ACTIVE ENERGY GROUP PLC

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2012

Company registration number: 03148295

ACTIVE ENERGY GROUP PLC

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2012

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ACTIVE ENERGY GROUP PLC

COMPANY INFORMATION

Country of incorporation	England and Wales
Legal form	Public Limited Company
Directors	R. G. Spinks C. W. Hill G. Valoroso
Secretary	Cargil Management Services Limited
Registered office	5th Floor 15 Whitehall London SW1A 2DD
Registered number	03148295
Auditors	BDO LLP Chartered Accountants and Registered Auditors 55 Baker Street London W1U 7EU
Bankers	HSBC Bank plc 69 Pall Mall London SW1Y 5EY
Solicitors	Pritchard Englefield 14 New Street London EC2M 4HE
Nominated Adviser	Sanlam Securities UK Limited 10 King William Street London EC4N 7TW
Stockbroker	Sanlam Securities UK Limited 10 King William Street London EC4N 7TW

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

Dear Shareholder

This is my first report since joining the AEG Board in November 2012, and, especially given the somewhat difficult period which the Company has endured in recent years, I am delighted to be able to report a number of extremely positive developments.

However, before addressing myself to more positive matters, I summarise below the financial results for the year ended 31 December 2012.

Financial results

The Group reported a Total Consolidated Comprehensive Loss for the period under review of £1,428,015 (FY2011: £2,507,641) of which £685,567 (FY2011: £1,805,768) was attributable to discontinued operations.

Administrative expenses of £977,098 (FY2011: £647,863) include aggregate charges of *circa* £353k (FY2011: £NIL) which relates to operations in Ukraine, including £180k of amortisation costs. The remaining £624k of expenses compares directly to the FY2011 number of £648k and includes ~£150k (FY2011: £115k) by way of remuneration of former directors (including compensation for loss of office of ~£50k (FY2011: £NIL)).

Group revenues of £230,710 (FY2011: £NIL) were derived exclusively from the Group's activities in Ukraine arising from wood processing and export activities.

Net assets as at 31 December 2012 amounted to £1,603,216 (FY2011: £2,702,128) including cash balances of £158,004 (FY2011: £998,586).

While your former board announced the cessation of both Red Line Engineering Services Limited ("RLE") and Active Energy Limited ("AEL") in the 2011 financial statements, it was only in the latter part of 2012 that formal steps were taken by them for these companies to be placed into Member's Voluntary Liquidation, a process that is now substantially complete.

The final accounting elimination of both AEL and RLE will allow the Company to apply its cash resources to more profitable ends than was possible in the period under review, 2012 having been a year of considerable change both in management itself and in the realignment of management focus towards the new business opportunities within the biomass sector as represented by the proposals being the subject of a separate announcement and the Shareholder Circular being posted to shareholders later today.

Since the future of your Group is wholly dependent upon management's ability to harness the potential of its Ukrainian-based biomass fuel and forestry products business now being driven by our first rate management team in Ukraine, I believe that I should direct this report more to the future and the proposals contained within the Shareholder Circular which will be put before you at the forthcoming General Meeting rather than dwell further on the past.

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

Acquisition of Nikofeso Holdings and associated fundraising

Introduction

Further to the announcement by the Company on 9 January 2013, stating that it had entered into non-binding Heads of Terms to acquire the entire issued share capital of one of its current Joint Venture partners, an established wood processing and distribution company headquartered in Cyprus with operating subsidiaries in the Ukraine, the Company is pleased to be able to announce today the terms of the proposed acquisition of Nikofeso Holdings ("Nikofeso") and an associated fundraising.

Nikofeso is already the largest Ukrainian supplier of wood chip for the production of Turkish MDF. The acquisition and fundraising will, in the Board's opinion, significantly enhance and supplement AEG's existing forestry and associated exploitation rights in Western Ukraine and will result in the establishment of the Group as a fully integrated provider of wood chip with the opportunity to become the pre-eminent operator in the Black Sea and Balkans, and positioned favourably to take the next steps to enter the power generation sector in Europe.

The proposals summarised below reflect how the arrangements as contemplated earlier this year have developed so positively that I can now confirm that the Group will:

a) enter into a conditional agreement to acquire from Windstar Investments S.A. ("Windstar") (an investment company registered in Panama) the entire issued share capital of Nikofeso, a Cypriot-registered trading and holding company, together with Nikofeso's principal biomass operating subsidiary company, Nikwood Company LLC, registered and located in Ukraine;

b) conditionally raise £2.1 million pursuant to the Subscription for 165.78 million ordinary shares at a Placing Price of £0.0125 (with associated warrant rights to subscribe for 55.26 million new shares at an exercise price of £0.0125) and £1 million nominal of 9% 2016 Convertible Loan Notes, convertible at £0.0175 (representing up to 57.14 million shares) with associated warrant rights to subscribe for 19.05 million shares at an Exercise Price of £0.0175 each; and

c) conditionally agree to convert the original extant Unsecured Subordinated Loan (£318,750 as at 31 December 2012 (FY2011:£NIL) together with estimated interest) from Eastwood S.A. into new equity and warrants on the same terms as for the Subscription; this will equate to the issue of ~28 million shares with associated warrants rights to subscribe for ~9 million shares at an Exercise Price of £0.0125 each.

The consideration for the Acquisition will be satisfied by the issue to Windstar of 62.5 million Initial Consideration Shares and 12.5 million Initial Consideration Warrants and the issue of 62.5 million Deferred Consideration Shares into escrow which will be released to Windstar in due course subject to the satisfaction of certain determined criteria. The associated 12.5 million Deferred Consideration Warrants will be issued to Windstar upon the issue of Deferred Consideration Shares out of escrow in accordance with the acquisition agreement.

Both the Strike Price of the Consideration Shares and the Exercise Price of the Consideration Warrants have been agreed to be £0.03 each, being a substantial premium to the prevailing share price of the Company.

The Subscription will be made as a Private Placing, and is being corner-stoned by a new overseas investor together with a small number of existing shareholders and management.

The £1 million Convertible Loan Note is being subscribed by a single current shareholder holding just over 9% of the existing equity.

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

Background to the proposals

While the Shareholder Circular will more fully describe the proposals, the acquisition encompasses an established wood processing and distribution group which has operated in the Ukraine for over five years and currently has approximately 20 employees. It procures the supply of raw material wood in log form from the Ukrainian Agency for State Forestry Resources. These materials are delivered by rail to processing facilities strategically located in two ports in Mykolaiv, being a principal city located on the River Dnieper, some 40 miles upriver from the Black Sea.

These deep water ports provide access to ocean-going vessels and the facilities are well-positioned to allow for a substantial expansion from the current levels of trade performed by the Nikofeso Group as a provider of wood chip for both the manufacture of Medium Density Fibreboard ("MDF") and for biomass power plant feedstock.

The Nikofeso Group is already the largest Ukrainian supplier of wood chip for the production of Turkish MDF and currently services five major Turkish manufacturers of MDF, all with important expansion potential to the Group by virtue of the specific benefits to their manufacturing plants, which are conferred by the Nikofeso Group's ability to ship high-quality materials across the Black Sea in 24 to 30 hours in cargoes of around 4,000 to 8,000 metric tonnes ("MT"). This compares to the 15 to 20 days of trans-oceanic shipping in large bulk carriers (of around 40,000 MT) from Brazil, Venezuela or the west coast of North America. Not only does wood chip from Ukraine deliver higher quality product but it does so in volumes and in time-frames that are consistent with the demands of high volume manufacturing businesses where cost, quality and inventory control are under constant pressure.

The Nikofeso Group has previously supplied processed wood chip at peak volumes of over 300,000 MT per annum. Over the past two years, volumes have been limited primarily due to the availability of adequate working capital, which constrained total shipping volumes in 2012 to around 39,000 MT. The Nikofeso Group's main operating base is located in Mykolaiv, with the two port locations lying within 12 miles of the offices.

The Nikofeso Group has also recently signed a sales contract with a new biomass power plant in southern Italy to supply wood chip as feedstock. There is the potential to rapidly expand this revenue channel through better sourcing and pricing arrangements as the partnership with AEG will enable the Nikofeso Group to source and fund the increasing demand for feedstock as the power station builds to full operating capacity. This is an especially important part of the Acquisition rationale as there is a large number of biomass power plants coming on stream in the next two to three years in the EU, where a major issue for each of them is the sourcing of sustainable long-term supplies of raw material feedstock.

The Nikofeso Group traded approximately 39,000 MT of wood chip to Turkey in 2012 but had no power plant biomass feedstock revenues. In the course of a nearly six month operational, commercial, legal and financial due diligence exercise, AEG and the Nikofeso Group have worked closely together to validate the operational and financial viability of the proposed Enlarged Group.

In the period from late 2012, when Active Energy Ukraine Limited ("AEU"), AEG's wholly owned subsidiary, commenced working with Nikofeso Group, until the date of this document, Nikofeso Group has shipped a total of approximately 49,000 MT of wood chip to Turkish customers (40,000 MT of wood chip on which AEG has the benefit of a profit participation and a further 9,000 MT of wood chip for the sole account of Nikofeso Group). This total of 49,000 MT has been shipped in 11 cargoes, averaging around 4,500 MT per cargo and represents an annualised rate of wood chip of almost three times that achieved by the Nikofeso Group in 2012 operating on its own account. While historic payment terms have been strictly Free On Board ("FOB") (which ensures minimal credit risk both to the Nikofeso Group and also to AEG (whose financing has largely facilitated these much-increased shipping frequencies)) AEG intends to move terms of trade to a Cost, Insurance and Freight ("CIF") basis as soon as possible post completion of the Acquisition. This transition can be facilitated by the application of incoming new capital arising from the Proposals.

The Directors believe that there is an opportunity in the Black Sea trade to ship in excess of 350,000 MT per annum by the end of 2015 with a concomitant opportunity to ship similar quanta of cargoes of power plant feedstock to European clients. Based upon the operational capacity of the Nikofeso Group, combined with the enhanced management structure which will be formally put in place following the Acquisition, management is confident that such opportunities can be exploited utilising the aggregate potential of both the new cash from the Subscription, the issue of the Convertible Loan Notes and other potential financing options open to the Enlarged Group.

The Acquisition will also bring to the Group a highly-experienced management team with a proven track-record of operating successfully within Ukraine, the EU and other important former CIS territories.

The Acquisition will enhance and supplement AEG's existing forestry and associated exploitation rights in Western Ukraine and will result in the establishment of the Enlarged Group, not only as a fully integrated provider of wood chip, but, prospectively, as the pre-eminent operator in the Black Sea and Balkans, and positioned favourably to take the next steps to enter the power generation sector in Europe.

The relevance of Ukrainian forestry and biomass product to the EU and Middle East markets

With the constant struggle to find new ways to supply society with energy other than from diminishing hydrocarbon natural resources, wood-based biomass offers a viable solution. Unlike solar, wind and tidal power, biomass is reliable. Working with wood chip allows companies to plan and stock pile and, although the actual process of energy creation is by its incineration, the gases thus emitted are only those that were absorbed during the photosynthesis process, and so, unlike the usual fossil fuel sources of energy, biomass wood is a carbon-lean fuel.

Ukraine's political standing within Europe can be seen to be one of increasing stability, reliability and investment relevance. The Ukrainian government is advancing plans for further privatisation under a new programme set out for 2012 to 2014, where it hopes to reduce the State's share in the economy from 40 per cent. of GDP to 25 to 30 per cent., something that the proposed Acquisition seeks to capitalise upon for the benefit of shareholders.

Currently, the majority of wood chip used in Europe for biomass comes in bulk shipments originating over 6,000 miles away in Brazil, with equivalent size cargoes coming from both Venezuela and the west coast of North America. Ukraine has an advantageous geographical position with its important access to deep water Black Sea ports and proximity to resource-strategic Balkan and former CIS countries, which are able not only to provide new sources of feedstock, but are also territories that represent new revenue channels for the Group. Of particular significance to the Enlarged Group's future development, is the increasing number of new biomass power stations coming on-stream across Europe and the EU in the period 2013 to 2016. This underpins the increasing relevance of the Enlarged Group's Ukrainian resource base and ability to access neighbouring territories both as suppliers and customers. Black Sea access is key to the development of the Enlarged Group's business and is the major enabling factor in Ukraine's ability to quickly become a pre-eminent player in the biomass sector.

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

The benefits of Ukraine as the hub of the Enlarged Group's operations include:

- excellent cross-border rail access into Poland, Belarus and Russia;
- deep sea access to the south opening up the entire Middle East market and with direct access to the Mediterranean and beyond;
- an ability to supply Europe and the Middle East with feedstock that has a low carbon footprint and that has been sea-borne for no more than a week in comparison to that which is shipped from South or North America;
- a resultant higher quality product (fresher);
- lower logistic costs per metric tonne than equivalent long-haul shipments; and
- lower financial exposure on smaller shipments for shorter periods; improved cash-flow for both supplier and customer.

The continued efforts of the Ukrainian government to align itself to EU standards of quality assurance, renewability and sustainability should provide reassurance to investors that Ukraine is a jurisdiction that is committed to internationally recognised standards of business ethics, transparency and corporate governance, features that are recognised as being essential to establishing a stable investment environment. The political will is evident in the policies being actively pursued, AEG and Nikofeso Group is becoming well-respected both as an operator and as a touchstone to the setting of key policies that are designed to facilitate inward investment and demonstrate commitment to EU-level quality standards.

While a sustained effort will be required to achieve these goals, the evidence is clear that, within the biomass sector, the commitment exists to establishing EU and International Forestry standards and this is strongly reflected in current government policy and action.

The Company, through its subsidiary Active Energy Ukraine Ltd ("AEU"), has, for the past year, been focused at the level of both the parent company board and that of AEU, on firmly establishing the new business in the biomass sector and putting in place all necessary operational, financial and commercial control systems appropriate for the scale of business that the Board expects to build in the next few years. Having been delivered a steadily increasing rate of monthly shipments in the first 6 months of FY2013, once the Acquisition and Subscription are closed, AEG will be extremely well-positioned to add further volumes/additional vessels, some of which are earmarked for the Italian biomass power sector.

Ukrainian-based management

The appointment in Ukraine of Mr Oles Kopets as the local Managing Director in May 2012 has proved highly beneficial. Oles is a Harvard graduate with broad international investment banking experience coupled with first class operations and general management experience, the exact skills combination that is needed to both meet the challenge of what will be a very rapidly growing business while being able maintain close management control of day-to-day operations.

Richard Spinks was appointed CEO of the Group with effect from 2 July 2012. Richard has extensive sector and geographic experience in Eastern Europe, having spent more than 24 years working in Poland, Russia and Ukraine.

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

Following the acquisition of the Western Ukraine rights in late 2011, during the first six months of FY2012, AEU encountered a number of operating challenges in setting up the business, and although initial difficulties were to be expected during the start-up phase of the new operation, they nevertheless resulted in a level of performance far below that which your current Board would have expected to have been achieved by the half-year.

Richard's first imperative was to complete a "root and branch" review of the Ukrainian operation and establish a basis upon which our Western Ukrainian asset will be able to operate profitably when market conditions for the principal market (being Polish power generation biomass) are more opportune than is currently the case.

He then turned his attention to developing other revenue channels for the Group, resulting in establishing a Joint Venture arrangement with Nikofeso whereby AEG would provide management and some financial resources to establish the viability of Nikofeso's then limited business of shipping wood chip from Ukraine to Turkey for the purpose of manufacturing medium density fibreboard ("MDF").

Going Concern

In consideration of the conditionality necessary to complete the proposals, being shareholder approval to be sought at a General Meeting of the Company to be held at a date that, while near-term in respect of the date of publication of these Financial Statements and the publication of the Shareholder Circular included herein by reference, lies in the future. Accordingly, and in consideration of the limited cash resources available to the Company at the date of writing, the Directors recognise that there can be no absolute guarantee that such approval will be obtained. Consequently, there is some latent level of uncertainty that may cast doubt on the Group's ability to continue as a going concern in the event that such approval is not given.

That said, shareholders can be entirely satisfied that, based upon the likelihood of the proposals being looked upon favourably and that the necessary resolutions to give full effect to them will be duly passed at the General Meeting, the Company and Group will then have, not only, adequate cash to fulfil the Working Capital Adequacy test (being having enough cash to meet it liabilities as they fall due for a period of 12 months from the date of signing these accounts), but pivotally, the cash and financing capabilities to fulfil the needs of a rapidly-building business in an exciting sector to thereby work towards returning your Company to profitability in early course.

Board Appointment

I am pleased to announce that, following legal completion of the acquisition, Matteo Girlanda will be joining the Board in the capacity of Chief Operating Officer. Matteo is a highly experienced international business person who has developed the Nikofeso Group from a standing start over the last seven years. His resumé is given briefly below and both Richard Spinks and I commend him to shareholders as the very best person possible to bring within the Group to realise the full potential of the combined businesses.

Born in Milan and aged 38 years, Matteo graduated in 1999 from the University of Verona with a degree in Economics and Management.

From 2000 to 2002 he worked as a management consultant, latterly setting up his own steel and wood trading company. In 2005, Girlanda expanded operations into the export of wood chip, building Nikofeso Group to become the dominant exporter of wood chip from Ukraine for the production of MDF, alongside the initiation of a new revenue channel selling wood chip as biomass for power generation.

His experience embraces wood trading, processing, transport and shipping logistics. He has also amassed considerable knowledge of forest management, renewability and sustainability quality standards as well as acquiring a broad technical understanding of both the MDF manufacturing sector and the European energy/biomass market.

His trading experience is pan-European and primarily, but not exclusively, based out of the Ukraine, handling volumes of up to 50,000 MT per month of log and wood chip for distribution variously into Turkey, Greece, Italy and Austria.

Nikofeso Group holds two ports facilities in Mykolaiv (on the River Dnieper, some 40 miles upstream from the Black Sea), facilities that are pivotal to the planned business expansion of the Group.

In the course of this financial year, shareholders should also expect to see further announcements of new Board appointments aimed at further strengthening your Board.

Conclusion

I appreciate that being a shareholder in AEG has not been easy, especially in the last 24 months or so. That said, Richard Spinks and his team in Ukraine have invested considerable effort in ensuring that the acquisition now being put to you has been thoroughly researched and put through a significant period of due diligence. Our Ukrainian team has been working alongside Matteo and his group over the last few months both to fully understand the dynamics of the business we seek to acquire and also to assess the scalability of the to-be-acquired operation.

I, too, have spent several months working to ensure that this Company is able to meet the expectations of all of our shareholders and be well-positioned to deliver a much-overdue recovery in AEG's fortunes.

I believe that the Acquisition and associated fundraising provide a viable and solid framework to achieve these goals, and, while it would be commercially naive to believe that the fulfilment of the business plan will be easy, or that there might not be some difficulties and setbacks, in essence, the business we are looking to build is operationally not especially complex. We have already successfully sourced, processed, shipped and sold 11 cargoes over recent months while working in partnership with Nikofeso, and with the application of only very modest amounts of capital.

The Board plans to drive the Company through a period of rapid, but controlled, expansion and we will take such steps as may be necessary to ensure that our management team is both built and supported in such manner as is necessary to deliver that growth in a timely and effective manner.

Accordingly, and I speak for the entire Board, I commend the acquisition to you all.

I therefore ask for your support and look forward to meeting as many of you as possible who are able to attend the forthcoming General Meeting, notice of which is contained within the Shareholder Circular, which will be available on the Company's website (www.active-energy-group.com) later today.

Colin Hill
Non-Executive Chairman

London: 4 June 2013

ACTIVE ENERGY GROUP PLC

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2012

The Directors present their report with the financial statements of the Company and the Group for the year ended 31 December 2012.

Principal activity

The principal activity of the Group in the year under review was the provision of biomass to the European market. With access to a large supply of high quality feedstock, experienced forestry team and modern processing facilities, the Group is well positioned to supply Polish, Ukrainian and EU clients with biomass, principally in the form of wood chip.

Review of the business

The results for the year and financial position of the Company and the Group are as shown in the annexed financial statements.

A review of the Group's activities during the year together with an indication of future developments is given in the Chairman's report on pages 2 to 8.

Dividends

No dividend is proposed for the year ended 31 December 2012 (2011: £nil).

Principal risks and uncertainties

The management of the business is subject to a number of risks. The key business risks affecting the Group are:

a. The focusing of the business on developing long term contracts with suppliers and end users for biomass products in Eastern Europe and the EU through its subsidiary Active Energy Ukraine Ltd may be affected by regional political uncertainty; and
b. Exchange Rate Variations: with the new emphasis on trading with Eastern Europe the Group is now trading in Euros and may be affected by currency volatility within the EU and Eastern Europe.

Group's policy on payment of creditors

It is the Group's and Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the companies of the Group and their respective suppliers, provided that all trading terms and conditions have been complied with. Trade creditors at the year-end amounted to 11 days of average supplies for the year (2011: 11 days). All of these calculations are based on year-end figures.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2012

Financial instruments

Details of the use of financial instruments by the Company and by the Group and its subsidiary undertakings are contained in note 19 of the financial statements.

Directors

The Directors during the year under review were:

C W Hill	(appointed 7 November 2012)
R G Spinks	(appointed 2 July 2012)
G Valoroso	(appointed 3 December 2012)
G D Little	(resigned 30 September 2012)
P E Palmer	(resigned 12 November 2012)
C K Foster	(resigned 3 February 2012)

The beneficial interests of the Directors holding office on 31 December 2012 in the issued share capital of the Company were as follows:

Ordinary shares of 1p each	**31 December 2012**	**At date of appointment**
	No.	**No.**
C W Hill	-	-
R G Spinks	3,000,000	3,000,000
G Valoroso	-	-

Substantial shareholders

The Directors are aware of the following substantial shareholdings of 3 per cent of more of the current Issued Ordinary Share Capital of 237,352,237 shares on 3 June 2013:

Ordinary shares of 1p each	**Number**	**%**
Eastwood SA	40,250,000	16.96%
Brahma Finance Limited	21,658,543	9.13%
Timothy Foster	12,048,572	5.08%
Christopher Foster*	13,415,838	5.65%

** Includes 1,181,250 shares held non-beneficially via Alpha Prospects, a company of which Christopher Foster is a director and shareholder. It also includes 827,400 shares held non-beneficially via Cinpart Employees Benefit Trust of which Christopher Foster is a trustee.*

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2012

Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2012

Statement as to disclosure of information to auditors

Each Director has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

This confirmation is given in accordance with Section 418 of the Companies Act 2006.

Auditors

A resolution to re-appoint BDO LLP as auditor for the ensuing year will be proposed at the Annual General Meeting.

By order of the Board:

C W Hill
Director

4 June 2013

Company registration number: 03148295

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ACTIVE ENERGY GROUP PLC

We have audited the financial statements of Active Energy Group Plc for the year ended 31 December 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive loss, the consolidated and Company statement of financial position, the consolidated and Company statement of cash flows, the consolidated and Company statement of changes in equity, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 December 2012 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ACTIVE ENERGY GROUP PLC

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 1 to the financial statements concerning the Group's ability to continue as a going concern. Further funds will be required to finance the Group's operations. The Directors have secured certain funds that are subject to shareholder approval, which the Directors are confident will be obtained, however there can be no guarantee that approval will be obtained.
These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Sophia Bevan (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

4 June 2013

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

ACTIVE ENERGY GROUP PLC

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012	2011
		£	£
REVENUE	2	230,710	-
Cost of sales		(150,567)	-
GROSS PROFIT		80,143	-
Release of deferred consideration		167,500	-
Administrative expenses		(977,098)	(647,863)
OPERATING LOSS		(729,455)	(647,863)
Finance income	4	3	16,698
Finance costs	4	(4,243)	(70,708)
LOSS BEFORE TAXATION	5	(733,695)	(701,873)
Income tax	6	37,828	-
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		(695,867)	(701,873)
Loss from discontinued operations net of tax	21	(685,567)	(1,805,768)
LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		(1,381,434)	(2,507,641)
Loss per share (pence) – basic and diluted	7	(0.58)	(1.47)
Loss per share (pence) - continuing operations basic and diluted	7	(0.29)	(0.41)

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent Company profit and loss account.

The notes on pages 23 to 50 form part of these financial statements.

ACTIVE ENERGY GROUP PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 £	2011 £
LOSS FOR THE YEAR	**(1,381,434)**	**(2,507,641)**
OTHER COMPREHENSIVE INCOME:		
Exchange differences on translation of foreign operations	**(46,581)**	**-**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	**(1,428,015)**	**(2,507,641)**

The notes on pages 23 to 50 form part of these financial statements.

ACTIVE ENERGY GROUP PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	Note	2012	2011
		£	£
NON-CURRENT ASSETS			
Intangible assets	8	1,621,410	1,858,505
Property, plant and equipment	9	686	-
Other receivables	11	-	283,362
		1,622,096	2,141,867
CURRENT ASSETS			
Trade and other receivables	11	303,956	202,684
Cash and cash equivalents	12	158,004	998,586
		461,960	1,201,270
TOTAL ASSETS		2,084,056	3,343,137
CURRENT LIABILITIES			
Trade and other payables	13	212,137	157,371
Income tax liabilities		3,909	3,909
		216,046	161,280
NON-CURRENT LIABILITIES			
Deferred income tax liabilities	14	264,794	312,229
Contingent consideration		-	167,500
		264,794	479,729
TOTAL LIABILITIES		480,840	641,009
NET ASSETS		1,603,216	2,702,128
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital	15	2,373,522	2,366,090
Share premium	17	4,209,901	4,196,737
Merger reserve	17	940,000	940,000
Foreign exchange reserve	17	(46,581)	-
Employee benefit trust reserve	17	(94,420)	(94,420)
Convertible debt reserve	17	308,507	-
Retained earnings	17	(6,087,713)	(4,706,279)
TOTAL EQUITY		1,603,216	2,702,128

The financial statements were approved and authorised for issue by the Directors on 4 June 2013 and were signed on their behalf by:

C W Hill
Director

The notes on pages 23 to 50 form part of these financial statements.

ACTIVE ENERGY GROUP PLC

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012	2011
		£	£
Cash flows from operating activities	18	(1,136,975)	(1,342,303)
Finance costs paid		4,243	70,708
Finance income		(3)	(16,698)
Income tax		(37,828)	(740)
Cash outflow from operations		(1,170,563)	(1,289,033)
Income tax paid		-	(12,847)
Net cash outflow from operating activities		(1,170,563)	(1,301,880)
Cash flows from investing activities			
Purchase of intangible asset		(224)	-
Purchase of property, plant and equipment		(1,317)	-
Sale of property, plant and equipment		1,417	-
Interest received		3	16,698
Net cash flow on acquisition of subsidiaries		-	820
Net cash (outflow)/inflow from investing activities		(121)	17,518
Cash flows from financing activities			
Issue of equity share capital		20,596	1,630,904
Convertible loan from shareholder		308,507	-
Net cash inflow from financing activities		329,103	1,630,904
Net (decrease)/increase in cash and cash equivalents		(841,581)	346,542
Cash and cash equivalents at beginning of the year		998,586	652,044
Effect of exchange rate changes		999	-
Cash and cash equivalents at end of the year	12	158,004	998,586

The notes on pages 23 to 50 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital £	Share premium £	Merger reserve £	Foreign exchange reserve £	EBT reserve £	Convertible debt reserve £	Retained earnings £	Non-controlling interests £	Total equity £
At 1 January 2011	**1,122,090**	**3,203,333**	**-**	**-**	**(94,420)**	**-**	**(2,475,235)**	**(204,126)**	**1,551,642**
Loss and total comprehensive loss for the year	-	-	-	-	-	-	(2,507,641)	-	(2,507,641)
Transfer of non-controlling interests	-	-	-	-	-	-	(204,126)	204,126	-
Issue of share capital	1,244,000	1,163,750	1,253,250	-	-	-	-	-	3,661,000
Share issue costs	-	(170,346)	-	-	-	-	-	-	(170,346)
Release of impairment of goodwill	-	-	(313,250)	-	-	-	313,250	-	-
Contingent consideration on acquisition	-	-	-	-	-	-	37,408	-	37,408
Share option expense	-	-	-	-	-	-	130,065	-	130,065
At 31 December 2011	**2,366,090**	**4,196,737**	**940,000**	**-**	**(94,420)**	**-**	**(4,706,279)**	**-**	**2,702,128**
At 1 January 2012	**2,366,090**	**4,196,737**	**940,000**	**-**	**(94,420)**	**-**	**(4,706,279)**	**-**	**2,702,128**
Loss for the year	-	-	-	-	-	-	(1,381,434)	-	(1,381,434)
Other comprehensive income	-	-	-	(46,581)	-	-	-	-	(46,581)
Total comprehensive loss for the year	-	-	-	(46,581)	-	-	(1,381,434)	-	(1,428,015)
Issue of share capital	7,432	13,164	-	-	-	-	-	-	20,596
Issue of convertible loan	-	-	-	-	-	308,507	-	-	308,507
At 31 December 2012	**2,373,522**	**4,209,901**	**940,000**	**(46,581)**	**(94,420)**	**308,507**	**(6,087,713)**	**-**	**1,603,216**

The notes on pages 23 to 50 form part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	Note	2012	2011
		£	£
NON-CURRENT ASSETS			
Property, plant and equipment	9	-	-
Investments	10	1,568,948	1,544,908
Other receivables	11	-	283,362
		1,568,948	1,828,270
CURRENT ASSETS			
Trade and other receivables	11	346,624	135,714
Cash and cash equivalents	12	130,065	855,875
		476,689	991,589
TOTAL ASSETS		2,045,637	2,819,859
CURRENT LIABILITIES			
Trade and other payables	13	152,543	104,620
NON-CURRENT LIABILITIES			
Contingent consideration		-	167,500
TOTAL LIABILITIES		152,543	272,120
NET ASSETS		1,893,094	2,547,739
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital	15	2,373,522	2,366,090
Share premium	17	4,209,901	4,196,737
Merger reserve	17	940,000	940,000
Convertible debt reserve	17	308,507	-
Retained earnings	17	(5,938,836)	(4,955,088)
TOTAL EQUITY		1,893,094	2,547,739

The financial statements were approved and authorised for issue by the Directors on 4 June 2013 and were signed on their behalf by:

C W Hill
Director

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 £	2011 £
Cash flows from operating activities	18	(1,035,116)	(1,229,954)
Finance costs paid		4,243	70,708
Finance income		-	(16,698)
Net cash outflow from operating activities		(1,030,873)	(1,175,944)
Cash flows from investing activities			
Purchase of shares in subsidiary		(24,040)	-
Interest received		-	16,697
Net cash (outflow)/inflow from investing activities		(24,040)	16,697
Cash flows from financing activities			
Issue of equity share capital		20,596	1,630,904
Convertible loan from shareholder		308,507	-
Net cash inflow from financing activities		329,103	1,630,904
Net (decrease)/increase in cash and cash equivalents		(725,810)	471,657
Cash and cash equivalents at beginning of the year		855,875	384,218
Cash and cash equivalents at end of the year	12	130,065	855,875

The notes on pages 23 to 50 form part of these financial statements.

ACTIVE ENERGY GROUP PLC

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital £	Share premium £	Retained earnings £	Merger reserve £	Convertible debt reserve £	Total equity £
At 1 January 2011	**1,122,090**	**3,203,333**	**(1,638,970)**	**-**	**-**	**2,686,453**
Loss and total comprehensive loss for the year	**-**	**-**	**(3,796,841)**	**-**	**-**	**(3,796,841)**
Issue of share capital	**1,244,000**	**1,163,750**	**-**	**1,253,250**	**-**	**3,661,000**
Share issue costs	**-**	**(170,346)**	**-**	**-**	**-**	**(170,346)**
Release of impairment of investment in subsidiary	**-**	**-**	**313,250**	**(313,250)**	**-**	**-**
Contingent consideration on acquisition	**-**	**-**	**37,408**	**-**	**-**	**37,408**
Share option expense	**-**	**-**	**130,065**	**-**	**-**	**130,065**
At 31 December 2011	**2,366,090**	**4,196,737**	**(4,955,088)**	**940,000**	**-**	**2,547,739**
At 1 January 2012	**2,366,090**	**4,196,737**	**(4,955,088)**	**940,000**	**-**	**2,547,739**
Loss and total comprehensive loss for the year	**-**	**-**	**(983,748)**	**-**	**-**	**(983,748)**
Issue of share capital	**7,432**	**13,164**	**-**	**-**	**-**	**20,596**
Issue of convertible loan	**-**	**-**	**-**	**-**	**308,507**	**308,507**
At 31 December 2012	**2,373,522**	**4,209,901**	**(5,938,836)**	**940,000**	**308,507**	**1,893,094**

The notes on pages 23 to 50 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

1. ACCOUNTING POLICIES

Basis of preparation

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

Both the Company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards, International Accounting Standards and IFRIC interpretations (collectively IFRS) as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on the historical cost basis, as modified by the revaluation of property, plant and equipment, available for sale financial assets, and financial assets and liabilities, including derivative financial instruments, at fair value through profit or loss.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgment in the most appropriate application in applying the Group's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 22.

Standards, interpretations and amendments to existing standards not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2013 or later periods which the Group has decided not to adopt early. Having reviewed these, the Directors are of the opinion that none are likely to have any material impact on the Group.

Going concern

In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future. The Group has made an operating loss from continuing operations for the year ended 31 December 2012.

As detailed in the Chairman’s statement, the Company is intending on raising new funds to finance working capital requirements in respect of the enlarged Group. Management has prepared detailed cash flow forecasts for the existing business and the new venture, which indicate the need to provide working capital in the next 12 months. The Directors are confident that sufficient financing will be secured following shareholder approval of the proposed funding referred to in the Chairman’s statement, however there can be no guarantee that approval will be obtained.

Due to the fact that approval of the funding will not occur until after these financial statements are signed, the Directors recognise that there is a material uncertainty that may cast significant doubt on the Group’s ability to continue as a going concern, and therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements continue to be prepared on a going concern basis

1. ACCOUNTING POLICIES (continued)

Basis of consolidation

The financial information incorporates the results of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The consolidated financial statements present the financial results of the Company and its subsidiaries (the Group) as if they formed a single entity. Where necessary, adjustments are made to the results of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

In the Company's own statement of financial position, investments in subsidiaries are stated at cost less provisions for any permanent diminution in value.

Revenue recognition

Revenue from the sales of goods is recognised when the Group has transferred the significant risks and rewards of the ownership of the goods to the buyer and it is probable that the Group will receive the previously agreed upon payment. These criteria are considered to be met when the goods are delivered to the buyer.

Provided the amount of revenue can be measured reliably and it is probable that the Group will receive any consideration, revenue for services is recognised in the period in which they are rendered.

Goodwill and business combinations

On acquisition, the assets and liabilities and contingent liabilities of subsidiaries are measured at their fair values at the date of acquisition. Any excess of cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition.

When the consideration transferred by the Group in a business combination includes assets or liabilities from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration paid. Changes in the fair value of the consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. The subsequent accounting for changes in contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Changes in fair value of contingent consideration classified as a liability are recognised in profit or loss. Direct costs of acquisition are recognised immediately as an expense.

1. ACCOUNTING POLICIES (continued)

Goodwill and business combinations (continued)

Goodwill arising on consolidation is recognised as an intangible asset and reviewed for impairment at least annually by comparing the carrying value of the asset to the recoverable amount. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

Changes in the Group’s ownership interest in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Group’s interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Impairment of non-financial assets (excluding inventories, investment properties and deferred tax assets)

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its cash generating units (“CGUs”). Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognised in other comprehensive income. An impairment loss recognised for goodwill is not reversed.

Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

1. ACCOUNTING POLICIES (continued)

Externally acquired intangible assets (continued)

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques (see note 22 related to critical estimates and judgements below).

The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Intangible asset	**Useful economic life**	**Valuation method**
Contractual relationships	Term of contract (10 years)	Estimated discounted cash flow

Property, plant and equipment

Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and any recognised impairment loss. Cost includes the purchase price and all directly attributable costs.

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Plant and equipment	– 2 to 10 years straight line
Furniture and office equipment	– 2 to 5 years straight line

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the management team including executive Directors.

Financial instruments

The Group classifies its financial instruments into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Group has not classified any of its financial assets as held to maturity, available for sale or at fair value through profit or loss.

The accounting policy for each category is as follows:

Loans and receivables

The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position. These assets are non-derivative financial assets

1. ACCOUNTING POLICIES (continued)

Financial instruments (continued)

with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary assets. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and for the purpose of the statement of cash flows, bank overdrafts.

Other financial liabilities

Other financial liabilities include the following items:

- Borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. These are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. The interest expense includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.
- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Taxation

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the consolidated statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/assets are settled/recovered.

1. ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Foreign currencies

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss.

On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date.

Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in the foreign exchange reserve.

Exchange differences recognised in the statement of comprehensive income of Group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve on consolidation.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

Convertible debt

The proceeds received on issue of the Group's convertible debt are allocated into their liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that does not include an option to convert. Subsequently, the debt component is accounted for as a financial liability measured at amortised cost until extinguished on conversion or maturity of the bond. The remainder of the proceeds is allocated to the conversion option and is recognised in the "Convertible debt reserve" within shareholders' equity, net of income tax effects.

1. ACCOUNTING POLICIES (continued)

Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the consolidated income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an "operating lease"), the total rentals payable under the lease are charged to the consolidated income statement on a straight-line basis over the lease term.

Share capital

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Group's ordinary shares are classified as equity instruments.

Share based payments

Where employees receive remuneration in the form of shares or share options, the fair value of the share-based employee compensation arrangement at the date of the grant is recognised as an employee benefit expense in the consolidated income statement.

The total expense to be apportioned over the vesting period of the benefit is determined by reference to the fair value (excluding the effect of non market-based vesting conditions) at the date of the grant. The assumptions underlying the number of awards expected to vest are subsequently adjusted for the effects of non market-based vesting to reflect the conditions prevailing at the year-end date. Fair value is measured by the use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of the non-transferability, exercise restrictions and behavioural considerations.

Where equity instruments are granted to persons other than employees, the consolidated income statement is charged with the fair value of goods and services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Investment in subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

1. ACCOUNTING POLICIES (continued)

Employee benefit trust

The assets and liabilities of the Employee Benefit Trust (EBT) have been included in the Group accounts. Any assets held by the EBT cease to be recognised on the consolidated statement of financial position when the assets vest unconditionally in identified beneficiaries. The costs of purchasing own shares held by the EBT are shown as a deduction against equity, reflected in the employee benefit trust reserve. The proceeds from the sale of own shares held increase equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the Group consolidated income statement.

2. SEGMENTAL INFORMATION

As reported in the financial statements for the year ended 31 December 2011, during February 2012 the Directors took the decision to close the Group's Voltage Optimisation and Engineering divisions, the former in light of the challenges experienced in the Voltage Optimisation market and the latter following unsuccessful attempts to win substantial public sector contracts. The Group's Biomass division was, therefore, the only continuing business segment during the reporting period.

	2012 Voltage Optimisation £	2012 Engineering £	2012 Biomass £	2012 Total £
Total segment revenue	-	-	230,710	230,710
Inter segment revenue	-	-	-	-
Revenue from external customers	-	-	230,710	230,710
Operating loss	(310,530)	(375,037)	(105,520)	(791,087)
Finance income	-	-	3	3
Finance costs	-	-	(4,243)	(4,243)
Loss before tax	(310,530)	(375,037)	(109,760)	(795,327)
Tax credit	-	-	37,828	37,828
Loss for the period	(310,530)	(375,037)	(71,932)	(757,499)
Loss from continuing operations	-	-	(71,932)	(71,932)
Loss from discontinued operations	(310,530)	(375,037)	-	(685,567)

Other segmented items included in the income statement:

Release of contingent consideration	-	-	167,500	167,500
Depreciation and impairment on property plant and equipment	-	-	(631)	(631)
Amortisation of intangibles	-	-	(180,132)	(180,132)

2. SEGMENTAL INFORMATION (continued)

Segmented assets and liabilities as at 31 December 2012 and capital expenditure for the period were:

	2012 Voltage Optimisation £	2012 Engineering £	2012 Biomass £	2012 Total £
Segment assets	30,258	17,778	1,870,337	1,918,373
Unallocated corporate assets				165,683
Consolidated total assets				2,084,056
Segment liabilities	(43,044)	(3,909)	(281,344)	(328,297)
Unallocated corporate liabilities				(152,543)
Consolidated total liabilities				(480,840)
Additions to non-current assets	-	-	1,541	1,541

	2011 Voltage Optimisation £	2011 Engineering £	2011 Biomass £	2011 Total £
Total segment revenue	856,598	-	-	856,598
Inter segment revenue	-	-	-	-
Revenue from external customers	856,598	-	-	856,598
Operating loss	(750,177)	(318,511)	-	(1,068,688)
Gain on business acquisition	-	-	1,368	1,368
Impairment of goodwill	(180,625)	(557,195)	-	(737,820)
(Loss)/profit before tax	(930,802)	(875,706)	1,368	(1,805,140)
Tax expense	-	740	-	740
(Loss)/profit for the period	(930,802)	(874,966)	1,368	(1,804,400)
Profit from continuing operations	-	-	1,368	1,368
Loss from discontinued operations	(930,802)	(874,966)	-	(1,805,768)

Other segmented items included in the income statement:

Depreciation and impairment on property plant and equipment	(52,635)	(510)	-	(53,145)

2. SEGMENTAL INFORMATION (continued)

Segmented assets and liabilities as at 31 December 2011 and capital expenditure for the period were:

	2011 Voltage Optimisation £	2011 Engineering £	2011 Biomass £	2011 Total £
Segment assets	187,439	22,242	1,858,505	2,068,186
Unallocated corporate assets				1,274,951
Consolidated total assets				3,343,137
Segment liabilities	(54,267)	(2,393)	(479,729)	(536,389)
Unallocated corporate liabilities				(104,620)
Consolidated total liabilities				(641,009)
Additions to non-current assets	-	-	1,858,505	1,858,505

Reconciliation of reportable segment profit or loss, assets and liabilities to the Group's corresponding amounts are as follows:

	2012 £	2011 £
Total profit or loss from reportable segments	(71,932)	1,368
Share based payments	-	(157,565)
Unallocated amount - corporate expenses	(623,935)	(491,666)
Unallocated amount - finance income	-	16,698
Unallocated amount - finance expense	-	(70,708)
Loss from discontinued activities	(685,567)	(1,805,768)
Loss for the period	(1,381,434)	(2,507,641)

An analysis of revenue (by location of customer) is given below:

	2012 £	2011 £
Ukraine	230,710	-
UK	-	856,598
	230,710	856,598

In 2012, revenue of £219,409 was derived from one external customer.

2. SEGMENTAL INFORMATION (continued)

An analysis of non-current assets by location of assets:

	2012	2011
	£	£
Thailand	-	283,362
Ukraine	1,622,096	1,858,505
	1,622,096	2,141,867

3. EMPLOYEE COSTS AND DIRECTORS

	2012	2011
	£	£
Group		
Wages and salaries	389,832	653,377
Social security costs	42,794	80,502
Share based payments	-	130,065
	432,626	863,944

The average monthly number of employees during the year was as follows:

	2012	2011
Directors	3	6
Sales	2	3
Administration	-	3
Research and development	-	1
Technical	-	2
	5	15

Directors and key management personnel consist only of the Directors of the Company listed on page 10.

	2012	2011
	£	£
Directors' emoluments	187,175	114,740
Compensation for loss of office	112,833	-
Share based payments	-	130,065
	300,008	244,805

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3. EMPLOYEE COSTS AND DIRECTORS (continued)

The salary of the highest paid director for the year was £60,008 (2011: £58,073).

Remuneration by director:	Salaries and fees	Compensation for loss of office	Total 2012	Total 2011
	£	£	£	£
C Hill	27,000	-	27,000	-
R Spinks	40,000	-	40,000	-
G Valaroso	6,000	-	6,000	-
P Palmer	60,008	49,500	109,508	58,073
C Foster	14,167	63,333	77,500	36,667
G Little	40,000	-	40,000	20,000
Total	187,175	112,833	300,008	114,740

4. FINANCE INCOME AND COSTS

	2012	2011
Group	£	£
Finance income		
Bank interest	3	1,698
Interest on other loans	-	15,000
Total finance income	3	16,698
Finance costs		
Imputed interest on convertible loan	4,243	-
Imputed interest on loan receivable	-	70,708
	4,243	70,708

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5. LOSS BEFORE INCOME TAX

Group The loss before income tax is stated after charging/(crediting):	**2012** **£**	**2011** **£**
Operating leases - premises	**12,860**	**54,520**
Operating leases – vehicles	**12,833**	**38,988**
Amortisation of intangible assets	**180,132**	**-**
Depreciation – owned assets	**631**	**16,387**
Impairment of property, plant and equipment	**-**	**38,672**
Gain on business acquisition	**-**	**(1,368)**
Profit on disposal of fixed assets	**(1,417)**	**-**
Auditors' remuneration – parent company and consolidation	**19,500**	**20,000**
Auditors' remuneration – subsidiary audit	**10,000**	**7,500**
Auditors' remuneration – taxation services	**2,450**	**6,950**
Share based payments	**-**	**157,565**
Research and development expenditure	**-**	**45,539**

6. INCOME TAX

Group	**2012** **£**	**2011** **£**
Current tax		
Current tax on profits for the year	**-**	**-**
Deferred tax		
Reversal of temporary differences	**(37,828)**	**-**
Adjustments in respect of prior year	**-**	**(740)**
Total income tax credit	**(37,828)**	**(740)**

6. INCOME TAX (continued)

Factors affecting the tax charge

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	2012	2011
	£	£
Loss on ordinary activities before tax	(1,419,262)	(2,508,381)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	(347,719)	(664,721)
Effects of:		
Expenses not deductible for tax purposes	-	266,180
Current year tax losses	303,587	384,327
Overseas tax rate difference from UK rate	6,304	-
Other temporary timing differences	-	14,214
Adjustments in respect of prior year	-	(740)
Total income tax credit	(37,828)	(740)

7. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the loss attributable to equity holders of the company of £1,381,434 (2011: £2,507,641) by the weighted average number of ordinary shares in issue during the year of 237,283,001 (2011: 170,869,190). The earnings per share for continuing operations is calculated by dividing the loss on continuing operations of £695,867 (2011: £701,873) by the weighted average number of ordinary shares in issue during the year of 237,283,001 (2011: 170,869,190).There is no dilutive effect of share options outstanding on earnings per share.

8. INTANGIBLE ASSETS

Group	Goodwill	Contractual relationships	Other	Total
Cost	£	£	£	£
At 1 January 2011	180,625	-	-	180,625
Acquired in business combination	557,195	1,858,505	-	2,415,700
Impairment charge recognised	(737,820)	-	-	(737,820)
At 31 December 2011	-	1,858,505	-	1,858,505
Additions	-	-	224	224
Foreign exchange adjustment	-	(57,187)	-	(57,187)
At 31 December 2012	-	1,801,318	224	1,801,542
Accumulated amortisation				
At 1 January 2011 and at 31 December 2011	-	-	-	-
Charge for year	-	180,132	-	180,132
At 31 December 2012	-	180,132	-	180,132
Net book value				
At 31 December 2012	-	1,621,186	224	1,621,410
At 31 December 2011	-	1,858,505	-	1,858,505

The remaining useful life on contractual relationships is assessed to be 9 years.

9. PROPERTY, PLANT AND EQUIPMENT

Group	Plant and equipment	Furniture and office equipment	Total
Cost	£	£	£
At 1 January 2011	27,847	47,464	75,311
Acquired in business combination	-	510	510
At 31 December 2011	27,847	47,974	75,821
Additions	-	1,317	1,317
At 31 December 2012	27,847	49,291	77,138

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9. PROPERTY, PLANT AND EQUIPMENT (continued)

Group	Plant and equipment	Furniture and office equipment	Total
Accumulated depreciation	**£**	**£**	**£**
At 1 January 2011	**6,690**	**14,072**	**20,762**
Charge for year	**5,569**	**10,818**	**16,387**
Impairment charge	**15,588**	**23,084**	**38,672**
At 31 December 2011	**27,847**	**47,974**	**75,821**
Charge for year	**-**	**631**	**631**
At 31 December 2012	**27,847**	**48,605**	**76,452**
Net book value			
At 31 December 2012	**-**	**686**	**686**
At 31 December 2011	**-**	**-**	**-**

Company	Furniture and office equipment
Cost	**£**
At 1 January 2011 and at 31 December 2012	**5,494**
Accumulated depreciation	
At 1 January 2011	**3,580**
Charge for year	**1,914**
At 31 December 2011 and at 31 December 2012	**5,494**
Net book value	
At 31 December 2011 and at 31 December 2012	**-**

10. INVESTMENTS

Company	Shares in subsidiaries
Cost	**£**
At 1 January 2011	**430,755**
Acquisitions	**2,037,158**
At 31 December 2011	**2,467,913**
Addition	**24,040**
At 31 December 2012	**2,491,953**
Provision for impairment	
At 1 January 2011	**-**
Provision during the year	**923,005**
At 31 December 2011 and at 31 December 2012	**923,005**
Net book value	
At 31 December 2012	**1,568,948**
At 31 December 2011	**1,544,908**

At 31 December 2012 the Group held share capital of the following companies:

Subsidiary undertaking	Country of incorporation	Nature of business	Date of incorporation/ acquisition	Percentage
Active Energy Limited	United Kingdom	In liquidation	21 May 2008	100.0
Cinpart EBT Limited	Hong Kong	Trustee	22 September 2010	100.0
Red Line Engineering Services Limited	United Kingdom	In liquidation	26 April 2011	100.0
Active Energy Ukraine Limited	Ukraine	Wood chip processing and distribution	21 December 2011	100.0

During the year, the Company subscribed for additional shares in Active Energy Ukraine Limited.

11. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	2012	2011
	£	£	£	£
Current				
Trade receivables	35,188	93,870	-	-
Provision for impairment	(35,188)	(35,870)	-	-
Trade receivables – net	-	58,000	-	-
Receivable from subsidiary	-	-	63,380	-
Other debtors	247,627	109,339	247,627	109,339
VAT	27,143	14,949	19,059	10,639
Prepayments and accrued income	29,186	20,396	16,558	15,736
	303,956	202,684	346,624	135,714
Non-current				
Other debtors	-	283,362	-	283,362
Total	303,956	486,046	346,624	419,076

All financial assets with the exception of VAT, corporation tax and prepayments and accrued income, are classified as loans and receivables under IAS39. In the Directors' opinion the carrying values of trade and other receivables are stated at their fair value, after deduction of appropriate allowances for irrecoverable amounts as these assets are not interest bearing and receipts occur over a short period and are subject to an insignificant risk of changes in value.

Trade and other receivables that have not been received within the payment terms are classified as overdue. There were no overdue other receivables in either the Group or Company in either the current or prior year.

As at 31 December 2012, Group trade receivables of £35,188 (2011: £35,870) were past due and impaired.

The provision for impairment is analysed as follows:

	Group	
	2012	2011
	£	£
At beginning of the period	35,870	-
Provided during the period	(682)	35,870
At the end of the period	35,188	35,870

The carrying value of the Group's trade receivables is denominated in Ukrainian Hryvnia (2011: Pound sterling).

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12. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	2012	2011
	£	£	£	£
Cash in hand	-	81	-	-
Bank accounts	158,004	998,505	130,065	855,875
	158,004	998,586	130,065	855,875

13. TRADE AND OTHER PAYABLES

	Group		Company	
	2012	2011	2012	2011
	£	£	£	£
Current:				
Trade payables	48,988	93,577	28,410	63,061
Social security and other taxes	-	14,484	-	4,659
Accruals and deferred income	163,149	49,310	124,133	36,900
	212,137	157,371	152,543	104,620

All trade and other payables with the exception of VAT and Social security and other taxes are classified as financial liabilities at amortised cost. The carrying values of trade and other payables approximate their fair value, payments occur over a short period and are subject to an insignificant risk of changes in value. All trade and other payables are considered to be payable within three months.

During the year the Company has obtained a working capital facility of US$500,000 (£318,750) from Eastwood SA, the Company's largest shareholder.

The facility is being provided under the terms of an extendable 12-month Unsecured Loan Note, carrying a fixed rate of interest of 6% per annum, and is convertible at the option of either the Company or the holder, into new fully paid-up ordinary shares in the Group at a Conversion Price of 2p. Interest will be compounded monthly and rolled up and paid at Maturity.

Due to the terms of the conversion rights the entire instrument has been treated as equity and is included within the convertible debt reserve.

14. DEFERRED TAXATION

Deferred tax is calculated on temporary differences under the liability method using tax rates applicable in the respective Group entities' jurisdiction. The movement on the deferred tax account is shown below:

	Group 2012 £	Group 2011 £	Company 2012 £	Company 2011 £
At beginning of the period	**312,229**	-	-	-
Foreign exchange adjustment	**(9,607)**	-	-	-
Reversal of temporary differences	**(37,828)**	-	-	-
Fair value adjustment on business combination	**-**	312,229	-	-
At the end of the period	**264,794**	312,229	-	-

No provision for the deferred tax asset in respect of tax losses has been made in the Group or Company due to the uncertainty of the Group or Company being able to generate sufficient future taxable profits from which the future reversal of the timing difference can be deducted. Deferred tax assets in respect of tax losses and other deductible temporary difference not recognised amount to £2,524,132 (2011: £1,651,303) and £1,953,146 (2011: £1,152,249) for the Group and Company respectively.

15. CALLED UP SHARE CAPITAL

	2012 Number	2012 £	2011 Number	2011 £
Authorised				
Ordinary shares of 1p each	**500,000,000**	**5,000,000**	500,000,000	5,000,000
Allotted, called up and fully paid				
Ordinary shares of 1p each	**237,352,237**	**2,373,522**	236,608,971	2,366,090

During the year 743,266 ordinary shares of 1p each were issued to settle a liability of £20,596 due to a former director. This is equal to proceeds of 2.771p per share, being fair value at the date of settlement.

During 2011 the following new shares were issued:

On 26 April 2011 17,900,000 new ordinary 1p shares were issued as consideration for the acquisition of 100% of the equity of Redline Engineering Services Limited. The Company also issued 1,000,000 new ordinary shares to Jendens Securities as settlement of fees in connection with the placing on the same date.

On 10 May 2011 65,500,000 new ordinary 1p shares were placed at 2.75p per share to fund the working capital requirements of the Group.

On 21 November 2011 40,000,000 new ordinary 1p shares were issued as consideration for the acquisition of 100% of the equity of Active Energy Ukraine Limited.

The Cinpart Employment Benefit Trust holds 788,000 ordinary shares in the Company (2011: 788,000 shares).

16. SHARE BASED PAYMENTS

Options

The Company has entered into share option arrangements under which the holders are entitled to subscribe for a percentage of the Company's ordinary share capital from time to time. All options are exercisable from the date of grant. The number of options exercisable at 31 December 2012 was 16,008,386 (2011: 16,312,672).

The movements of share options during the period were as follows:

	2012		2011	
	Weighted average exercise price (pence)	**Number**	**Weighted average exercise price (pence)**	**Number**
At beginning of the period	**7.5**	**16,312,672**	**7.5**	**7,545,172**
Granted	**-**	**-**	**7.5**	**9,000,000**
Expired	**7.0**	**(304,286)**	**10.0**	**(232,500)**
At the end of the period	**7.5**	**16,008,386**	**7.5**	**16,312,672**

Details of share options issued are as follows:

Holder	**Exercise price**	**Grant date**	**Expiry date**	**2012**	**2011**
Consortia Trustees	7.000p	29/06/2007	06/06/2017	857,142	857,142
	1.000p	29/06/2007	06/06/2017	450,000	450,000
	20.000p	02/02/2010	02/02/2020	168,000	168,000
				1,475,142	1,475,142
KF Baker	7.000p	29/06/2007	06/06/2017	357,142	357,142
	6.375p	22/05/2009	22/05/2019	1,823,480	1,823,480
	20.000p	02/02/2010	02/02/2020	336,000	336,000
				2,516,622	2,516,622
CK Foster	7.500p	21/11/2011	21/12/2018	3,000,000	3,000,000
	7.000p	29/06/2007	06/06/2017	357,142	357,142
	1.000p	29/06/2007	06/06/2017	500,000	500,000
	6.375p	29/06/2009	06/06/2019	1,823,480	1,823,480
	20.000p	02/02/2010	02/02/2020	336,000	336,000
				6,016,622	6,016,622
PE Palmer	7.500p	21/11/2011	21/12/2018	3,000,000	3,000,000
GD Little	7.500p	21/11/2011	21/12/2018	3,000,000	3,000,000
Jendens Securities	7.000p	15/07/2010	15/07/2012	-	304,286
				16,008,386	16,312,672

16. SHARE BASED PAYMENTS (continued)

The options held by Consortia Trustees Limited are held on behalf of a discretionary trust, beneficiaries of which include the family of P E Palmer.

On 21 December 2011 the Company granted 9,000,000 share options to the executive directors, 3,000,000 each to Mr. Gavin Little, Mr. Philip Palmer and Mr. Christopher Foster respectively. These were issued with an exercise price of 7.50p, vested immediately and are exercisable until 21 December 2018.

The following information is relevant in the determination of the fair value of options and warrants granted during the year.

	Options	
Option pricing model	**Black Scholes**	
	2012	**2011**
Weighted average share price at date of grant	-	**2.9p**
Exercise price	-	**7.5p**
Expected life	-	**6 years**
Expected volatility	-	**76%**
Expected dividend yield	-	**Nil**
Risk free interest rate	-	**1.3%**

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices.

The charge for equity settled share based payments in the year ended 31 December 2011 was £157,565, £130,065 in respect of share options issued and £27,500 in respect of advisory fees in connection with acquisitions made during the year.

The above disclosures apply to both the Company and the Group.

17. RESERVES

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Share premium	Amounts subscribed for share capital in excess of nominal value
Merger	Difference between fair value and nominal value of shares issued to acquire 90% or more interest in subsidiaries
Foreign exchange	Gains/losses arising on retranslating the net assets of overseas operations into Pound Sterling
Employee Benefit Trust	Cost of own shares held by the employee benefit trust
Convertible debt	Equity component of the convertible loan
Retained earnings	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income

18. RECONCILIATION OF LOSS BEFORE TAXATION TO CASH OUTFLOWS FROM OPERATING ACTIVITIES

Group	2012 £	2011 £
Loss for the period	(1,381,434)	(2,507,641)
Adjustments for:		
Share based payment expense	-	157,565
Depreciation	631	16,387
Amortisation of intangibles	180,132	-
Profit on sale of property, plant and equipment	(1,417)	-
Impairment of property and plant	-	38,672
Impairment of goodwill	-	737,820
Impairment of other receivables	334,075	-
Gain arising on business combination	-	(1,368)
Release of contingent consideration	(167,500)	-
	(1,035,513)	(1,558,565)
Decrease in inventories	-	130,905
(Increase)/decrease in receivables	(151,984)	528,317
Increase/(decrease) in payables	50,522	(442,960)
Net cash outflow from operating activities	(1,136,975)	(1,342,303)

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18. RECONCILIATION OF LOSS BEFORE TAXATION TO CASH OUTFLOWS FROM OPERATING ACTIVITIES (continued)

Company	2012 £	2011 £
Loss for the period	(983,748)	(3,796,841)
Adjustments for:		
Share based payment expense	-	157,565
Depreciation	-	1,914
Impairment of investments in and loans to subsidiaries	-	3,093,528
Impairment of other receivables	334,075	-
Release of contingent consideration	(167,500)	-
	(817,173)	(543,834)
Increase in receivables	(261,622)	(724,633)
Increase in payables	43,679	38,513
Net cash outflow from operating activities	(1,035,116)	(1,229,954)

19. FINANCIAL INSTRUMENTS

The Group's treasury policy is to avoid transactions of a speculative nature. In the course of trade the Group is exposed to a number of financial risks that can be categorised as market, credit and liquidity risks. The board has identified the risks within each category and considers the impact on the activities of the Group as part of their regular meeting routine.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables

A summary of the financial instruments held by category is provided below:

	Group		Company	
	2012 £	2011 £	2012 £	2011 £
Financial assets				
Loans and receivables				
Cash and cash equivalents	158,004	998,586	130,065	855,875
Trade and other receivables – current	247,627	167,339	311,007	109,339
Other receivables – non-current	-	283,362	-	283,362
Total financial assets	405,631	1,449,287	441,072	1,248,576

19. FINANCIAL INSTRUMENTS (continued)

	Group		Company	
	2012	**2011**	**2012**	**2011**
	£	**£**	**£**	**£**
Financial liabilities				
Financial liabilities at amortised cost				
Trade and other payables	**212,137**	**142,887**	**152,543**	**99,961**
Contingent consideration	**-**	**167,500**	**-**	**167,500**
Total financial liabilities	**212,137**	**310,387**	**152,543**	**267,461**

Market Risk

Currency risk

The Group's Biomass trading activities are conducted in the functional currency of Ukrainian Hryvnia. All other activities have been conducted in the functional currency of Pound Sterling. All financial assets and liabilities at 31 December 2012 and 2011 are denominated in Pound Sterling with the exception of financial assets of £30,541 (2011: £Nil) and financial liabilities of £20,579 (2011: £Nil) which are denominated in Ukrainian Hryvnia. The Board therefore considers currency risk to be insignificant for the periods under review.

Interest rate risk

The Group and Company finances its operations through equity introductions and loans from shareholders. The Group and Company exposure to interest rate fluctuations on its borrowings has been limited by the terms of the Unsecured Loan Note described in note 13 and therefore the Directors do not consider the Group or Company to be materially sensitive to interest rate risk.

Credit risk

Operational

The Group is mainly exposed to credit risk from credit agreements and sales. It is the Group's policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings, taking into account local business practices are then factored into any decisions. The Group does not enter into any derivatives to manage credit risk. Further information on Trade and other receivables are presented in note 11.

Financial

Financial risk relates to non-performance by banks in respect of cash deposits and is mitigated by the selection of institutions with a strong credit rating.

19. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

The Group is exposed to liquidity risk as part of its normal trading cycle. The Group's policies ensure sufficient liquidity is available to meet foreseeable needs through the preparation of short and long term forecasts. The Group’s requirements are constant throughout the year and relate largely to working capital which is managed through the use of surplus cash.

The Group had no bank loans or invoice finance facilities at 31 December 2012 (2011: £Nil). The Group had no overdraft at 31 December 2012 (2011: £Nil) and no debentures or personal guarantees were in place.

Fair values

The fair value of short term deposits and other financial assets approximates to the carrying amount.

Capital risk management

Management consider capital to include share capital, share premium, employee benefit trust reserve, merger reserve, retained earnings and non controlling interests. See the consolidated statement of changes in equity a detailed breakdown thereof.

The Group's objective when managing capital is to establish and maintain a capital structure that safeguards the Group as a going concern and then provides a return to shareholders.

20. RELATED PARTY DISCLOSURES

Details of Director's remuneration are given in note 3.

Transactions between the Company and its subsidiaries, which are related parties to the Company, have been eliminated on consolidation. During the year in the Company's financial statements, the Company recognised provisions for impairment on its loans to subsidiaries in the amount of £57,585 (2011: £2,070,523) and made cash advances to fellow Group companies of £120,965 (2011: £712,380).

Intercompany receivable balances remain outstanding at the year end as follows:

	2012 £	2011 £
Amounts due from Group companies	**63,380**	**2,170,523**
Provision against amounts due from Group companies	**-**	**(2,170,523)**
Total	**63,380**	**-**

During the year the Company has obtained a working capital facility of US$500,000 (£318,750) from Eastwood SA, the Company’s largest shareholder. Further details about this facility are given in note 13.

21. DISCONTINUED OPERATIONS

Results of discontinued operations

	2012 £	2011 £
Revenue	-	856,598
Cost of sales	-	(790,336)
Administrative expenses	(330,896)	(1,134,950)
Share based payments	(20,596)	-
Impairment of goodwill	-	(737,820)
Impairment of other receivables	(334,075)	
Income tax	-	740
Loss on discontinued operations	(685,567)	(1,805,768)

In February 2012, as reported in the financial statements for the period to 31 December 2011 the Directors took the decision to close both the Voltage Optimisation and Engineering divisions. In those financial statements no provision was made for closure costs in accordance with IAS 37 “Provisions, contingent liabilities and contingent assets”, but the assets were impaired in accordance with IAS 36 “Impairment of assets”. The costs incurred during the period, therefore, reflect the cost of closing these divisions.

The statement of cash flows includes the following amounts relating to discontinued operations:

	2012 £	2011 £
Operating activities	(259,621)	(838,316)
Investing activities	1,417	-
Cash outflow from discontinued operations	(258,204)	(838,316)

22. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial information in conformity with International Financial Reporting Standards requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the year-end date and the reported amounts of revenues and expenses during the reporting period.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were:

22. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Impairment of goodwill and other assets

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount of cash generating units is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Actual outcomes may vary. Other assets are considered for impairment where such indicators exist using value in use calculations or fair value and recoverability estimates. The use of these methods similarly requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows.

Share based payments

In determining the fair value of equity settled share based payments and the related charge to the income statement, the Group makes assumptions about future events and market conditions. In particular, judgements must be made as the fair value of each award granted. The fair value is determined using a valuation model which is dependent on further estimates, including the Group's future dividend policy, the timing with which options will be exercised and the future volatility in the price of the Group' shares. Such assumptions are based on publicly available information and reflect market expectations and advice taken from qualified personnel. Different assumptions about these factors to those made by the Group could materially affect the reported value of share based payments.

Useful lives of intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated statement of comprehensive income in specific periods.

Determination of fair values of intangible assets acquired and contingent consideration in business combinations

The fair values of contractual relationships assumed in a business combination are based on the discounted cash flows expected to be derived from the use and eventual sale of the asset. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Actual outcomes may vary.

The fair value of contingent consideration is based on an estimation of the probability of the contingent event occurring during the earn-out period. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated statement of comprehensive income in specific periods.