 February 2006.

Options to subscribe for ordinary shares

Certain directors held the following options to subscribe for Ordinary shares:

	Type of scheme	Date of grant	Ordinary shares under option	Exercise price £	Exercise dates	
					From	To
J F Devaney	Stand-alone	01/02/05	400,000	0.500	04/02/05	03/02/10
	New Plan*	31/05/06	200,000	0.500	31/05/06	30/05/16
S P Levine	Rollover	01/05/02	1,114,813	0.134	Vested	30/04/07
	New Plan	15/10/05	400,000	0.500	15/10/05	14/10/15
DT Wilson	New Plan*	31/05/06	300,000	0.500	31/05/06	30/05/16
	Stand-alone	01/02/05	400,000	0.500	04/02/05	03/02/10
DT Wilson	New Plan	15/10/05	800,000	0.500	15/10/05	14/10/15
	New Plan*	31/05/06	300,000	0.500	31/05/06	30/05/16
N N Trulsvik	Stand-alone	01/02/05	200,000	0.500	04/02/05	03/02/10
			4,114,813			

*Share options were granted on 31 May 2006 exercisable at £0.50. The options vest in three equal tranches, the first on 31 May 2006 and the remainder on the same day in each of the following two years. The options are exercisable within 10 years.



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