

Annual report 2005



**Tersus Asian Renewables »**  
**Tersus BioEnergy »**  
**Tersus Energy Controls »**

## TERSUS

ENERGY PLC

### Tersus Asian Renewables

### Tersus BioEnergy

### Tersus Energy Controls

» Strategy

Develop and acquire a portfolio of wind, biomass and clean coal assets primarily in China, India and the Philippines

Develop and acquire a portfolio of biomass-to-electricity projects and bioenergy assets globally

Expand our earnings-based energy management and controls business in North America and Europe

» Strategy

» Now

« Tang Group  
« Jasfour Power  
« HT Blade  
« First Philippines Wind

« Enviro-Controls  
« Dynamotive Energy Systems

« Navitas Technologies  
« Thor  
« Envinta

» Now

» What next

Develop projects and invest in operating assets

Invest in operating assets and develop projects

Build on this platform to create a large scale controls business

» What next

- 1 Highlights
- 3 Chairman's statement
- 8 Report of the directors
- 13 Report of the independent auditors
- 14 Principal accounting policies
- 16 Consolidated profit and loss account
- 17 Consolidated and company balance sheets
- 18 Consolidated cash flow statement
- 18 Consolidated statement of total recognised gains and losses
- 19 Notes to the financial statements
- 32 Shareholder information

## Highlights

### Group

- » Admitted to AIM in February 2005 raising £3million; an additional £4million raised in December 2005
- » £4.5million invested in eight acquisitions/investments
- » JVs agreed for renewable energy project developments in China and India and with global bioenergy technology partners

### Tersus Asian Renewables

- » Investment in Chinese wind industry through HT Blade
- » Jasfour Power joint project development company for wind projects in India established
- » Development agreement with Tang Group for wind and clean coal projects in China

### Tersus BioEnergy

- » Investment in UK agricultural waste-to-electricity technology provider Enviro-Control
- » JV for development of Enviro-Control project pipeline
- » Development JV with Dynamotive Energy Systems, a Canadian biofuels technology provider
- » Investment in Dynamotive Energy Systems in process of being realised at profit

### Tersus Energy Controls

- » Acquisition of Navitas Technologies, a Canadian developer and manufacturer of electronic energy control equipment for electric powered vehicles
- » Investment in Thor, a US-based developer of electric motor systems
- » Acquisition of Envinta, a US-based developer of energy and environmental information software

## Tersus Asian Renewables (TAR)

**Tersus Asian Renewables** is positioned to take advantage of the exceptional demand for renewable energy in Asia. We are focusing upon wind, biomass and clean coal in Asia, principally China and India. We develop, manage and invest into the project streams of our chosen JV partners and projects sourced by our own team.

TAR: Tang Group | HT Blade | Jasfour Power | Philippines Wind

# 13.6%

Chinese energy demand now constitutes **13.6%** of world energy demand – risen by **64%** in the past three years

**TAR market stats** – The economic growth of Asian countries is creating demand for power greatly in excess of current supply. Renewable and clean energy solutions are expected to play a significant role in meeting this demand. Chinese energy demand has risen by **64%** in the past three years and now constitutes **13.6%** of world energy demand. By 2020 China's stated intent is to obtain **15%** of energy from renewables. Chinese installed wind capacity grew **45%** to **1.1GW** in 2005, is expected to reach **2.2 GW** in 2006 and **30GW** by 2020 which will make it the world's biggest wind energy market at that time. Clean coal is forecast to experience comparable growth. Similarly the Indian wind market is growing in excess of **35% per annum**, contributing to its stated intent of obtaining **30%** of its energy from renewable sources by 2022. TAR is well positioned to benefit from this exceptional growth and we continue to look for additional project and investment opportunities in the region.

**HT Blade** – ZhongHang (Baoding) Huiteng Wind Power Equipment Co., Ltd (HT Blade) is a leading Chinese manufacturer of wind blades and related components to domestic and international customers in China and intends to expand sales to other Asian markets.



Wind blades at HT Blade factory, Baoding, China

# Chairman's statement

## Introduction

I am pleased to report on a period of real progress and the continuing evolution of our business.

We started the year as a privately owned clean energy advisory company. We listed on London's Alternative Investment Market in February 2005, raising £3million, with the purpose of further capitalising on our clean energy expertise to build up our investment activity.

Over the course of the year we have achieved this aim, progressively switching the emphasis of our activity from advisory work to include investing, operating and project development. We raised an additional £4million in December 2005 as further opportunities arose. Since our IPO in February 2005 we have invested £4.5million in eight investments and have joint venture agreements for project development with Tang Group (Chinese wind and clean coal), Jasfour Power (Indian wind), Dynamotive (biofuels from agricultural residues) and ECL (electricity from agricultural waste).

## Financial results

- » Retained loss for year £901,801 (2004 – loss of £1,448,201)
- » Operating loss of £1,022,835 (2004 – loss of £1,448,201) on the continuing business of Tersus Energy Plc and MCC Energy Group, Inc.
- » Navitas operating profit in the 2005 post-acquisition period of £67,672
- » These figures do not include the benefit of the unrealised profit on the short term investment in Dynamotive, which is being realised in 2006. The profit is subject to future changes in the Dynamotive share price but, based on the 31 December 2005 share price, the unrealised pre-tax profit was £396,000, and on the 30 April 2006 share price, £910,000.

In 2005 the management team established the foundations of three operating businesses, focused on what we believe are the most attractive and significant areas of the renewable and alternative energy sector: Tersus Asian Renewables, Tersus BioEnergy and Tersus Energy Controls.

## Tersus Asian Renewables (TAR)

TAR aims to exploit the exceptional demand for renewable energy in Asia. It is focusing on wind, biomass and clean coal, principally in China and India. TAR will be developing, investing in and operating a portfolio of renewable energy project streams with chosen joint venture partners.

- » TAR first invested US\$500,000 in Tang Group LLP ("Tang Group"), a US and Beijing based project developer focused on wind and clean coal projects in Asia, primarily in China. The investment terms included the right to invest in Tang Group's subsequent projects. We continue to work with Tang Group to create opportunities to invest, to procure project finance, and to co-develop those projects.
- » TAR then invested, via a US partnership, US\$2million in a leading Chinese wind blade manufacturer ZhongHang (Baoding) Huiteng Wind Power Equipment Co., Ltd ("HT Blade"). HT Blade develops, manufactures and sells 600kW to 1.5MW rated wind blades and related parts and components to domestic and international customers in China, and intends to expand sales to other selected Asian markets. HT Blade is currently established as a Chinese joint venture company and is restructuring as a share limited company in anticipation of implementing a series of measures in accordance with its stated intention of achieving an IPO in the next 2-3 years.
- » TAR's Indian joint venture made good progress in 2005. The joint venture, Jasfour Power, is aiming to become a major developer, owner and operator of wind power generation projects in India. Jasfour is in advanced stages of developing a 75MW wind energy project in Tamil Nadu, of which TAR will own a 40-50% interest. Going forward the joint venture has identified more than 300MW of projects for development, in which TAR expects to have a 50% interest subject to the performance requirements of any given project. In addition to these equity positions TAR is also exclusively contracted to provide development advisory and fundraising services.
- » TAR also has a 25.5% interest in a joint venture developing a 160MW wind project in the northern tip of the Ilocos Norte province of the Philippines; and a 20% interest in a joint venture developing a 24MW clean coal fired co-generation project in Jinzhou, China. TAR is also contracted to provide development and financial advisory services to these initiatives. Both of these developments made progress in 2005.

The economic growth of Asian countries is creating demand for power that is greatly in excess of current supply. Renewables are expected to play a meaningful role in meeting this demand. Between 2004 and 2005 China's installed wind capacity grew from 764MW to 1.1GW, is expected to reach 2.2 GW in 2006 and 30GW by 2020 (making it the world's biggest wind energy market) and will contribute to China's stated intent of obtaining 15% of its energy through renewable sources by 2020. The Indian wind market is growing in excess of 35% per annum, contributing to the Indian Government's stated intent of obtaining 30% of its energy from renewable sources by 2022. TAR is well positioned to benefit from this exceptional growth and we continue to look for additional project and investment opportunities in the region.

## Tersus BioEnergy (TBE)

**Tersus BioEnergy** aims to benefit from accelerating demand for non fossil fuel based supplies of energy. We develop, manage and invest into the project streams of our chosen JV partners and invest in bioenergy production opportunities. We are focusing upon biomass for electricity and thermal generation (agricultural, municipal, industrial waste) and biofuels (bioethanol and biodiesel).

TBE: Enviro-Controls | Dynamotive Energy Systems

# 7.5 bn gallons

USA set targets in 2005 to double fuel ethanol consumption from **4bn gallons** today to **7.5bn gallons** by 2012

**TBE market stats** – The market for bioenergy came of age in 2005 driven by concerns over security of supply and climate change science. The EIA forecasts the use of biomass for electricity generation in the US to grow from **6GW** in 2002 to between **12GW-96GW** by 2025. Having grown **126%** between 2001-05, the USA set targets in 2005 to double fuel ethanol consumption from **4bn gallons** today to **7.5bn gallons** by 2012. In Europe the biomass for electricity target states growth to **150 millions of tons of oil equivalent** by 2010 (compared with **69 Mtoe** in 2003), and for biofuels from **5.75%** of petrol and diesel consumption by end 2010 to **20%** by end 2020. By partnering with key technology providers TBE is well positioned to develop a significant and attractive portfolio of projects to meet this demand.

**Dynamotive** is an energy systems company that is focused on the development of innovative energy solutions based on its patented fast pyrolysis system.



Dynamotive's West Lorne Cogeneration plant

## Chairman's statement continued

### Tersus BioEnergy (TBE)

TBE aims to exploit the accelerating demand for non fossil fuel based supplies of energy. It is focusing on biofuels (bioethanol and biodiesel) and biomass-to-electricity from forest, agricultural, municipal and industrial waste feedstocks. TBE is developing, investing in and operating a portfolio of bioenergy assets with chosen joint venture partners.

- » TBE has invested £750,000 in Enviro-Control Limited ("ECL"), a UK-based world-leading animal waste-to-energy developer utilising patented anaerobic digestion. ECL will receive licence fees from each project. The investment terms include options, the exercise of which would give us 20% of the company. The investment terms also include a commitment to establish two joint venture companies in which we will have a direct 50% interest: one focused upon developing current and future ECL projects, and one focused upon marketing and selling the organic fertiliser and other by-products. TBE will now focus upon developing ECL's significant pipeline of projects at the same time as sourcing additional ones.
- » TBE invested US\$500,000 in Dynamotive Energy Systems Corporation, a Canadian based company whose technology converts biomass into a renewable, environmentally friendly fuel. We continue to develop our joint venture opportunities with Dynamotive which will provide us with opportunities to invest in their projects and to bring suitable projects to them.

The market for bioenergy came of age in 2005 driven by concerns over security of supply and climate change. The EIA forecasts the use of biomass for electricity generation in the US to grow from 6GW in 2002 to between 12GW-96GW by 2025. Having grown 126% between 2001-05, the US set targets in 2005 to double fuel ethanol consumption from 4bn gallons in 2005 to 7.5bn gallons by 2012. In Europe the biomass for electricity target states growth to 150 Mtoe by 2010 (compared with 69 Mtoe in 2003), and for biofuels from 5.75% of petrol and diesel consumption by end 2010 to 20% by end 2020. By partnering with key technology providers TBE is well positioned to develop a significant and attractive portfolio of projects to meet this demand.

### Tersus Energy Controls (TEC)

TEC aims to exploit the opportunity presented by the increasing focus on energy efficiency and management of electricity consumption. It is focusing on efficiency applications for mobile (eg. hybrid and electric vehicles, automatic guided vehicles, fork lift trucks) and stationary (eg. building controls, energy management information) end users.

- » TEC's first investment was to acquire 100% of the business of Navitas Technologies for approximately US\$1million. Navitas is a Canadian developer and manufacturer of electronic energy control equipment for electric powered vehicles. Operating the business directly, we moved it from loss making to profitability, and the business is well positioned for future growth.
- » TEC has invested in Thor Power Corporation. Based in Pennsylvania, Thor specialises in the development of highly efficient electric motor systems of up to 5kW. Thor offers revenue and cost synergies with Navitas, and represents both an attractive product line extension into a key market for TEC as well as an expansion of TEC's research and development activities in electric motor system technologies. TEC also has options, the exercise of which would give us 21% of the company.
- » TEC has decided to expand its pursuit of the mobile energy controls market and product opportunity through Navitas. As a result, we have recruited a new CEO and a new Head of Engineering and intend to invest up to US\$1million in product and business development.
- » TEC's most recent investment is in the energy management information sector, acquiring 100% of Envinta for US\$2.1million (US\$1.5million in cash and US\$0.6million in Tersus shares). Envinta is a US-based developer of energy and environmental information software. Its software has been sold to over 100 utilities and large commercial, industrial, government and institutional clients.

Electric motors consume over 50% of the annual generation of energy in North America. As macro-economic forces increasingly focus customers on optimising energy use, there is significant opportunity for those businesses able to help customers to manage their energy consumption. Looking forward, TEC intends to continue to build upon its mobile and stationary platforms through organic growth and acquisition.

## Tersus Energy Controls (TEC)

**Tersus Energy Controls** concentrates on exploiting the opportunity presented by increasing focus on energy efficiency and management of electricity consumption. We are focusing on both mobile applications (electric vehicles, AGVs, golf carts, fuel cells, hybrids) and stationary applications (energy management information, building controls). We are actively pursuing opportunities to grow and build on the investments we have made.

TEC: Navitas Technologies | Thor Power Corporation | Envinta

# US\$3-7bn

Control systems that constantly monitor and adjust building systems, equipment and appliances are forecast to yield annual savings in the US alone of **US\$3-7bn**

**TEC market stats** – Electric motors consume over **50%** of the annual generation of energy in North America and small reductions in consumption can result in real savings for users. Control systems that constantly monitor and adjust building systems, equipment and appliances are forecast to yield annual savings in the US alone of **US\$3-7bn**. As macro-economic forces increasingly focus customers on optimising energy use, there is a significant opportunity for those businesses able to help customers to manage their energy consumption. TEC intends to continue to build upon its mobile and stationary platforms through organic growth and acquisition.

## NAVITAS

**Navitas Technologies Ltd.** of Waterloo, Ontario, Canada was established in 1990 and designs, manufactures and markets high performance, microprocessor-based electronic control systems and accessories for a wide variety of electric vehicles (EVs).



# Chairman's statement continued

## Advisory

Our advisory business continues to contribute to revenue as well as keeping us at the forefront of market developments. Over the year we have worked on and won a number of advisory mandates in sectors including bioenergy, gas storage and wave power with income including retainers, success fees and client equity and options.

As previously, for accounting purposes, no value has been attributed to the portfolio of equity positions obtained and obtainable in return for providing advisory services. The directors continue to consider that these interests have significant value.

## Name change

We changed the name of your Company from MCC Energy Plc to Tersus Energy Plc in November 2005. This was to reflect the change in focus from advisory work (for which the MCC Energy brand had a strong reputation) to investment and operational activities. Tersus means 'clean' in Latin and is therefore a very suitable name for our development and investment activities in our chosen areas of energy efficiency and alternative fuels/renewable energy.

## Board changes

Early in 2006 Anthony Moore and Kenneth Denos resigned from the Board. The board changes reflect the Company's successful evolution since its listing in February 2005 to become an investor, developer and operator through its renewable energy businesses. I would like to express my gratitude to Tony and Ken for their contributions to Tersus Energy's development.

## Conclusion

2005 was a transformational year for Tersus Energy. We look forward to the future with confidence. High fossil fuel prices and concerns about energy security and climate change have given accelerating momentum to the renewable and alternative energy markets and, via our three businesses, we intend to participate fully in their growth and future profitability, and in doing so create significant value for shareholders.

**John Devaney**  
Chairman

8 May 2006

# Report of the directors

The directors present their annual report on the affairs of the Group, together with the audited accounts and auditors' report for the year ended 31 December 2005.

## Principal activities

The principal activities of the Group are 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.

## Results and dividends

The audited accounts for the year ended 31 December 2005, which comprise the Principal Accounting Policies, the Consolidated Profit and Loss Account, the Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the related notes, are set out on pages 14 to 31. The Group loss for the year after tax amounted to £901,801 (2004 – £1,448,201). The Directors are not proposing the payment of a dividend for the year (2004 – nil).

## Directors

	Date of appointment	Date of resignation
J F Devaney (Non-executive chairman)	17 January 2005	
A R Moore	7 January 2005	20 February 2006
S J Clayton (Non-executive director)	17 January 2005	
K I Denos	7 January 2005	20 February 2006
N N Trulsvik (Non-executive director)	17 January 2005	
S P Levine (Chief Executive Officer)	17 January 2005	
D T Wilson (Chief Operating Officer and Finance Director)	17 January 2005	

In addition, J Robson and R Walsh, who were appointed directors on 15 December 2004, the date when the Company was incorporated, resigned as directors on 7 January 2005.

The three non-executive directors comprise the members of the Audit Committee, Remuneration Committee and the Nomination Committee. The chairman of each committee is:

Audit Committee – N N Trulsvik  
Remuneration Committee – S J Clayton  
Nomination Committee – J F Devaney

A R Moore and K I Denos, who resigned as directors on 20 February 2006, received compensation in accordance with the contractual entitlement provided by their service contracts. They are demonstrating their continuing support for the Company by using their compensation amount to buy the Company's shares in the market, which will be completed as soon as practical subject to market conditions and regulatory restrictions. On their resignation, J F Devaney expressed his gratitude to them for their superb contributions to the Group's development.

## John Devaney 59

### Non-executive Chairman

John Devaney is co-founder and chairman of BizzEnergy Group Ltd and also chairman of telent plc and NATS (National Air Traffic Services). 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 54

### 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 58****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 is also vice-chairman of Ergo Services LLP. He has been a director of Hilton International Plc with responsibilities for finance and for 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 42****Non-executive Director**

Sharon Clayton is co-founder and a director of Moore, Clayton & Co., Inc., 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 57****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 2005		On Admission*	
	Number of ordinary shares	Percentage of issued share capital	Number of ordinary shares	Percentage of issued share capital
J F Devaney <sup>(1)</sup>	133,333	0.36	–	–
A R Moore <sup>(2)</sup>	1,084,998	2.91	1,084,998	4.17
S J Clayton <sup>(2)</sup>	1,084,998	2.91	1,084,998	4.17
K I Denos	652,694	1.75	652,694	2.51
N N Trulsvik	–	–	–	–
S P Levine	1,793,102	4.81	1,783,702	6.86
D T Wilson <sup>(1)</sup>	147,271	0.40	38,938	0.15

\*4 February 2005, the date of Admission of the Company's shares to AIM. No director held any shares in the Company at the date of appointment, which, for all directors, preceded the date of the group reconstruction.

<sup>(1)</sup> J F Devaney and D T 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.

<sup>(2)</sup> A R Moore and S J Clayton are controlling shareholders in Moore, Clayton & Co., Inc. which holds ordinary shares in the Company, in which they are therefore interested.

# Report of the directors

## continued

Details of directors' interests in options to acquire shares of the Company are set out in note 4 to the accounts.

There have been no changes in the directors' share interests between 31 December 2005 and 22 April 2006.

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

### Substantial shareholdings

At 22 April 2006 notification had been received of the following interests which exceed a 3% interest in the issued share capital of the Company, in addition to those of the directors referred to above.

Name of holder	Number	% of issued share capital
Moore, Clayton & Co., Inc. <sup>(a)</sup>	6,888,496	18.49
Morley Fund Management	2,777,778	7.45
TT International Investment Management	2,777,778	7.45
Framlington Investment Management	2,722,222	7.31
Prestbury Investments Holdings Limited	2,207,332	5.92
Artemis Investment Management	1,894,444	5.08
Fidelity	1,502,222	4.03

<sup>(a)</sup> J F Devaney and DT Wilson have each been granted options by Moore, Clayton & Co., Inc. over 300,000 ordinary shares held by that company which are exercisable for nominal consideration.

### Corporate Governance

The Company's shares were admitted to trading on AIM on 4 February 2005. 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 comply, as far as practicable having regard to the size and development of the Company, with the principles of the Combined Code.

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 9 occasions during the year to 31 December 2005.

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 Company has established an Audit Committee, a Remuneration Committee and a Nomination Committee, which meet as and when required. The members of these Committees are the three non-executive directors. N N Trulsvik chairs the Audit Committee, S J Clayton the Remuneration Committee and J F Devaney the Nomination Committee. Each Committee operates within defined terms of reference. The Audit Committee 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.

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.

#### **Going Concern basis**

After making enquiries, the directors have formed a judgement, at the time of approving the accounts, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors have adopted the going concern basis in preparing the accounts.

#### **Employees**

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

#### **The Remuneration Committee**

The members of the Remuneration Committee, as detailed in this report, comprise the independent non-executive directors. The non-executive directors have no personal financial interest (other than as shareholders and option holders) in the matters to be decided. They have no conflicts of interest arising from cross-directorships and no day-to-day involvement in the running of the business. The Committee has access to professional advice.

The Committee is responsible for determining and agreeing with the Board the framework of the remuneration of the Chief Executive Officer, all other executive directors, the company secretary and such other members of executive management as it is designated to consider. It is furthermore responsible for determining the total individual remuneration packages of each director including, where appropriate, bonuses, incentive payments and share options. The Remuneration Committee will also liaise with the Nomination Committee to ensure that the remuneration of newly appointed executives is within the Company's overall policy.

#### **Remuneration policy**

The Group's policy relating to remuneration, endorsed by the Remuneration Committee, is to provide appropriate remuneration, including arrangements providing long term incentives, to attract, motivate and retain executives of the highest calibre.

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

A number of arrangements have been established to provide long term incentives for employees and directors as the Company grows. These are summarised below and in note 26 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, 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 4 to the accounts. None of the directors' remuneration is pensionable.

#### **Long Term incentives**

In order to provide long term incentives as the Group grows, a number of arrangements have been established as summarised in note 26 to the accounts. The arrangements comprise:

- » New Share Option Plan
- » Performance Share Plan
- » 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.

# Report of the directors continued

## 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 these agreements without payment of compensation (other than statutory compensation) within one year.

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 4 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

United Kingdom company law 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 the Company and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for maintaining proper accounting records, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included in the Company's website.

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

## Post balance sheet events

Post balance sheet events are disclosed in note 28 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

**Kevin Alexander**  
Company secretary

8 May 2006

# Report of the independent auditors to the members of Tersus Energy Plc

We have audited the Group and parent company financial statements (the 'financial statements') of Tersus Energy Plc for the period ended 31 December 2005, which comprise the principal accounting policies, the consolidated profit and loss account, the consolidated and parent balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

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

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if 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 transactions with the Group is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Directors 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 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 judgements 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.

## Opinion

In our opinion the financial statements:

- » give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 31 December 2005 and the Group's loss for the year then ended; and
- » have been properly prepared in accordance with the Companies Act 1985.

## Grant Thornton UK LLP

Registered Auditors  
Chartered Accountants  
London

8 May 2006

# Principal accounting policies

## Basis of Accounting

The financial statements have been prepared on the going concern basis and the historical cost convention, in accordance with applicable United Kingdom accounting standards.

The principal accounting policies of the Group are set out below.

## Basis of Consolidation

The Group accounts consolidate the accounts of the Company and its subsidiary undertakings as at 31 December 2005. The Company's subsidiary undertaking, MCC Energy Group, Inc., has been consolidated using merger accounting rules, with the acquisition method of accounting being used for other subsidiaries.

The Company was incorporated on 15 December 2004 as MCC Energy Limited. On 21 January 2005, MCC Energy Group, Inc. entered into a group reconstruction whereby MCC Energy Limited became the new parent undertaking of the Group. All shareholders of MCC Energy Group, Inc. became shareholders of MCC Energy Limited. The transaction qualified as a group reconstruction and was accounted for using merger accounting. MCC Energy Limited was subsequently converted to a public limited company and listed on AIM on 4 February 2005. The name of the Company was changed to Tersus Energy Plc on 1 November 2005.

## Merger Accounting

Where merger accounting is used, the investment is recorded at the nominal value of the shares issued together with the fair value of any additional consideration paid.

The Group financial statements are prepared as if the Company has always been in existence. This represents a departure from the Companies Act 1985 as the Company has not been in existence for the full period covered by the current and comparative period. The directors consider that this presentation is necessary in order to give a true and fair view because the ownership of the Group remained unchanged as a result of the group reconstruction.

## Unaudited Comparative Information

The full year to 31 December 2004 figures shown as comparative figures in these financial statements are unaudited, but incorporate the figures for the nine months to 30 September 2004 which were audited and included in the Admission Document issued prior to the Admission of the Company's shares to AIM. As MCC Energy Group, Inc. was a subsidiary of Moore, Clayton & Co., Inc. throughout that year, it was not required to be audited on a stand-alone basis.

## Fixed Assets and Depreciation:

### Intangible Fixed Assets

Goodwill represents the difference between the fair values of the identifiable assets and liabilities acquired and the consideration given. Goodwill arising on acquisitions is capitalised and included in the group balance sheet under intangible assets.

The carrying value relating to each acquisition is reviewed annually and a write-down is made where there has been a permanent impairment in the value. Intangible assets are stated at cost less any amount written off for impairment.

Research and development costs incurred on specific projects are capitalised when recoverability can be assessed with reasonable certainty and are amortised in line with the expected sales arising from the projects. All other development costs are written off in the year of expenditure.

### Tangible Fixed Assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is calculated using the reducing balance method, using rates estimated to write off the cost of tangible fixed assets less any residual value over their estimated useful economic lives. The principal annual rates used are:

Tools and equipment	25% – 45%
Furniture and fittings	20%

## Fixed Asset Investments:

### Subsidiary undertakings

The investment in MCC Energy Group, Inc. is accounted for under merger accounting principles and is shown at the nominal value of the shares issued as consideration for the undertaking. The investments in other subsidiary undertakings are shown at cost less any provision for impairment in value. Cost includes the associated costs of acquisition.

### Other fixed asset investments

Other fixed asset investments 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.

### **Turnover and Revenue Recognition**

Turnover, which excludes value added tax and other sales taxes, represents the invoiced value of goods and services supplied to third parties and excludes intra-group sales. Turnover comprises amounts receivable as a result of the ordinary activities of the various businesses within the Group.

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.

### **Foreign currencies**

Transactions in foreign currency are translated at the rates 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.

The balance sheets of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date with profit and loss accounts in foreign currencies being translated into sterling at average rates of exchange.

The exchange differences arising on the retranslation of the opening net assets of overseas subsidiaries are taken directly to reserves, net of exchange differences arising on related foreign currency borrowings. Other exchange differences are taken to the profit and loss account.

### **Stocks**

Stocks are stated at the lower of cost and net realisable value. Where necessary, provision is made for obsolete and slow-moving stock.

### **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.

### **Liquid Resources**

Liquid resources consist of current assets that are disposable by the Group without curtailing or disrupting its business and are readily convertible into a known amount of cash at or close to their carrying amount. They consist of short term deposits realisable at more than 24 hours notice.

## Consolidated profit and loss account

For the year ended 31 December 2005	Note	2005			2004
		£	Acquisitions £	Total £	(unaudited) £
<b>Turnover</b>	1	1,234,899	1,499,242	2,734,141	1,655,317
Cost of sales		(1,032,845)	(1,010,029)	(2,042,874)	(875,129)
<b>Gross profit</b>		202,054	489,213	691,267	780,188
Administrative expenses		(1,224,889)	(421,541)	(1,646,430)	(2,228,389)
<b>Operating profit/(loss)</b>	2	(1,022,835)	67,672	(955,163)	(1,448,201)
Net interest	3			53,362	–
<b>Loss on ordinary activities before taxation</b>				(901,801)	(1,448,201)
Taxation	5			–	–
<b>Retained loss for the year</b>				(901,801)	(1,448,201)
<b>Loss per share</b>					
Basic	7			(3.5p)	(12.5p)
Diluted	7			n/a	n/a

Note: Of the loss on ordinary activities before taxation for the year ended 31 December 2005, £884,920 is attributable to Group trading for the 11 months since the Company's shares were admitted to AIM.

All transactions arose from continuing operations.

## Consolidated and company balance sheets

At 31 December 2005	Note	Group		Company
		2005 £	2004 (unaudited) £	2005 £
<b>Fixed assets</b>				
Intangible assets	8	429,463	–	–
Tangible assets	9	35,802	–	–
Investments	10	337,625	–	880,520
		<b>802,890</b>	–	<b>880,520</b>
<b>Current assets</b>				
Stocks	11	397,380	–	–
Debtors	12	1,333,893	455,145	2,026,612
Investments	13	319,181	–	319,181
Cash at bank and in hand		3,387,575	65,886	3,297,085
		<b>5,438,029</b>	521,031	<b>5,642,878</b>
<b>Creditors: amounts falling due within one year</b>	14	<b>(761,390)</b>	<b>(387,745)</b>	<b>(163,218)</b>
<b>Net current assets</b>		<b>4,676,639</b>	133,286	<b>5,479,660</b>
<b>Total assets less current liabilities</b>		<b>5,479,529</b>	133,286	<b>6,360,180</b>
<b>Capital and reserves</b>				
Called up share capital	15	186,307	7,042	186,307
Share premium account	16	6,075,603	1,570,480	6,075,603
Merger reserve	17	1,499,766	–	–
Profit and loss account	16	(2,282,147)	(1,444,236)	98,270
<b>Equity shareholders' funds</b>	18	<b>5,479,529</b>	133,286	<b>6,360,180</b>

The financial statements were approved by the Board of directors on 8 May 2006.

S P Levine  
Director

D T Wilson  
Director

## Consolidated cash flow statement

For the year ended 31 December 2005	Note	2005 £	2004 (unaudited) £
<b>Net cash outflow from operating activities</b>	19	(1,021,184)	(1,609,148)
<b>Returns on investments and servicing of finance</b>			
Interest received		37,764	–
Interest paid		(426)	–
<b>Net cash inflow from returns on investments and servicing of finance</b>		37,338	–
<b>Capital expenditure and financial investment</b>			
Sale of marketable investments		–	64,474
Purchase of intangible fixed assets		(73,169)	–
Purchase of tangible fixed assets		(23,866)	–
<b>Net cash outflow from capital expenditure and financial investment</b>		(97,035)	64,474
<b>Acquisitions and disposals</b>			
Purchase of Navitas business, including associated costs		(500,981)	–
Purchase of fixed asset investments and associated costs		(336,920)	–
Purchase of current asset investments and associated costs		(319,181)	–
<b>Net cash outflow from acquisitions and disposals</b>		(1,157,082)	–
<b>Cash outflow before financing and management of liquid resources</b>		(2,237,963)	(1,544,674)
<b>Management of liquid resources</b>			
Purchase of short-term deposits		(3,250,000)	–
<b>Financing</b>			
Issue of shares:			
– on listing		3,000,000	–
– on placing in December 2005 <sup>(a)</sup>		3,335,000	–
– other		75,001	1,611,716
Share issue expenses		(913,092)	–
New bank loan		62,743	–
<b>Net cash inflow from financing</b>		5,559,652	1,611,716
<b>Increase in cash</b>	21	71,689	67,042

<sup>(a)</sup> Balance of £665,000 received in January 2006

## Consolidated statement of total recognised gains and losses

For the year ended 31 December 2005	Note	2005 £	2004 (unaudited) £
<b>Loss for the financial year</b>	18	(901,801)	(1,448,201)
Exchange differences	18	63,890	79,771
<b>Total recognised gains and losses for the year</b>		(837,911)	(1,368,430)

# Notes to the financial statements

## 1 Turnover

Turnover, which excludes value added tax and other sales taxes, represents the invoiced value of goods and services supplied and excludes intra-group sales. The turnover and pre-tax loss are wholly attributable to the ordinary activities of the various businesses within the Group. Navitas sales comprise battery control products for battery powered vehicles while USA and UK income arises from the Group's strategic and financial advisory services.

Segmental information on turnover by origin and losses before taxation:

By geographical area of origin	2005		2004	
	Turnover £	Profit/(loss) before taxation £	(unaudited) Turnover £	(unaudited) Loss before taxation £
Canada – Navitas	1,499,242	67,672	–	–
USA – advisory services	1,227,597	(932,854)	1,655,317	(1,448,201)
UK – advisory services	7,302	(89,981)	–	–
	2,734,141	(955,163)	1,655,317	(1,448,201)
<b>Net interest</b>		53,362		–
	2,734,141	(901,801)	1,655,317	(1,448,201)

There is no material difference between the origin and destination of turnover with the exception of Navitas sales, of which £1,379,000 was supplied from Canada to USA.

## 2 Operating loss

The operating loss before taxation is stated after charging:

	2005 £	2004 (unaudited) £
Auditors' remuneration:		
Audit services – UK	25,000	–
– Overseas	14,480	–
Depreciation:		
Tangible fixed assets	8,498	–
Hire of equipment	5,026	–

Fees for non-audit services provided by Grant Thornton UK LLP amounted to £108,800 of which £55,000 related to the admission of the Company to AIM. Other non-audit services comprised advice on taxation matters and the review of the 2005 interim figures and those for 2004.

## 3 Net interest

	2005 £	2004 (unaudited) £
<b>Interest receivable</b>		
Bank deposits	37,764	–
Investments – convertible loans	16,024	–
	53,788	–
<b>Interest payable and similar charges</b>		
On bank overdrafts	(426)	–
<b>Net interest</b>	53,362	–

# Notes to the financial statements

## continued

### 4 Directors and employees

The monthly average number of employees, including directors, of the Group during the year was 46, of whom 3 were employed in administrative roles.

Staff costs during the year were as follows:

	2005 £	2004 (unaudited) £
Wages and salaries	949,193	1,065,440
Social security costs	51,323	–
	<b>1,000,516</b>	<b>1,065,440</b>

Remuneration in respect of directors was as follows:

	2005 £	2004 (unaudited) £
Emoluments	<b>339,021</b>	79,903

### Directors' emoluments

For the year ended 31 December 2005

	Salary £	Fees £	Bonus £	Benefits in Kind £	Total £
<b>Executive Directors</b>					
S P Levine	88,000	3,667	–	1,747	93,414
D T Wilson	42,166	3,667	20,000	–	65,833
K I Denos	33,000	3,667	–	–	36,667
A R Moore	42,166	3,667	–	–	45,833
<b>Non-Executive Directors</b>					
J F Devaney	–	36,666	–	–	36,666
S J Clayton	–	27,500	–	–	27,500
N N Trulsvik	–	18,333	–	–	18,333
	<b>205,332</b>	<b>97,167</b>	<b>20,000</b>	<b>1,747</b>	<b>324,246</b>

S P Levine also received payment in 2005 of £104,396 under an Advisory Income Participation Arrangement for work done and charged to profit in 2004 (see note 26).

During 2005, S P Levine and D T Wilson were granted participations under the Investment Gain Participation Arrangement (see note 26) of 3% and 1.5% respectively of any investment gain on Navitas Technologies Limited in excess of 20% IRR preferential return to the Group, which vest over the period to 1 May 2007.

All the directors, other than J F Devaney, D T Wilson and N N Trulsvik, were directors of the Company's subsidiary undertaking, MCC Energy Group, Inc., throughout the year ended 31 December 2004. The aggregate of the remuneration paid and benefits in kind (including pension contributions) granted to those directors in 2004 by MCC Energy Group, Inc. and its subsidiary undertakings was £79,903.

### Directors' share options

Aggregate emoluments disclosed do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by certain directors. A summary of the share option schemes is given in note 26.

At 31 December 2005, 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	Exercise dates To
J F Devaney	Stand-alone	1/02/2005	400,000	0.500	4/02/2005	3/02/2010
S P Levine	Rollover	1/05/2002	1,114,813	0.134	Vested	30/04/2007
S P Levine	New Plan	15/10/2005	400,000	0.500	15/10/2005	14/10/2015
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	15/10/2005	14/10/2015
N N Trulsvik	Stand-alone	1/02/2005	200,000	0.500	4/02/2005	3/02/2010
			3,314,813			

**4 Directors and employees continued**

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 Plan on 15 October 2005 are all exercisable at £0.50. The options vest in three equal tranches, the first on 15 October 2005 and the remainder on the same date in each of the following two years. The options are exercisable within 10 years.

**5 Taxation**

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

	2005 £	2004 (unaudited) £
Overseas taxation	–	–
UK taxation	–	–
<b>Total tax charge</b>	<b>–</b>	<b>–</b>

No corporate tax charge arises for the year due to the losses incurred.

The tax assessed for the period is lower than the standard rate of corporation tax in the United Kingdom 30% (2004 – 30%). The differences are explained below:

	2005 £	2004 (unaudited) £
Loss on ordinary activities before tax	<b>(901,801)</b>	<b>(1,448,201)</b>
Loss on ordinary activities at the standard rate of corporation tax in the UK of 30% (2004 – 30%)	<b>(271,000)</b>	<b>(434,000)</b>
Effects of:		
Higher effective tax rates on overseas earnings	<b>(44,000)</b>	<b>(72,000)</b>
Expenses not deductible for tax purposes	<b>3,000</b>	<b>19,000</b>
Timing differences	<b>(12,000)</b>	<b>17,000</b>
Tax losses carried forward	<b>324,000</b>	<b>470,000</b>
<b>Current tax charge for the year</b>	<b>–</b>	<b>–</b>

The Group has tax losses of approximately £2,455,000 at 31 December 2005 (2004 – £1,459,000), of which £2,449,000 (2004 – £1,459,000) arise overseas. These tax losses will be available to reduce the tax due on future profits. A deferred tax asset of £858,000 (2004 – £510,000) has not been recognised due to the uncertainty of the timing of recoverability of the asset. The asset will be recovered in line with future profits.

**6 Profit attributable to Tersus Energy Plc**

As permitted by section 230 of The Companies Act 1985, no separate profit and loss account is presented in respect of the parent company. The profit of the Company for the period from 15 December 2004, the date of incorporation, to 31 December 2005 was £98,270.

**7 Earnings per ordinary share**

The calculation is based on a loss of £901,801 (2004 – loss of £1,448,201) and on a weighted average number of shares in issue of 25,599,499 (2004 – 11,565,896). The number of shares has increased from the comparative period as a result of the merger and subsequent floatation.

# Notes to the financial statements

## continued

### 8 Intangible fixed assets

Group	Goodwill £	Research and development £	Total £
<b>Cost</b>			
At 31 December 2004 (unaudited)	–	–	–
Additions at cost	306,360	73,169	379,529
Exchange movements	42,653	7,281	49,934
<b>At 31 December 2005</b>	<b>349,013</b>	<b>80,450</b>	<b>429,463</b>
<b>Net book amount at 31 December 2005</b>	<b>349,013</b>	<b>80,450</b>	<b>429,463</b>
Net book amount at 31 December 2004 (unaudited)	–	–	–

Capitalised goodwill relates to the acquisition on 20 April 2005 of the assets and trade of SRE Limited, subsequently renamed Navitas Technologies Limited, a company incorporated in Ontario, Canada. This has been accounted for as an acquisition. Details are as follows:

	Book value £'000	Fair value adjustment £'000	Fair value £'000
<b>Assets and liabilities acquired:</b>			
Fixed assets	16	–	16
Debtors	128	–	128
Stocks	12	39	51
Net assets acquired	156	39	195
<b>Consideration:</b>			
Cash			475
Capitalised costs associated with acquisition			26
Fair value of consideration paid			501
Goodwill as at the date of acquisition			306

Stock acquired was adjusted to its replacement cost value.

Navitas made the following contribution to, and utilisation of, Group cash flow.

	2005 £'000
Net cash outflow from operating activities	(219)
Returns on investment and servicing of finance	–
Taxation	–
Capital expenditure and financial investment	(24)
Decrease in cash	(243)
Net outflow of cash in respect of the purchase of the assets and trade of SRE Limited	
Cash consideration	(501)

**9 Tangible fixed assets**

Group	Furniture and fixtures £	Tools and equipment £	Total £
<b>Cost</b>			
At 31 December 2004 (unaudited)	–	–	–
Acquired on acquisition of assets and trade of SRE Limited (see note 8)	2,159	14,250	16,409
Additions	415	23,451	23,866
Exchange movements	370	4,501	4,871
<b>At 31 December 2005</b>	<b>2,944</b>	<b>42,202</b>	<b>45,146</b>
<b>Depreciation</b>			
At 31 December 2004 (unaudited)	–	–	–
Provided in the year	446	8,052	8,498
Exchange movements	45	801	846
<b>At 31 December 2005</b>	<b>491</b>	<b>8,853</b>	<b>9,344</b>
<b>Net book amount at 31 December 2005</b>	<b>2,453</b>	<b>33,349</b>	<b>35,802</b>
Net book amount at 31 December 2004 (unaudited)	–	–	–

The Company does not hold any tangible fixed assets.

**10 Investments**

Group	Investments at cost (a) £
<b>Cost</b>	
At 31 December 2004 (unaudited)	–
Additions at cost	336,920
Exchange movements	705
<b>At 31 December 2005</b>	<b>337,625</b>

Company	Shares in group companies <sup>(b)</sup> £	Loans to group companies £	Investments at cost <sup>(a)</sup> £	Total £
Cost				
Additions at cost	126,081	475,000	279,439	880,520
<b>At 31 December 2005</b>	<b>126,081</b>	<b>475,000</b>	<b>279,439</b>	<b>880,520</b>

(a) The fixed asset 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 on which interest is payable. The terms on which some investments have been made include the right for the Group to participate in future projects.

The directors consider that the investments, while not realisable in the short-term, have a long-term valuation significantly in excess of their book value.

(b) 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
MCC Energy Group, Inc. <sup>(i)</sup>	Delaware, USA	Ordinary	100%	Strategic advisor in energy sector
MCCEG Technologies, Inc.	Delaware, USA	Ordinary	100%	Investment holding company
Navitas Technologies Limited <sup>(i)</sup>	Ontario, Canada	Ordinary	100%	Supply of battery control products to battery powered vehicles
Tersus Energy Services Limited	England & Wales	Ordinary	100%	Strategic advisor in energy sector

(i) Held directly by Tersus Energy Plc

# Notes to the financial statements

## continued

### 11 Stocks

The replacement costs of stocks, which principally comprise raw materials and bought-in parts, are not materially different from their book value.

### 12 Debtors

Group	2005 £	2004 (unaudited) £
<b>Amounts falling due within one year</b>		
Trade debtors	422,636	452,271
Called up share capital not paid <sup>(a)</sup>	665,000	–
Accrued income	16,024	–
Prepayments and other debtors	230,233	2,874
	<b>1,333,893</b>	<b>455,145</b>

Company	2005
<b>Amounts falling due within one year</b>	
Trade debtors	45,652
Called up share capital not paid <sup>(a)</sup>	665,000
Amounts owed by subsidiary companies	1,031,795
Accrued income	16,024
Prepayments and other debtors	78,301
	<b>1,836,772</b>
<b>Amounts falling due after more than one year</b>	
Amounts owed by subsidiary companies	189,840
	<b>189,840</b>
	<b>2,026,612</b>

<sup>(a)</sup> includes £30,000 received from J F Devaney and £30,000 from D T Wilson in January 2006.

### 13 Current asset investments

The investments comprise a convertible loan to and shares in Dynamotive Energy Systems Corporation, a NASDAQ traded company. The convertible loan was made as a short-term investment during 2005 and, subsequent to the year-end, the Group exercised its conversion rights, receiving both warrants and shares. After allowing for amounts payable under incentive arrangements (see note 26) on realisation of the investment, the net value of the investment, excluding warrants, at 31 December 2005 was £658,000, based on the market value of the shares at that date, a surplus of £339,000 over cost. A further net surplus of £57,000 arises on the warrants, after allowing for the costs of exercising them, so that the total surplus, based on the year-end market value of the shares, is £396,000.

### 14 Creditors: amounts falling due within one year

Group	2005 £	2004 (unaudited) £
Bank loans and overdrafts	62,743	–
Trade creditors	515,414	387,745
Other creditors	63,507	–
Other taxation and social security	26,010	–
Accruals and deferred income	93,716	–
	<b>761,390</b>	<b>387,745</b>

Company	2005
Trade creditors	98,850
Other creditors	22,637
Amounts owed to subsidiary companies	100
Other taxation and social security	11,631
Accruals and deferred income	30,000
	<b>163,218</b>

**15 Called up share capital**

Company	2005 £
<b>Authorised<sup>(a)</sup></b>	
200,000,000 ordinary shares of 0.5p each	1,000,000
<b>Issued and fully paid</b>	
Subscriber share	1
Issued at par on the acquisition of MCC Energy Group, Inc. <sup>(b)(f)</sup>	100,000
In issue after group reconstruction	100,001
Issued in connection with placing and admission to AIM <sup>(c)</sup>	30,000
In issue on admission of the Company's shares to AIM (26,000,185 ordinary shares of 0.5p each)	130,001
Issued in consideration of legal fees <sup>(d)</sup>	750
Issued for cash on placing of shares <sup>(e)</sup>	55,556
<b>At 31 December 2005</b> (37,261,297 ordinary shares of 0.5p each)	<b>186,307</b>

<sup>(a)</sup> On 7 January 2005, the Company's initial authorised share capital of £1,000 was subdivided into 100,000 ordinary shares of £0.01 each, before being increased from £1,000 to £1,000,000 by the creation of 99,900,000 ordinary shares of 1p each. On 21 January 2005, the authorised share capital was sub-divided into 200,000,000 ordinary shares of 0.5p each.

<sup>(b)</sup> On 21 January 2005, the Company acquired the whole of the issued share capital of MCC Energy Group, Inc. under a group reconstruction preparatory to the placing and admission of the Company's shares to AIM by issuing 19,999,985 ordinary shares representing £100,000 of share capital at nominal value.

<sup>(c)</sup> On 27 January 2005, in connection with the placing and admission of the Company's shares on AIM, 6,000,000 shares representing £30,000 of share capital at nominal value were issued for cash at 50p each, raising £3,000,000 before issue expenses of £754,103.

<sup>(d)</sup> On 5 April 2005, 150,000 shares representing £750 of share capital at nominal value were issued in consideration of legal fees of £75,000 payable by the Company in relation to the AIM listing.

<sup>(e)</sup> On 23 December 2005, 11,111,112 shares were issued for cash at 36p each, raising £4,000,000 before issue expenses of £158,989. An amount of £665,000 was received from shareholders after the year-end.

<sup>(f)</sup> The acquisition of MCC Energy Group, Inc. by the Company was accounted for under merger accounting rules and the consolidated accounts have been prepared as if the Company had always been in existence. The share capital shown in the consolidated balance sheet as at 31 December 2004 relates to MCC Energy Group, Inc. and was transferred to the Merger reserve on the group reconstruction on 21 January 2005 as shown in Note 17.

Details of the share options issued in the period from Admission to 31 December 2005 are given in note 26.

## Notes to the financial statements

### continued

#### 15 Called up share capital continued

##### Group and Company

The total number of share options outstanding at 31 December 2005, 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	1	1,709,379	0.134	Vested	30/04/2007
1/09/2002	Rollover	1	148,641	0.134	Vested	31/08/2007
30/09/2002	Rollover	1	586,887	0.134	Vested	29/09/2007
1/06/2003	Rollover	1	751,465	0.134	Vested	31/05/2008
1/06/2003	Rollover	1	375,733	0.134	1/06/2006	31/05/2008
15/09/2003	Rollover	1	99,094	0.134	Vested	31/08/2008
15/09/2003	Rollover	1	49,547	0.134	15/09/2006	31/08/2008
1/02/2004	Rollover	1	148,641	0.134	Vested	31/01/2009
1/02/2004	Rollover	1	297,283	0.134	1/02/2006	31/01/2009
1/04/2004	Rollover	1	72,834	0.134	Vested	31/03/2009
1/04/2004	Rollover	1	145,668	0.134	1/04/2006	31/03/2009
1/06/2004	Rollover	1	222,962	0.134	Vested	31/05/2009
30/08/2004	Rollover	1	134,684	0.134	Vested	29/08/2009
30/08/2004	Rollover	1	269,369	0.134	30/08/2006	29/08/2009
31/08/2004	Rollover	1	7,432	0.134	Vested	30/08/2009
31/08/2004	Rollover	1	14,864	0.134	31/08/2006	30/08/2009
4/02/2005	Stand-alone		250,000	0.500	Vested	3/02/2010
4/02/2005	Stand-alone		750,000	0.500	4/02/2006	3/02/2010
15/10/2005	New Plan		70,000	0.500	Vested	30/04/2009
15/10/2005	New Plan		483,333	0.500	Vested	14/10/2015
15/10/2005	New Plan		966,667	0.500	15/10/2006	14/10/2015
			7,554,483			

1 The dates of grant shown for Rollover options are the original option grant dates under the MCC Energy Group, Inc. share option scheme.

## 16 Share premium account and profit and loss account

Group	Share premium account £	Profit and loss account £
At 31 December 2004 (unaudited)	1,570,480	(1,444,236)
Exchange movement to date of group reconstruction	24,870	–
	1,595,350	(1,444,236)
Transfer to Merger reserve	(1,595,350)	–
Loss for the year	–	(901,801)
Premium on shares issued:		
- on admission to AIM	2,970,000	–
- on placing in December	3,944,445	–
- other	74,250	–
Share issue expenses	(913,092)	–
Exchange movements	–	63,890
<b>At 31 December 2005</b>	<b>6,075,603</b>	<b>(2,282,147)</b>

Company	Share premium account £	Profit and loss account £
Profit for the period to 31 December 2005	–	98,270
Premium on shares issued:		
- on admission to AIM	2,970,000	–
- on placing in December	3,944,445	–
- other	74,250	–
Share issue expenses	(913,092)	–
<b>At 31 December 2005</b>	<b>6,075,603</b>	<b>98,270</b>

## 17 Merger reserve

Group	Merger reserve £
At 31 December 2004 (unaudited)	–
Arising on group reconstruction	1,499,766
<b>At 31 December 2005</b>	<b>1,499,766</b>

The Merger reserve arose on the group reconstruction on 21 January 2005 when MCC Energy Group, 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 14 and the consolidated accounts have been prepared as if the Company had always been in existence. The balances on the share capital and share premium account at 31 December 2004 shown in the consolidated accounts, which relate to MCC Energy Group, Inc., were transferred to the Merger reserve.

The Merger reserve as at 21 January 2005 was:

	2004 (unaudited) £	Exchange movement to 21 January 2005 £	£
Shares issued at par for acquisition of MCC Energy Group, Inc.			100,000
MCC Energy Group, Inc.			
Issued share capital	7,042	112	7,154
Share premium account	1,570,480	24,870	1,595,350
Unpaid share capital	(2,694)	(44)	(2,738)
	1,574,828	24,938	1,599,766
Merger reserve			1,499,766

# Notes to the financial statements

## continued

### 18 Reconciliation of movements in shareholders' funds

	Group		Company
	2005	2004 (unaudited)	2005
	£	£	£
(Loss)/profit	(901,801)	(1,448,201)	98,270
Exchange movements	63,890	79,771	–
Total recognised gains and losses	(837,911)	(1,368,430)	98,270
Issue of shares	6,161,910	1,611,716	6,261,910
Exchange movements – other <sup>(a)</sup>	22,244	(86,777)	–
Net movement in shareholders' funds <sup>(b)</sup>	5,346,243	156,509	6,360,180
Opening equity shareholders' funds	133,286	(23,223)	–
Closing equity shareholders' funds	5,479,529	133,286	6,360,180

<sup>(a)</sup> These are exchange movements in the share capital and share premium account of MCC Energy Group, Inc. prior to the date of the group reconstruction (2004 – whole year).

<sup>(b)</sup> Movements in shareholders' funds for the Group refer to the year ended 31 December 2005 and, for the Company, to the period from 15 December 2004, the date of incorporation, to 31 December 2005.

### 19 Net cash outflow from operating activities

	2005	2004 (unaudited)
	£	£
Operating loss	(955,163)	(1,448,201)
Loss on disposal of investment	–	8,466
Depreciation	8,498	–
Exchange differences written off	(17,049)	–
Increase in stock	(308,609)	–
Decrease/(increase) in debtors	4,343	(441,250)
Increase in creditors	246,796	271,837
Net cash outflow from operating activities	(1,021,184)	(1,609,148)

### 20 Reconciliation of net cash flow to movement in net debt

	2005	2004 (unaudited)
	£	£
Increase in cash in the year	71,689	63,407
Increase in liquid resources	3,250,000	–
Inflow from new bank loan	(62,743)	–
	3,258,946	63,407
Net funds at beginning of the year	65,886	2,479
Net funds at end of the year	3,324,832	65,886

### 21 Analysis of changes in net funds

	At 31 December 2004 (unaudited)	Cash flow	At 31 December 2005
	£	£	£
Cash at bank and in hand	65,886	3,321,689	3,387,575
Less: short term deposits	–	(3,250,000)	(3,250,000)
	65,886	71,689	137,575
Short term deposits	–	3,250,000	3,250,000
Bank loans	–	(62,743)	(62,743)
	65,886	3,258,946	3,324,832

## 22 Capital commitments

The Group and Company had no capital commitments at 31 December 2005 or 31 December 2004 (unaudited).

## 23 Contingent liabilities

There were no contingent liabilities at 31 December 2005 or 31 December 2004 (unaudited).

## 24 Operating lease commitments

At 31 December 2005, the Group had annual commitments under non-cancellable operating leases as follows:

	2005	
	Land and buildings	Other
Leases expiring:		
Within one year	–	1,200
Between two and five years inclusive	–	6,200
After five years	41,600	–
	41,600	7,400

There were no operating lease commitments at 31 December 2004 (unaudited).

## 25 Financial instruments

### Financial risk

The Group's financial instruments comprise cash and liquid resources, and various items, such as trade debtors and trade creditors, that arise directly from its operations. The main risks for the Group's financial instruments are interest rate and liquidity. The Board reviews and agrees policies for managing each of these risks. These policies, which have remained the same since Admission, are summarised below.

As permitted by FRS 13, 'Derivatives and Other Financial Instruments', short-term debtors and creditors have been excluded from all financial instrument disclosures other than currency exposure disclosure.

### Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

### 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.

### Fair values

The directors consider there to be no material difference between the book value and the fair value of the Group's financial instruments at 31 December 2005.

### Foreign exchange risks

The Group uses forward currency contracts where appropriate to mitigate its exposure to exchange risk fluctuations.

### Application of Group policy

The Group's use of financial instruments is explained below:

#### (a) Exchange risk

The table below shows the Group's currency exposures. These consist of the monetary assets and liabilities of the Group that are not denominated in the Group's reporting currency, which is UK pounds sterling.

	2005	2004 (unaudited)
	£	£
Net foreign currency monetary assets		
US Dollars	43,561	65,886
Canadian Dollars	(4,737)	–

#### (b) Maturity of financial liabilities

At 31 December 2005, the Group's financial liabilities comprised obligations falling due under bank loans (2004 – nil).

# Notes to the financial statements

## continued

### 25 Financial instruments continued

#### (c) Interest rate profile of financial assets

At 31 December 2005, the Group's financial assets, other than short term debtors, were cash and cash deposits totalling £3,387,575 (2004 – £65,886). Of this amount, £3,250,000 (2004 – nil) was placed on short-term deposit.

#### (d) Interest rate profile of financial liabilities

At 31 December 2005, financial liabilities comprised interest bearing loans (2004 – nil).

### 26 Long term incentives

A number of arrangements have been established to provide long term incentives as the Group grows.

#### 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 his remuneration with a provision to grant options worth up to four times his 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 25% 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 three 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 period from Admission to 31 December 2005, 1,660,000 options were issued under the Share Option Plan at a price of 50p.

##### 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 MCC Energy Group, Inc. were rolled over under the terms of the existing MCC Energy Group, Inc. share option scheme into options over 5,034,483 ordinary shares of the Company. These options are exercisable at £0.134 per ordinary share in the period up to 30 August 2009.

##### 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. The maximum percentage payable under this arrangement has been reduced from the level of 50 per cent disclosed in the Admission Document.

In the period from Admission to 31 December 2005, one payment of £104,396 has been made under this arrangement.

## 26 Long term Incentives continued

### 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. Participations granted under this arrangement will normally vest over a period of up to 3 years.

In the period from Admission to 31 December 2005, participations totalling 9% have been granted in respect of any investment gain that may be realised on Navitas Technologies Limited in excess of 20% IRR preferential return to the Group. The participations vest in three equal annual tranches in the period to 1 May 2007.

### Performance Share Plan

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

Under this scheme, participants receive their awards in the form of restricted ordinary shares with the result that, on the vesting of an award, the individual receives his shares free of charge. The annual limit on the value of ordinary shares which may be awarded to an individual will ordinarily be twice his remuneration with a provision to grant awards over ordinary shares worth up to four times his remuneration in certain circumstances. The basis on which the awards shall vest will be set at the time they are granted, and may require performance targets to be met and/or the individual to remain in employment for a certain period. In the absence of other arrangements, the awards will vest in three equal tranches on each of the first, second and third anniversaries of the date of grant. The vesting period may be accelerated to allow ordinary shares to be received at any time.

When a participant ceases to work for the Group, awards will lapse (unless the Company in its absolute discretion decides otherwise) except when, in certain specified circumstances, vested ordinary shares will be transferred to the participant in accordance with the terms of his award.

In the period from Admission to 31 December 2005, no awards have been made under the Performance Share Plan.

## 27 Related Party Transactions

Moore, Clayton & Co., Inc. ('MCCI') is a related party, by virtue of its significant shareholding in Tersus Energy Plc and by the fact that its directors and controlling shareholders, S J Clayton, A R Moore and K I Denos, were all directors of the Company until Mr Moore and Mr Denos resigned as directors on 20 February 2006. During the year, £66,856 was payable to companies in the MCCI group in respect of certain general management and administrative services provided while £4,750 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.

Prior to the group reconstruction on 21 January 2005, MCC Energy Group, Inc. was a subsidiary of MCCI. The transactions undertaken on that date are outlined on page 14 in the Basis of Consolidation section of the Accounting Policies. During 2004, MCC Energy Group, Inc. paid MCCI £280,921 for certain general management and administrative services and £93,624 under a royalty agreement that terminated on Admission.

Of the amounts referred to above, £15,001 (2004 – nil) remained payable to MCCI at 31 December 2005.

## 28 Post balance sheet events

On 15 February 2006 the Company invested US\$2,000,000 in ZhongHang (Baoding) Huiteng Wind Power Equipment Co., Ltd. On 3 May 2006 the Company acquired Envinta Inc. for a purchase price of US\$2,100,000. On 4 May 2006 the Company invested £750,000 into Enviro-Control Limited.

# Shareholder information

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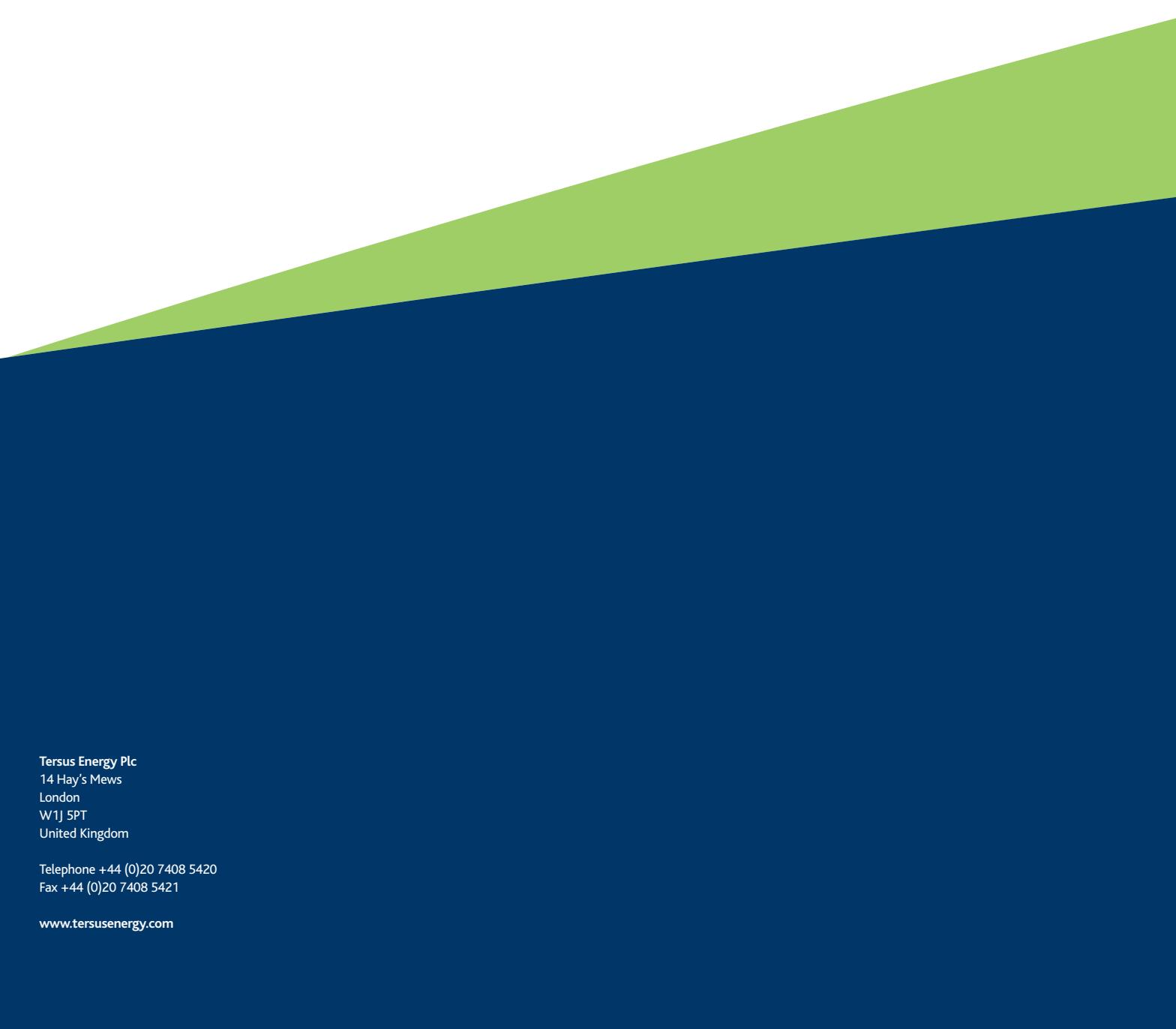
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