

**ACTIVE ENERGY GROUP PLC**

**ANNUAL REPORT**

**FOR THE YEAR ENDED**

**31 DECEMBER 2014**

Company Registration Number: 03148295

# ACTIVE ENERGY GROUP PLC

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# ACTIVE ENERGY GROUP PLC

## COMPANY INFORMATION

<b>Country of Incorporation</b>	England and Wales
<b>Directors</b>	F. Lewis R. G. Spinks B. Evans-Jones M. Girlanda G. Valoroso
<b>Secretary</b>	Cargil Management Services Ltd. 27-28 Eastcastle Street London W1W 8DH
<b>Registered Office</b>	27-28 Eastcastle Street London W1W 8DH
<b>Registered Number</b>	03148295
<b>Auditors</b>	BDO LLP Chartered Accountants and Registered Auditors 55 Baker Street London W1U 7EU
<b>Bankers</b>	HSBC Bank Plc 69 Pall Mall London SW1Y 5EY
<b>Solicitors</b>	Wilsons Alexandra House St. Johns Street Salisbury SP1 2SB
<b>Nominated Adviser</b>	WH Ireland Limited 24 Martin Lane London EC4R 0DR
<b>Stockbroker</b>	WH Ireland Limited 24 Martin Lane London EC4R 0DR

# ACTIVE ENERGY GROUP PLC

## CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

I am pleased to present the Annual Report and Financial Statements for Active Energy Group Plc (together, "the Group") for the year ended 31 December 2014. While the results are set out in detail in the accompanying Financial Statements, they can be summarised as follows:

On sales of \$23.325m (2013: \$8.207m) the Group recorded an operating loss, after exceptional items, for the year of \$1.261m (2013: \$3.359m). Net assets totalled \$3.615m (2013: \$5.905m), current assets \$6.605m (2013: \$3.858m) and net current assets \$2.841m (2013: \$3.052m).

The table below places the headline income statement numbers into better context, by highlighting the non-recurring and non-cash costs included within them:

	FY2014	
	\$'000	\$'000
<b>OPERATING LOSS</b>		<b>(1,261)</b>
<b>Add: Non-Cash Items:</b>		
Depreciation and amortisation	422	
Share-based payments	267	
	<hr/>	<b>689</b>
		<hr/>
		<b>(572)</b>
<b>Add: Non-recurring items</b>		
Port relocation costs	165	
Pelleting development costs	301	
Gross loss and non-recurring overheads attributable to terminated BFE wood chip contract	252	
Exceptional professional fees	212	
	<hr/>	<b>930</b>
		<hr/>
<b>ADJUSTED OPERATING PROFIT</b>		<b>358</b>
		<hr/> <hr/>
Reported adjusted operating loss H1:2014 (translated to US\$)*		(550)
Reported adjusted operating profit attributable to H2:2014		908
		<hr/>
<b>ADJUSTED OPERATING PROFIT FOR FY2014</b>		<b>358</b>
		<hr/> <hr/>

\*Not adjusted for any element of non-recurring costs which were incurred in that period

The adjusted "underlying" operating profit on continuing activities for 2014 is \$0.358m (2013: Adjusted Operating Loss \$1.824m). The first half of the year produced an (unaudited) adjusted operating loss on continuing activities of \$0.550m, and thus the reported underlying profit for the second half of 2014 can be seen to be \$0.908m.

## CHAIRMAN'S STATEMENT (CONTINUED)

This represents a continuation of the successful turnaround in the fortunes of the Group, resulting from the restructuring of the business undertaken by the management, which in the year included relocating its Ukrainian operations to new Black Sea port facilities at Yuzhny, (from where the first shipment was completed in April 2014), and its decision to focus its production resources on high-margin wood chip exports to MDF manufacturers in Turkey.

The following will aid greater understanding:

- Share-based payments reflect the "fair value" financial impact of employee and management incentive arrangements and are calculated according to accepted valuation models used for the computation of such incentive instruments.

No new option arrangements were entered into during the year and the aggregate charge for the year reflects the allocation of the fair value of certain options granted to directors in the prior year over the expected vesting period.

Shareholders should note that while the above share-based payment charges are booked to the income statement, the accounting standard allows for compensating adjustments in the balance sheet such that there is no financial impact on reported net assets. No outflow of funds is associated with this charge.

- Depreciation and amortisation includes the amortisation of the Group's contractual relationship in respect of a supply agreement over its substantial forestry resources in Western Ukraine in the amount of \$293,625. Whilst the contractual relationship was extended late in 2014 to 49 years, the amortisation charge is based upon the original 10 year contract term for most of 2014 and as such this may be expected to drop sharply in future years.
- Port relocation costs were incurred in order to transfer trading operations from Mykolaiv to Yuzhny Port on the Black Sea, and include such elements as equipment transportation and relocation, storage costs, and payments to relinquish port space at the previous Mykolaiv operating base.
- The Group incurred costs of over \$300,000 to further develop new technologies for second-generation renewable Biomass for Energy (BFE) fuel solutions and advanced fuel manufacturing systems. This is referred to in greater detail below.
- On 12 May 2015 the Group announced that it had assigned the balance of its contract to supply BFE wood chip to Biomasse Italia SpA from Montenegro to an unrelated third party. The move will allow the Group to focus on its rapidly expanding Ukrainian operations and its Canadian forestry and natural resources joint venture.

The gross loss and non-recurring overheads attributable to the contract amounted to \$252,196 and no further shipments were made post year end.

- Substantial professional fees were incurred during the year as a result of the need, in particular, to outsource financial reporting functions and negotiating an aborted Biomass joint venture in Italy. As a result of bringing financial reporting in-house these external costs will not recur in future years.

## CHAIRMAN'S STATEMENT (CONTINUED)

A similar restatement of the reported loss before taxation will further aid understanding of the accounts:

	<b>\$'000</b>
<b>LOSS BEFORE TAXATION</b>	<b>(2,705)</b>
<b>Add: Non-Cash Items:</b>	
Depreciation and amortisation	422
Share-based payments	267
	<hr/>
	<b>689</b>
<b>Add: Non-recurring items</b>	
Port relocation costs	165
Pelleting development costs	301
Gross loss and non-recurring overheads attributable to terminated BFE wood chip contract	252
Exceptional professional fees	212
	<hr/>
	<b>930</b>
<b>Add: Other non-underlying items</b>	
Share of Canadian joint venture	373
Finance cost exchange losses	395
	<hr/>
	<b>768</b>
<b>ADJUSTED LOSS BEFORE TAXATION</b>	<hr/> <b>(318)</b> <hr/>

- The Group reported a share of its costs in the Canadian joint venture during the year of \$0.373m, reported on the face of the income statement under the heading 'Share of loss in associate'. These related to the Group's share of fundraising and due diligence costs incurred in developing this significant opportunity.
- Foreign exchange losses of \$0.395m mainly relate to losses on Ukrainian Hryvnia held during the period for working capital purposes due to the significant weakening of the currency and exchange losses on the \$ denominated loans in the parent company where the functional currency is £.

## CHAIRMAN'S STATEMENT (CONTINUED)

### Business Overview

The headline numbers on the preceding pages reveal that Active Energy Group Plc's performance in 2014 can be summarised in three words: **growth**, **re-investment** and **diversification**.

The highlight of the year was the securing of substantial off-take agreements with the Group's Turkish MDF manufacturing customers, with significant increases over 2013 volumes.

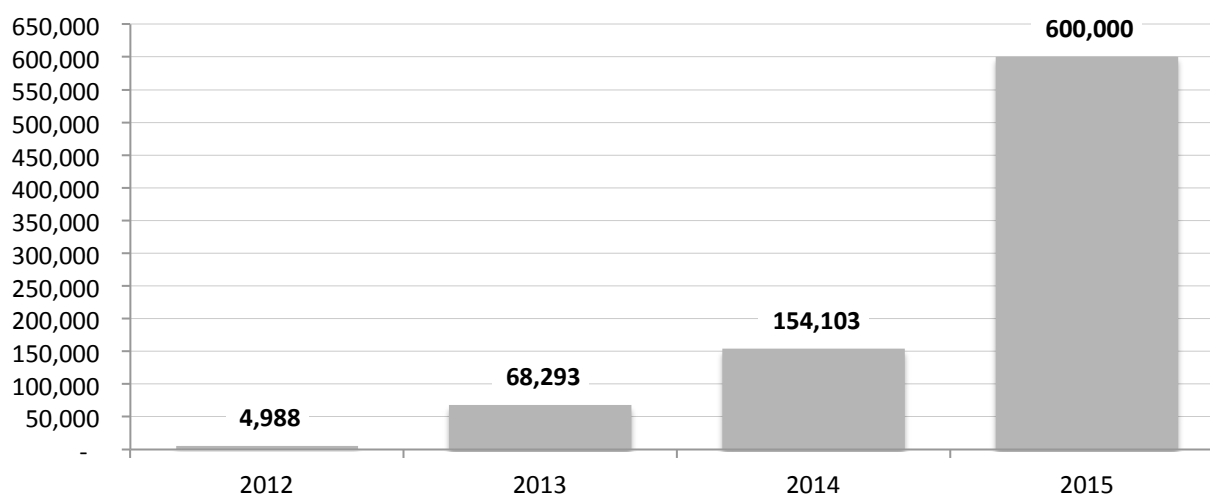
Demand from Turkey, which is Europe's largest supplier of MDF, is very strong. The country currently produces over 5 million metric tonnes of MDF per annum, with a value of over \$2.5 billion, which is forecast to grow 8% year-on-year to over \$3 billion by 2017. Ukraine is the third largest supplier of wood chip to the Turkish market, with a market share of 12%, behind the USA (34%) and Bulgaria (13%).

Given that Ukraine has key supply advantages over the USA, including time, cost and quality benefits, the Board believes that there is considerable scope for further growth in volumes and market share.

As evidence of that scope for growth, AEG secured off-take agreements in Q4:2014 for up to 600,000 metric tonnes of wood chip to be supplied in 2015, an increase of 779% over 2013 volumes.

The following graph shows the growth in wood chip export volumes to Turkey from 2012 to 2014 and confirmed order volumes for 2015. It includes pre-acquisition volumes to demonstrate the success of the Group's activities in the Turkish MDF market:

#### Wood Chip for MDF Volumes to Turkey 2012-2015 (Metric Tonnes)



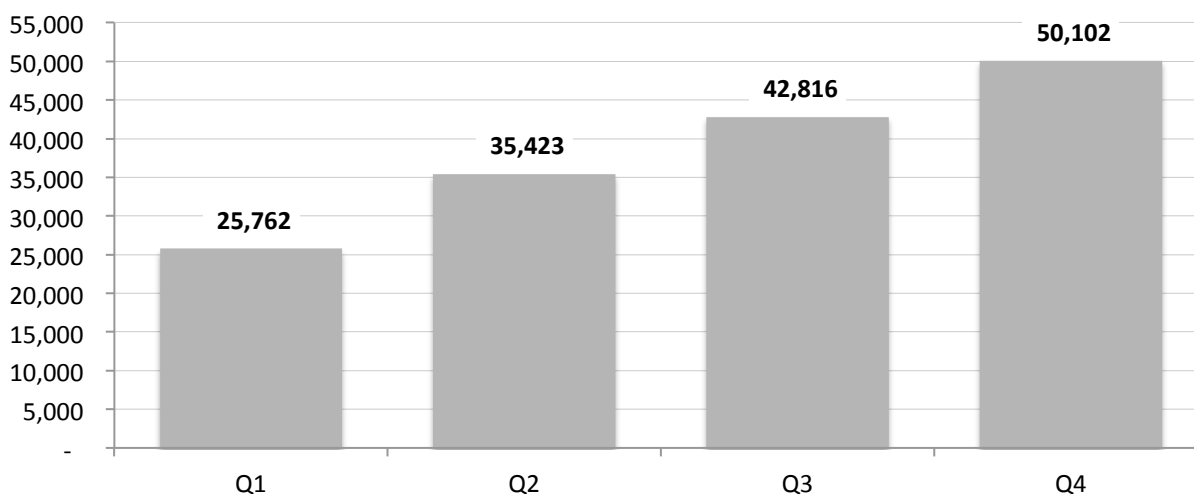
The consistent volumes required under the new off-take contracts, allied to its long-term supply agreements with state-owned forests - which now supply over 200 wagons of raw timber per week (2013: 20 wagons) - has enabled AEG to greatly expand its Ukrainian production facilities and relocate them to a dedicated berth at Yuzhny Port, on the Black Sea.

To ensure that it meets its delivery targets, the Group has also secured long-term charter shipping arrangements, thereby reducing its exposure to the vagaries of seasonal shipping rates and bulk cargo vessel availability that it experienced when it operated on a spot basis.

## CHAIRMAN'S STATEMENT (CONTINUED)

The result of the relocation of the Group's Ukrainian facilities to Yuzhny Port is evidenced by the following graph, which shows the growth in MDF wood chip production volumes in the year:

**Wood Chip for MDF Production Volumes 2014 (Metric Tonnes)**



The success of the relocation to its new facilities at Yuzhny Port is further underlined by a significant improvement in gross margins in this area of the Group's business, which reflect the benefits of the restructuring (reduced headcount and overheads), the efficiency improvements that it has implemented across all operational areas, and the economies of scale that have been achieved by the increase in its production capacity.

The Group's focus is to build upon the success of its core revenue-generating operations, reducing its reliance on a single business activity, market sector and geographical region and optimising its knowledge, experience and resources to take advantage of new commercial opportunities - all with the objective of creating a substantial, long-term, profitable business and increasing shareholder value.

During the year the Board continued to focus on refining and implementing the strategy developed by its new management team upon their appointment in mid-2012: to establish AEG as a major international force within the forestry and natural resources, industrial timber, alternative fuels/ 'clean' energy power generation and energy-efficient business sectors.

To achieve that, AEG has successfully taken steps to secure 'ownership' of the entire timber supply chain - from forest to finished product - through partnering with asset owners, customers and suppliers, and has created a divisional and operational structure to maximise the broad range of opportunities available to it.

After several years of negotiations, which were initiated by CEO Richard Spinks before assuming his role in the Group, in July 2014 AEG announced that it had succeeded in establishing a joint venture Canadian corporation, in which it holds a 45% equity stake, to commercialise some 256,000 hectares of native-owned lands containing a wealth of valuable forestry assets.

The Group has invested a significant amount of time and capital (US\$0.8 million), generated from its fast-expanding Ukraine-based operations, to secure this important new business venture and to package and present it to international investors to raise the funding required to commence initial forestry operations; and the Board is confident that its investment will reap substantial long-term rewards for all involved, including AEG, in the near future.

Despite the political situation in the east of the country, AEG's Ukrainian operations, which supply wood chip to Medium-Density Fibreboard (MDF) manufacturers in Turkey, grew substantially: shipping volumes increased 126% to 154,103 tonnes (2013: 68,293 tonnes) and revenues increased 995% to \$17.395 million (2013: \$1.588 million). The 2013 MDF volume disclosed includes all loads shipped by the Ukrainian subsidiary during the year for comparative purposes and includes loads prior to acquisition by the Group and from which the Group received only a nominal contribution pending completion of the acquisition.



## **CHAIRMAN'S STATEMENT (CONTINUED)**

The growth in the Group's Ukrainian wood chip volumes in 2014 represents a remarkable achievement, given the interruption to activities caused by relocating our production and shipping facilities to Yuzhny Port, near Odessa on the Black Sea, and the situation in the East of the country, which meant that our CEO and COO had to make almost daily decisions based on risk assessment.

The relocation of our Ukrainian facilities to Yuzhny Port - allied to increased wood chip production and shipping volumes, keener pricing for bulk cargo shipping due to decreased regional demand, and lower oil prices flowing down to shipping companies - together with improved efficiencies and other cost savings across this area of the Company's business, have resulted in greatly-improved operating margins, which have not just enabled us to invest in upgrading our local production capabilities and expanding our product offerings, but to explore a number of innovative new business opportunities.

To build upon its experience and success in the industrial wood chip sector, to improve profitability by reducing shipping costs, and to limit its reliance upon Ukraine, during the year the Group trialled new operations in Spain and Montenegro to supply Biomass for Energy (BFE) wood chip to European power plants.

These moves have met with varying success, but they have enabled AEG to establish a firm foundation in the Iberian Peninsula, which it intends to capitalise upon in the coming years, whether for BFE, or more likely by increasing its volumes of MDF wood chip shipments into Turkey, where a number of changes in competitive markets are making the Group's offerings ever more necessary and therefore valuable.

Recognising the enormous potential for sustainable 'clean' energy power generation - driven by environmental concerns, diminishing fossil fuel supplies and global governmental energy directives - the Group has devoted considerable resources to researching and developing second-generation Biomass for Energy (BFE) fuel solutions, including energy-efficient fuel manufacturing systems.

The Group's greatly increased international profile across a number of industry sectors is the result of a dedicated sales and marketing effort, which has resulted in us being introduced to a number of new opportunities in environmentally-responsible and energy-efficient technology arenas, which we are actively investigating alongside managing and further developing our current business activities.

Despite the inevitable challenges faced by a rapidly-expanding and fast-diversifying business - especially one with interests in locations as far afield as Ukraine and Canada - the entire AEG management team has resolutely applied itself to building upon and improving every area of the Group's existing business, and in developing a firm foundation for its future success. It has been greatly aided in all of these tasks by our new Chief Financial Officer and Group Financial Controller, who have implemented a much-improved financial reporting structure.

Finally, I sincerely hope that my own appointment as Non-Executive Chairman (effective January 2015) will further strengthen the Group's management team, and that my own experience and input will enable the executive team to realise the huge potential for AEG across every sphere of its activities.

### **Going Concern**

The Group has inevitably, due to the international spread of its business activities, been subject to different operational and financial pressures in the last 12 months.

The Directors have duly considered the implications and have made the necessary actions to secure its financial and operational facilities, and are fully confident in the ability of the business to expand its trade on profitable terms and to procure additional facilities as circumstances require. Further details of the Directors' consideration of going concern and related material uncertainties are set out in Note 1 of the financial statements.

## **CHAIRMAN'S STATEMENT (CONTINUED)**

### **Management and Staff**

I would like to thank all of the Group's management, staff and advisors for their exceptional efforts over the last 12 months, which have often been delivered in challenging circumstances.

Their three-way focus - to maintain and expand AEG's established operations, to seek new opportunities to underpin the existing core business, and to create vibrant new business channels for the future - has inevitably placed great pressure upon them, but they have risen to the task admirably.

In particular I must make special mention of Richard Spinks, our Chief Executive Officer, whose dedication to making a success of Active Energy Group remained undimmed in spite of the difficulties that he experienced during the period. Matteo Girlanda, our Chief Operations Officer, and Brian Evans-Jones, our new Chief Financial Officer, have supported him throughout in finding solutions and doing whatever it took to resolve issues that may have arisen.

Their patience, skill and commitment have been greatly appreciated and on behalf of all stakeholders, I extend our grateful thanks.

### **Share Options**

On 9 April 2015, the Group announced that it had granted options over new ordinary shares to its CEO Richard Spinks, COO Matteo Girlanda, and CFO Brian Evans-Jones. For further information please refer to the AEG website at [www.active-energy.com](http://www.active-energy.com).

### **Current Trading and Prospects**

The Group has continued to improve its trading in the current period, and the Directors continue to believe that the Group has outstanding prospects.

### **Annual General Meeting**

You will find attached to these Financial Statements a Notice of our Annual General Meeting, which will be held at 11:00 on 8 July 2015 at the office of BDO LLP at 55 Baker Street, London, W1U 7EU.

I look forward to meeting as many shareholders as are able to attend the AGM and to delivering my next report on the Group's results for the first six months of 2015.

**F Lewis**

Non-Executive Chairman

**London: 7 June 2015**

# ACTIVE ENERGY GROUP PLC

## STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

The Directors of Active Energy Group Plc and its subsidiary undertakings (together, “the Group”) present their Strategic Report for the year ended 31 December 2014.

### Principal Activities

The Group is an international supplier of industrial wood chip for MDF manufacturing and Biomass for Energy (BFE) power generation, second-generation Biomass for Energy (BFE) fuel solutions and systems, and global forestry and natural resources development services.

Headquartered in the UK, it operates from four international locations: Ukraine, the UK, Spain and Canada. Its principal customers are located in Turkey.

### Organisation Overview

The Group’s business is directed by the Board with executive management carried out through the Chief Executive Officer, Chief Operations Officer and Chief Financial Officer.

Day-to-day activities are managed through our offices in Ukraine, the United Kingdom and Canada; supported by our multi-national network of professional advisors.

The corporate structure of the Group reflects the pattern of acquisition by the Group and the need, where appropriate, for operational, fiscal and other reasons, to have incorporated entities in particular territories. In addition to the UK holding company, the Group had operating subsidiaries in the UK, Cyprus, Switzerland and Ukraine.

The Board of Directors comprises the above-noted Executive Directors plus two Non-Executive Directors, one of whom is Non-Executive Chairman.

### Aims, Strategy and Business Plan

The Group’s **aim** is to develop a profitable international trading operation within the industrial wood chip, Biomass for Energy power generation, forestry and natural resources development, and energy-efficient business sectors, and to create additional shareholder value through the vertical and horizontal integration of related activities and products.

The Group’s **strategy** is to acquire economically viable and environmentally-responsible exploitation, commercialisation and trading rights in industry sectors and geographical regions where its expertise in and commitment to sustainable development of natural resources and provision of energy-efficient solutions can be profitably implemented.

The Group seeks to limit country and political risk by working within different territories and jurisdictions; operates in an open and transparent manner throughout all its dealings; and maintains a zero-tolerance policy towards corruption.

The Group’s **business model** is to establish efficient, low cost synergistic operations across all of its activities and markets. The Board seeks to run the company with as low a cost base as is consistent with the nature and level of activity being undertaken. The Group engages the services of a limited number of full-time employees alongside a portfolio of carefully selected professional consultants and contractors as and when circumstances demand.

The Group primarily finances its activities through revenues generated from its operations, but also through periodic capital raises, loan notes and by short- and medium-term borrowings. As certain of the Group’s new business ventures reach maturity there may be strategic opportunities to obtain specialist development funding from future customers, governments, international investors, strategic partners, royalty and/or other market arrangements.

## STRATEGIC REPORT (CONTINUED)

### FINANCIAL, PERFORMANCE AND OPERATING REVIEW

The Group's consolidated income statement and consolidated statement of financial position is set out within the financial statements.

The results reflect the Group's emergence as a major player in its core wood chip for export market, a fact demonstrated by the dramatic rise in overall turnover, up 184% on 2013 to over \$23.32 million (2013: \$8.2 million).

As a result of its focus on high margin exports of wood chip for MDF manufacturing and the streamlining of its operations, AEG now achieves significantly higher gross margin per tonne of finished product. Given that during the first half of the year the Group's Ukraine-based operations performed below expectations (the reasons for which are explained below), the results are all the more remarkable.

The Group is now in an excellent position to satisfy the new off-take supply contracts that it secured during the year, to further consolidate its raw timber sourcing channels within Ukraine, and to introduce a new supply channel from Spain.

Its Ukrainian operations are now located in fully-equipped modern facilities at Yuzhny Port - and enjoy a very strong business relationship with the port owners - and have successfully established long-term trading relationships with a number of major customers and key suppliers (e.g. shipping agencies), which bodes extremely well for the future and for further growth in 2015 and beyond.

The first half of FY2014 was impacted by significant costs arising from the relocation of the Group's Ukrainian processing and shipping facilities, as well as the inevitable interruption to production caused by that process. There were additional costs in respect of development of new business activities, as well as significant fees for financial and legal advice in this period. However, the necessary disruption produced a leaner operation and a fresh start that paid dividends in the second half of the year.

Once the relocation to Yuzhny Port was completed, the Board was able to focus on securing increased operating margins by improving efficiencies and reducing costs for the Group's raw timber supply arrangements, and by negotiating more favourable terms with its customers. Streamlining production procedures has already helped in this endeavour, as did the weakened Ukrainian currency, but the Board has taken steps to further improve margins from the economies of scale which will be generated from the new processing equipment and production line that are scheduled to be operational in H2:2015.

Conversely, foreign exchange losses in finance costs mainly relate to losses on the Ukrainian Hryvnia held during the period for working capital purposes due to a significant weakening of the currency and exchange losses on \$ denominated loans in the parent company where the functional currency is £.

After consulting with its financial advisers, the Board decided to report in its functional currency of US Dollars from 2014 onwards, which has necessitated the restatement of comparatives for 2013 and 2012. The additional work involved in that process will aid financial reporting in the future and reduces, but not entirely excludes, exposure to the reporting of currency fluctuations in its trading activities. The Group operates internationally and exchange rate movements will inevitably impact upon its results from time to time.

The Group was required to introduce debt funding in 2014 to assist its working capital requirements and to fund expansion. This had an inevitable cost implication, and some elements of that funding have proven costly as they were the subject of a 'participation fee' of \$5.00 per tonne of Ukrainian wood chip exports. This was a significant cost during the year, although only commencing in July 2014, and the Board was pleased to be able to renegotiate the terms down to \$1.00 per tonne from March 2015 onwards. Given the determination of the Group to significantly expand its export tonnage in the future, this remains an expensive funding method, and the Board has made it a priority to redeem that debt as soon as possible.

## STRATEGIC REPORT (CONTINUED)

Following the complete overhaul of the financial management of the business and the introduction of a new accounting team in late-2014, significant cost savings and greatly improved efficiencies have been achieved by bringing financial reporting in-house, thereby reducing the Group's prior dependence on external providers; and the relocation of its administrative offices away from London further reduced overheads. The benefits of these strategic decisions only started to be evident towards the very end of the year, but will reveal themselves more fully as the Group moves forward.

The Group's balance sheet partly reflects its on-going significant investment into its Canadian forestry and natural resources joint venture.

Despite the Board's confidence in the project coming to fruition in the near future, accounting standards do not allow for the full cost of the venture, which is being entirely funded by the Group, to be capitalised and we therefore recognise our share in the losses of the associate of \$0.373 million (of a total invested of \$0.798 million). The balance of this investment is reflected in the balance sheet and the Board is confident that it will prove to be a worthy long-term asset to the Group.

Liquidity in a growing company is a vital component of the development of a business, and the Group makes strenuous efforts to ensure that this remains strong wherever possible.

AEG's Ukraine-based operations enjoy a relatively short trade cycle, but the requirement to fund raw timber purchases at the time of order, as is customary in the country, inevitably places strain on the availability of funds. Shipping costs also have to be met on delivery, thus the scope for increasing trade credit remains low for the foreseeable future.

Trade debtors are maintained at as low a level as possible to compensate, and the Group takes advantage of credit terms from suppliers wherever possible to assist with its cashflow management.

The net asset position of the Group deteriorated during the year as a result of the losses incurred. AEG keeps its cash reserves under constant review and is confident of its ability to secure further financing as and when it is required to do so. The need to fully fund on-going expansion plans whilst reducing reliance on costly external debt are paramount in the minds of the Board at this time.

Whilst challenges lie ahead in managing the planned on-going growth, the Board is fully confident in the future of both its existing operations and in the new business activities which it is currently pursuing, not least its Canadian joint venture.

Throughout 2014, demand for wood chip from its Turkish MDF manufacturing customers exceeded the ability of the Group to supply, and that demand has accelerated since the end of the year - partly driven by the reduction in exports by other suppliers from Bulgaria as the country focuses its forestry resources on alternative uses, including Biomass power generation.

This continuing long-term demand for the Group's wood chip products from its major market is expected to be maintained, which AEG will be able to satisfy when the significant increase in its production capacity and expansion of its product offering, as well as its new Iberian supply routes, are operational in H2:2015.

Finally, the Group is in an ideal position to take advantage of government-driven initiatives in Ukraine to exploit its substantial forestry resources to reduce its reliance on gas and coal imports, to increase the share of renewables in power generation, and to achieve energy independence.

AEG's long-standing presence in the country and its network of high-level contacts, allied to its expertise in the forestry, timber products and Biomass for Energy (BFE) sectors, makes the Group an ideal partner to support this endeavour, and the Board looks forward to bringing Ukrainian forestry assets into production in the near future.

## STRATEGIC REPORT (CONTINUED)

As stated earlier in the Chairman's Statement, Active Energy Group Plc's performance in 2014 can be summarised in three words: **growth, re-investment and diversification**.

For clarity, we detail below the performance of each of the Company's operating divisions:

### **Wood Chip for Medium-Density Fibreboard (MDF) Manufacturing:**

AEG's Ukraine-based operation sources raw timber (primarily waste wood and forestry thinnings) from a number of State-owned forests operated by the State Agency of Forestry Resources, and processes it into industrial wood chip for export across the Black Sea to leading Turkish MDF manufacturers.

This well-established area of the Group's business achieved exceptionally strong growth in the year: production and shipping volumes increased by more than 126% - from 68,293 tonnes in 2013 to 154,103 tonnes in 2014.

Revenues in the sector rose from US\$1.588 million in 2013 to US\$17.395 million in 2014. The MDF wood chip volume for 2013 includes all loads sold by the Group subsidiary during the year for comparative purposes. Loads sold prior to completion of the acquisition of the business contributed a nominal amount to Group revenues in that year.

These figures are all the more impressive considering the political situation in the East of the country - which, although it did not directly affect either our long-term timber supply arrangements or our on-site processing capabilities, did impact upon access to port facilities for bulk cargo shipping in H2:2014 (which were required for handling coal imports) - as well as the relocation of our operations from Mykolaiv to a much larger dedicated berth at Yuzhny Port in Q1:2014, which inevitably impacted upon our production and shipping volumes in the first half of the year.

However, the latter move was successfully completed with the active support of our major customers, and has already proven its value in streamlining operating procedures across the supply chain, reducing fixed overheads, increasing production capacity, ensuring access to year-round shipping lanes, and greatly improving the speed and efficiency of our bulk cargo shipping operations.

The Board believes that these positive results have already justified the considerable investment that was made, and that it will continue to reap rewards long into the future.

Alongside the substantial increase in volumes and shipments, which delivered greater economies of scale, gross margins in this area of the Group's business significantly improved due to a range of factors: enhancing efficiencies across all operational areas; outsourcing labour- and time-intensive logistical functions on a fixed price per tonne basis to TransInvest Service (TIS), the owners of Yuzhny Port; reducing personnel overheads; and renegotiating bulk cargo shipping costs, including demurrage fees. Again, the Board expects these margin improvements to be maintained in the future.

Contrary to some analyst perceptions, the devaluation of the Ukrainian Hryvnia (UAH) during the year had a negligible impact upon margins, as the cost of locally-sourced raw materials and associated services (which the Group acquires in the local currency) increased in line with exchange rate movements. Inevitably, other costs that are directly denominated in US\$ (such as port charges and fuel) also increased.

To satisfy the greatly-increased demand from its Turkish MDF manufacturing customers - which continues to outstrip supply and reflects their confidence in the Group's ability to reliably and speedily deliver bulk volumes of high-quality product across the Black Sea - additional high-speed processing equipment was purchased and installed at Yuzhny Port simultaneously with the move to the new portside facility, which has substantially upgraded and expanded our production capacity.

In light of the success of the above moves, the Board has authorised further capital investment of circa \$2.0 million in FY2015, which will substantially increase our on-site processing capacity from its current level of 313,500 tonnes per annum to 1,280,000 tonnes per annum, and extend our product offering to include softwood wood chip. The equipment, which includes a stationary wood chipper and de-barker, is scheduled to be operational in H2:2015.

## **STRATEGIC REPORT (CONTINUED)**

As further evidence of the long-term viability of this area of the Group's business, and the exceptionally close commercial relationships it has succeeded in developing with major Turkish MDF manufacturers, AEG received confirmed orders for 600,000 tonnes of wood chip in the period; and it is making every effort to continually increase volumes in the coming years.

Finally, no summary of AEG's Ukrainian operations can be complete without mentioning the exceptionally positive view of the business and its senior executives held by the country's new government. By publicly demonstrating their support for and commitment to Ukraine's economy and independence in a time of great national difficulty, the Group is now viewed as a preferred partner, which has already resulted in it being invited to explore several major new opportunities for cooperation with governmental bodies in the forestry, Biomass power generation and energy efficiency industry sectors.

To build upon its considerable experience and excellent reputation within the industrial wood chip sector and to reduce its reliance upon and exposure to a single geographical territory, during the year the Group trialled a new wood chip procurement and shipping operation in Spain.

Although - due to lower than anticipated margins and product quality issues - this exercise did not entirely satisfy its original intention to source finished wood chip for supply to AEG's Biomass for Energy (BFE) power generation customers in Southern Italy, the exercise has enabled the Company to establish a firm foundation and broad network of contacts across the Iberian Peninsula, which it intends to capitalise upon in the near future.

The Board has already identified the potential to utilise Spain as a source from which to supply additional volumes of processed wood chip to its MDF manufacturing customer base in Turkey, where a number of changes in the competitive market have made AEG's offerings ever more necessary and valuable. This significant expansion of the Group's operations is scheduled to commence in H2:2015.

### **Wood Chip for Biomass for Energy (BFE) Power Generation:**

AEG has been active in supplying wood chip for the Biomass for Energy (BFE) industrial power generation sector since mid-2013.

However, market conditions in 2014 - allied to the Board's strategic decision to focus on its more lucrative MDF wood chip business (the successful results of which are detailed above) - dictated that BFE wood chip volumes remained almost static, up just 5% from 59,940 tonnes in 2013 to 63,097 tonnes in 2014. Despite that small increase in volumes, revenues decreased by 10%, from \$6.611 million in 2013 to \$5.929 million in 2014.

The initial strategy of sourcing, processing and shipping finished product from Ukraine via the Black Sea proved to be insufficiently profitable due to excessively high shipping costs and delivery times, which allied to the pressure on the Group's cash reserves and customers' poor payment cycles, led the Board to decide to cease this activity and instead to investigate the potential to supply from locations closer to its power generation customers in Southern Italy.

Accordingly, in April 2014 AEG announced that it had commenced trials to source finished wood chip from a number of different suppliers in the Iberian Peninsula, and to ship in bulk cargo vessels from Spanish Mediterranean seaports. Although this initiative has delivered some positive results, a further decision was made to limit activities to supplying on an ad hoc opportunistic basis when raw material quality and profit margins justify the investment.

However, as noted above, the move has enabled the Group to establish an excellent foundation for future expansion and development of its commercial activities within the region, and it is currently well advanced with a new initiative to source and supply wood chip from the Iberian Peninsula for delivery to its Turkish MDF manufacturing customers.

## STRATEGIC REPORT (CONTINUED)

Similarly, in April 2014 the Group entered into a trial BFE wood chip processing and logistics arrangement with a local partner in Montenegro, to supply under contract with its Italian power plant customers. Again, this met with varying success - primarily resulting from the uneven quality of the raw material (which is measured in net calorific value: 'NCV') and the difficulties in up-scaling production and shipping volumes.

As a result, the Board subsequently decided to suspend its Montenegrin activities for the time being until trading conditions improve to enable it to focus on its more profitable Ukrainian operations, as well as its new business development initiative in Canada.

In summary, whilst the demand for BFE fuel feedstock continues to grow across Europe - a process driven by EU and local government renewable energy directives - the Board has made a long-term strategic decision to concentrate on developing higher-margin second-generation BFE fuels and fuel manufacturing systems (see following section: *Biomass for Energy (BFE) Fuel Solutions & Systems*).

### **Biomass for Energy (BFE) Fuel Solutions & Systems:**

Developing a profitable renewable energy Biomass-based fuel division has been a fundamental part of the Group's long-term strategy since the appointment of Richard Spinks as CEO and the change in business direction that the then Board implemented in mid-2012 (which was covered in its initial strategic review of that date).

AEG's subsequent involvement in supplying the industrial power generation sector with Biomass wood chip fuel feedstock - albeit at the lower-end of the value chain - has confirmed that it represents a substantial long-term global revenue-generating opportunity for the Group.

Accordingly, during the year the Board authorised further investment of over \$300,000 in research and development of second-generation renewable Biomass for Energy (BFE) fuel solutions and advanced fuel manufacturing systems to convert a broad range of forestry, agricultural and industrial by-products into concentrated high-value feedstock for industrial power plants and CHP installations.

Our particular focus has been to develop the 'holy grail' of the industry: a high-BTU 'coal switch' product that can be utilised in coal-fired power stations without incurring the substantial costs and operational interruptions required for boiler or infrastructure retro-fit.

The Group unveiled an early-stage technology at an event in Belfast in May 2014, which despite its early promise failed to meet the stringent commercial and IP criteria that the Board had specified. However, the AEG development team has since been actively exploring several superior alternatives, more than one of which has shown considerable potential.

At the time of writing, advanced trials and certification of different innovative high-NCV products are nearing completion, and an announcement on this potentially significant addition to AEG's business portfolio will be made in due course.

Simultaneously, AEG has been exploring a number of commercial opportunities for energy-efficient technologies, including low-voltage public lighting systems and advanced air-conditioning solutions. Further information on these initiatives will be revealed as and when they come to fruition.

### **Forestry & Natural Resources Development and Management:**

Finally, an essential element in the Group's forward strategy has been to secure 'ownership' of the entire timber supply chain - from forestry to finished product - to support it in maximising the commercial potential of its existing MDF and BFE wood chip and BFE fuel divisions, and to enable it to enter new market sectors with the confidence that it possesses ownership of or access to the required raw materials (e.g. Biomass-fuelled power generation).

Drawing upon our CEO's previous successes in commercialising vast tracts of agricultural lands in Ukraine, AEG has been actively pursuing a number of similar opportunities that he introduced to the Group upon his appointment in mid-2012.



## **STRATEGIC REPORT (CONTINUED)**

After significant investment in time, expenses and personnel resources, an agreement was reached with several of the indigenous Métis Settlements of Alberta in Western Canada to exclusively commercialise some 256,000 hectares of their forestry and agricultural land holdings. The agreement was formalised in July 2014, at which time a joint venture Canadian-incorporated entity - *KAQUO Forestry & Natural Resources Development Corporation* (KAQUO) - was established, in which AEG has a 45% equity holding.

KAQUO's initial focus is on optimising the value of the mature timberland and forestry assets on the lands - which encompass some 108,000 hectares, and are estimated to generate circa 35 million cubic metres of commercial timber - via different investment vehicles.

In January 2015 the joint venture announced that the efforts of the AEG team - which included substantial expenditure on evaluating the commercial opportunities, commissioning a professional survey of the standing forestry assets, developing an operational and logistics strategy plan and associated detailed financial model for the opportunity, and undertaking an international investor roadshow - had resulted in it receiving three alternative investment offers totalling over US\$300 million.

One of those potential investors was selected, and a Term Sheet was signed. An exclusive due diligence period was granted within that Term Sheet, and at the time of writing (May 2015) the due diligence process is at an advanced stage.

Upon the successful conclusion of the Alberta provincial government inquiry into the handling of the KAQUO joint venture by the Group's Métis partners (which the Board are confident will confirm its legal validity and commercial potential) the Board is confident that funding of the joint venture will be completed in H2:2015.

In addition to the new divisional operating structure detailed above, the Group made significant improvements to its functional activities to improve efficiencies, reduce overheads and raise its international profile, which are briefly summarised below.

### **Finance & Operations:**

During the year and subsequent to the year end, the Group issued a number of important announcements related to its financial and operational arrangements, all of which are available on its website at [www.active-energy.com](http://www.active-energy.com).

### **Marketing & Communications:**

To enhance its profile in its target market sectors and to improve both the quality and frequency of its external communications, AEG embarked on a concerted marketing effort during the year.

This has resulted in considerable international exposure and a greatly improved perception of the Group in a number of areas, including existing and potential customers and suppliers, key industry influencers and analysts, and specialist, consumer and financial media channels.

An archive of the media coverage generated from marketing and communications activity can be found on the Group's website at [www.active-energy.com](http://www.active-energy.com).

### **Personnel & Human Resources:**

In September 2014, the Group announced the appointment to the Board of Brian Evans-Jones as Finance Director, with a remit to enhance its finance functions to support its operational ambitions. Since that time he has, with the support of the newly appointed Group Financial Controller, introduced revised procedures and internal systems that have significantly improved the speed and accuracy of AEG's accounting and reporting functions.

Colin Hill, who had been fulfilling the role of Non-Executive Chairman with responsibility for financial reporting and audit management since the new management team took over the running of the business in mid-2012, stepped down from the Board by mutual consent with effect from 1 October 2014.

## STRATEGIC REPORT (CONTINUED)

After a rigorous evaluation process, Frank Lewis, a Fellow of the Institute of Chartered Accountants with many years public company experience, including serving as a member of the AIM Advisory Council, was appointed to the role of Non-Executive Chairman in January 2015. His expertise in corporate governance and regulatory compliance, as well as his considerable international commercial experience, has already proven to greatly assist the executive team in achieving its business objectives.

The Group's current executive team comprises:

### ***Executive Management***

Richard Spinks	Executive Director and CEO; with overall responsibility for all Group activities
Brian Evans-Jones	Executive Director and CFO; with responsibility for finance and accounting functions
Matteo Girlanda	Executive Director and COO; responsible for operational and commercial functions

### ***Senior Management***

Michael Bolwell	Group Financial Controller; responsible for financial, accounting and management reporting functions
Oles Kopets	Country Director, Ukraine; responsible for national operations and government liaison, and supports development of new business initiatives
Sandford Gauchier	Country Director, Canada; responsible for the KAQUO Forestry & Natural Resources Development joint venture, and supports development of new business initiatives
Roman Mosley	Operations Manager, Yuzhny Port (Ukraine); responsible for port processing, loading and shipping operations

### **Corporate Responsibility:**

The Board takes regular account of the significance of social, environmental and ethical matters affecting the Group wherever it operates. During the year it developed a specific set of policies on corporate social responsibility, which seek to protect the interests of all of its stakeholders through ethical and transparent actions, and include an anti-corruption policy and code of conduct. The policies are currently awaiting Board approval, and will be posted on the Group's website at [www.active-energy.com](http://www.active-energy.com) in the near future.

### ***Shareholders***

The Board seeks to protect the interests of its shareholders and other stakeholders by following, where appropriate, the Quoted Companies Alliance (QCA) Corporate Governance Code for Small and Mid-Size Quoted Companies, and the Directors are always prepared, where practicable, to enter into dialogue with all such parties to promote a mutual understanding of objectives.

### ***Environment***

The Board recognises that its principal activities have the potential to impact on the environment and is committed to working with state and other bodies in all of the territories in which it operates to establish and follow international principles of environmental sustainability and renewability.

### ***Employees***

The Group engages its employees in all aspects of the business and seeks to remunerate them fairly and with all reasonable flexibility wherever that may be possible. The Group gives full and fair consideration to applications for employment regardless of age, gender, colour, ethnicity, disability, nationality, religious beliefs or sexual orientation. The Board takes account of employees' interest when making decisions and suggestions from employees aimed at improving the Group's performance are welcomed.

## **STRATEGIC REPORT (CONTINUED)**

### ***Supplier and Contractors***

The Group recognises that the goodwill of its contractors, consultants and suppliers is crucial to its business success and seeks to build and maintain this goodwill through fair dealings. The Group has a prompt payment policy and seeks to settle all agreed liabilities within the agreed terms of trade.

### ***Health and Safety***

The Board recognises that it has a responsibility to provide strategic leadership and direction in the development of the Group's health and safety strategy in order to protect all of its stakeholders.

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### **Key Operational Challenges & Operational Risk:**

Given the international nature of the Group's operations - in locations as far apart as Ukraine and Canada - it is inevitably subject to different operational and financial challenges.

The Directors are constantly vigilant of those challenges, and have made the necessary actions to secure the Group's position. They are fully confident in the ability of the business to both continue and expand its trading activities.

Key operational challenges at the current time include:

- The political situation in Ukraine.
- The successful conclusion of the Alberta provincial government inquiry into the handling of the joint venture agreement process by the Métis Settlement Councils, to enable it to complete the investment in the joint venture in H2:2015.
- Availability of adequate funding on acceptable terms to finance the planned expansion of the business. The Board is confident in the Group's ability to secure suitable funding in 2015 to enable a significant increase in its Ukrainian production volumes with new and much improved equipment, to implement its new Iberian supply route, to progress its new business initiatives, and to fund the increased working capital requirement resulting from the substantial growth in its revenues.
- Ensuring an uninterrupted flow and control of the entire timber supply chain from forest to factory and forest to boiler, taking into account operating variables such as seasonality, weather conditions and shipping capacity/availability. The Group continues to work towards the establishment of a scalable and seamless supply chain by profitably sourcing, processing and distributing product in all the territories in which it operates.
- Controlling the physical distribution of the Group's products. The Board devotes a considerable amount of time to this aspect of operations by focusing on securing long-term arrangements to ensure that, as far as is reasonably possible, the coordination of supply and processing of raw materials is matched to the availability of delivery methods to its customers. This operational component remains an essential feature of meeting the Group's SLA/performance requirements, in establishing scalable processes, and in ensuring the availability of necessary assets at the right time and in the right place.
- Recruiting senior and middle management personnel in the territories in which the Group operates.

## STRATEGIC REPORT (CONTINUED)

### Key Performance Indicators:

The key performance indicators of the Group are set out below and not all of the items are capable of quantitative measurement; however, the qualitative issues are equally important.

- Achieving planned processing, loading and shipping volumes for MDF wood chip
- Maintaining market presence and taking advantage of high-margin opportunities for BFE wood chip
- Commercialising, certifying and bringing to market its new BFE fuel solution offerings
- Commencing operations in its Canadian joint venture
- Progressing other new business initiatives and bringing them to fruition
- Improving gross margin returns on all goods shipped
- Meeting contractual obligations to customers
- Understanding, managing and minimising the impact of major external issues and risks
- Raising sufficient long term working capital to meet the fiscal demands of existing and future business
- Minimising the negative impact of demurrage
- Meeting product specifications for all commercial product offerings

Performance against these measures is discussed elsewhere in the Strategic Report and Chairman's statement. It is likely that other KPIs will be identified as the business develops, but the Board believes that the detailed information published by the Group in its Regulatory News Service (RNS) announcements or in its published financial statements (all of which are available on the AEG website at [www.active-energy.com](http://www.active-energy.com)) provide the best guide to its progress and performance.

### Risk and Uncertainties:

#### *Political Risk*

Maintaining a reliable long-term supply of raw materials is pivotal to the success of the Group's operations. To date its primary sources have been State-owned forests in Ukraine; however to reduce its reliance on a single supply source and lessen the associated risks, the Board has already instigated new supply channels in Canada and the Iberian Peninsula, and is investigating other potential sources.

#### *Financing Risk*

The principal financial risks faced by the Group are discussed further in Note 24 to the financial statements.

### Internal Controls and Risk Management:

The Directors are responsible for the Group's systems of internal financial control. Although no system of internal financial control can provide absolute assurance against material misstatement or loss, the Group's systems are designed to provide reasonable assurance that problems are identified in a timely basis and dealt with appropriately.

In carrying out their responsibilities, and in consideration of the need to strengthen controls in certain jurisdictions to be reflective of the standards expected of a public company, the Directors are putting in place a framework of controls to ensure as far as is reasonably possible that on-going financial performance is monitored by the most relevant means and in a timely manner such that, where necessary, corrective action is taken and that risks are identified as early as practically possible.

To this end, the Group has engaged an experienced Group Financial Controller who is charged with a complete overhaul of all accounting systems and reporting requirements and who has put in place a suitable mechanism for the production of timely management information to aid decision making. This work has recently been assisted through the recruitment of a Financial Controller based at the Group's trading subsidiary in Ukraine and who facilitates the timely exchange of information with Group as part of this process.

## **STRATEGIC REPORT (CONTINUED)**

### **Forward Looking Statements:**

The Annual Report contains certain forward-looking statements that have been made by the Directors in good faith based upon the information at the time of the approval of the Report. By their nature, such forward-looking statements involve risks and uncertainties because they relate to events and depend upon circumstances that will or may occur in the future. Actual results may differ materially from those expressed in such statements.

### **Corporate Governance:**

The Group is committed to high standards of corporate governance and seeks to comply with the guidelines of the Quoted Companies Alliance (QCA) Corporate Governance Code for Small and Mid-Size Quoted Companies as they are appropriate to the Company at this stage in its development.

The Board of Directors is currently comprised of a Non-Executive Chairman (based in the UK), the CEO (based in Ukraine, Canada and the UK), the CFO (based in the UK), the COO (based in Ukraine, Canada and Italy) and a Non-Executive Director (based in Canada). The Board considers that this structure is consistent with the nature and scope of the Group's business, operating in the sectors and regions that it does.

The Board is aware of the need to refresh its membership from time to time and will consider appointing additional executive and independent non-executive directors in the future.

### ***Role of the Board***

This is to agree the Group's long-term strategy and direction and to monitor achievement of its business objectives. The Board meets several times per annum, either by teleconference or in person. In between times it holds such number of additional meetings as is necessary to transact other business.

### ***Board Committees***

#### **Remuneration Committee**

The Remuneration Committee is made up of Frank Lewis and Giuseppe (Joseph) Valoroso.

This committee is responsible for the scale and structure of the remuneration of the Chairman, the Chief Executive, the Executive Directors and the direct reports to the Chief Executive. The recommendations of the committee must be approved by the Board of Directors before they can be approved. No director or manager shall be involved in decisions relating to his/her own remuneration.

#### **AIM Rules Compliance Committee**

The AIM Rules Compliance Committee is made up of Frank Lewis and Brian Evans-Jones.

This committee is charged with ensuring that the Group has in place sufficient procedures, resources and controls to ensure compliance with the AIM rules for companies. Among other things, the committee shall ensure that an Executive Director is at all times able to respond to requests for information from the Nominated Adviser and that all Directors and employees are aware of their obligations with regards to the disclosure of any trading in the Group's shares.

#### **Audit Committee**

The Audit Committee is made up of Frank Lewis and Matteo Girlanda.

This committee is required to monitor the integrity of the financial statements of the Group, including the interim and annual reports. The committee also reviews financial returns to regulators and any financial information contained in announcements of a price sensitive nature. The committee shall also consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, as to the appointment or re-appointment of the Group's external auditor and together with the external auditors, determines the scope of the audit.

## **STRATEGIC REPORT (CONTINUED)**

This Strategic Report was approved by the Board of Directors on 7 June 2015 and signed on its behalf by:

**F Lewis**

Non-Executive Chairman

# ACTIVE ENERGY GROUP PLC

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014

The Directors present their report together with the audited financial statements of the Group for the year ended 31 December 2014.

In accordance with section 414C(11) of the Companies Act 2006, the Directors have chosen to include in the Strategic Report (on pages 9 to 20) particulars of important events affecting the Group that have occurred since the end of the period and an indication of likely future developments in the Group's business.

### Dividends:

No dividend is proposed for the year ended 31 December 2014 (2013: £nil).

### Financial Instruments and Financial Risk Management:

Details of the use of financial instruments by the Group and its subsidiary undertakings, and related matters are contained in Note 24 of the financial statements.

### Going Concern:

The Directors consideration of going concern is set out in Note 1 to the financial statements.

### Directors:

The Directors during the year under review were:

R. G. Spinks  
M. Girlanda  
B. Evans-Jones (appointed 1 October 2014)  
G. Valoroso  
C. Hill (resigned 2 October 2014)

On 26 January 2015, F. Lewis was appointed as a Director of the Group.

### Remuneration:

Remuneration and benefits received during the year ended 31 December 2014 for Directors, together with interests in share options and warrants at the year end, were as follows:

	<b>Gross Salary and Fees</b>	<b>Share-based Payments</b>	<b>Outstanding Share Options and Warrants</b>	<b>Exercise Price</b>
	<b>\$</b>	<b>\$</b>	<b>No.</b>	<b>p</b>
C. Hill	98,856	16,337	*16,653,332	1.25
R. G. Spinks	247,141	250,220	**41,733,333	1.25
B. Evans-Jones	49,425	-	-	-
M. Girlanda	249,818	-	12,500,000	3.00
G. Valoroso	49,428	-	-	-
	<u>694,668</u>	<u>266,557</u>	<u>70,886,655</u>	

\* Includes 15,000,000 JSOP shares (see Note 20 to the financial statements)

\*\* Includes 40,000,000 share options with a share price hurdle of 3p fully vested conditions having been met in 2015

During the year no Directors have exercised either their share options or warrants.

## REPORT OF THE DIRECTORS (CONTINUED)

### Significant Shareholders:

The Directors are aware of the following significant shareholdings of 3 per cent or more of the current Issued Ordinary Share Capital of 621,475,570 shares and Total Voting Rights ("TVR") (excluding the 77,500,000 own shares held) of 543,975,570 shares on 25 May 2015:

Ordinary Shares of 1p Each	Number	ISC % holding	TVR % holding
Gravendock Private Foundation	169,500,000	27.27%	31.16%
Windstar Investment SA and related parties*	63,360,000	10.20%	11.65%
Ronald M Derrickson	27,733,333	4.46%	5.10%
Brahma Finance Limited	21,658,543	3.49%	3.98%
Okritie Securities Ltd	18,928,486	3.05%	3.48%

\* Group Operations Director M. Girlanda has an interest in this company

### 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 and of the profit or loss of the Group 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 Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group 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 Group 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 Group's website at [www.active-energy.com](http://www.active-energy.com) 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 Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the on-going integrity of the financial statements contained therein.



## **REPORT OF THE DIRECTORS (CONTINUED)**

### **Statement as to Disclosure of Information to Auditors:**

Each Director has confirmed that:

- So far as the Directors are aware, there is no relevant audit information of which the Group's auditor is unaware; and
- They have taken all the steps that they ought to have taken as a Director in order to make themselves 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:

**F Lewis**

Non-Executive Chairman

**7 June 2015**

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 2014, which comprise the consolidated statement of income and other comprehensive income, the consolidated and company statements of financial position, the consolidated and company statements of cash flows, the consolidated and company statements 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 use to comply with the Financial Reporting Council's (FRC'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 FRC's website at [www.frc.org.uk/auditscopeukprivate](http://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 2014 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **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 and parent's ability to continue as a going concern. As set out in Note 1, there are material uncertainties that may cast significant doubt about the group's and parent company's ability to continue as a going concern in respect of the ability of the group to obtain additional funding. The financial statements do not include the adjustments that would result if the group and company were unable to continue as a going concern.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ACTIVE ENERGY GROUP PLC (CONTINUED)**

### **Opinion on Other Matters Prescribed by the Companies Act 2006**

In our opinion the information given in the strategic report and 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.

*James Fearon (Senior Statutory Auditor)  
For and on behalf of BDO LLP, Statutory Auditor  
London  
United Kingdom  
Date: 7 June 2015*

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

# ACTIVE ENERGY GROUP PLC

## CONSOLIDATED STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 US\$	2013 US\$
<b>REVENUE</b>	3	23,324,963	8,207,231
Cost of sales		(20,594,044)	(8,343,449)
<b>GROSS PROFIT/(LOSS)</b>		2,730,919	(136,218)
Other income		7,981	-
Administrative expenses		(3,999,624)	(3,223,251)
<b>OPERATING LOSS</b>	5	(1,260,724)	(3,359,469)
Finance income	6	5,896	21,835
Finance costs	6	(1,077,420)	(153,443)
Share of loss of associate	12	(372,984)	-
<b>LOSS BEFORE TAXATION</b>		(2,705,232)	(3,491,077)
Income tax	7	(78,161)	(56,201)
<b>LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT</b>		(2,783,393)	(3,547,278)
<b>OTHER COMPREHENSIVE (EXPENSE)/INCOME:</b>			
<b>Items that may be subsequently reclassified to profit or loss</b>			
Exchange differences on translation of foreign operations		(22,149)	220,529
Exchange differences on translation of associate		21,373	-
Total other comprehensive (expense)/income		(776)	220,529
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT</b>		(2,784,169)	(3,326,749)
Basic and Diluted Loss per share (US cent)	8	(0.51)	(0.91)

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent Company income statement.

The notes on pages 35 to 75 form part of these financial statements.

# ACTIVE ENERGY GROUP PLC

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

	Note	2014 US\$	2013 US\$	2012 US\$
<b>NON-CURRENT ASSETS</b>				
Intangible assets	9	4,268,307	4,562,050	2,642,989
Property, plant and equipment	10	730,108	182,740	1,087
Investment in associate	12	446,156	-	-
Available for sale financial assets	13	93,191	-	-
		<u>5,537,762</u>	<u>4,744,790</u>	<u>2,644,076</u>
<b>CURRENT ASSETS</b>				
Inventory	14	526,898	1,420,883	-
Trade and other receivables	15	2,850,682	873,868	490,980
Cash and cash equivalents	16	3,227,414	1,563,428	255,224
		<u>6,604,994</u>	<u>3,858,179</u>	<u>746,204</u>
<b>TOTAL ASSETS</b>		<u>12,142,756</u>	<u>8,602,969</u>	<u>3,390,280</u>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	17	1,930,578	798,801	436,415
Loans and borrowings	19	1,739,130	-	-
Income tax liabilities		93,845	7,012	6,314
		<u>3,763,553</u>	<u>805,813</u>	<u>442,729</u>
<b>NON-CURRENT LIABILITIES</b>				
Deferred income tax liabilities	18	411,075	446,310	431,630
Loans and borrowings	19	4,353,462	1,445,681	-
		<u>4,764,537</u>	<u>1,891,991</u>	<u>431,630</u>
<b>TOTAL LIABILITIES</b>		<u>8,528,090</u>	<u>2,697,804</u>	<u>874,359</u>
<b>NET ASSETS</b>		<u>3,614,666</u>	<u>5,905,165</u>	<u>2,515,921</u>

The notes on pages 35 to 75 form part of these financial statements.

# ACTIVE ENERGY GROUP PLC

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued) AS AT 31 DECEMBER 2014

	Note	2014 US\$	2013 US\$	2012 US\$
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>				
Share capital	20	9,774,327	9,726,034	3,849,472
Share premium	22	7,344,264	7,284,397	7,028,887
Merger reserve	22	2,350,175	2,350,175	1,485,106
Foreign exchange reserve	22	(74,347)	(73,571)	(294,100)
Own shares held reserve	22	(1,229,630)	(1,376,822)	(147,192)
Convertible debt, capital and warrant reserve	22	1,075,301	956,348	498,331
Retained earnings	22	(15,625,424)	(12,961,396)	(9,904,583)
<b>TOTAL EQUITY</b>		<u>3,614,666</u>	<u>5,905,165</u>	<u>2,515,921</u>

The financial statements were approved and authorised for issue by the Directors on 7 June 2015 and were signed on their behalf by:

**R G Spinks**  
Chief Executive Officer

**B Evans-Jones**  
Chief Financial Officer

The notes on pages 35 to 75 form part of these financial statements.

# ACTIVE ENERGY GROUP PLC

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 US\$	2013 US\$
<b>Cash outflow from operations</b>	23	(1,146,722)	(3,833,579)
Income tax paid		(26,563)	(40,823)
<b>Net cash outflow from operating activities</b>		(1,173,285)	(3,874,402)
<b>Cash flows from investing activities</b>			
Acquisition of subsidiary, net of cash acquired		-	104,076
Contribution to associate		(797,767)	-
Purchase of property, plant and equipment		(728,396)	(206,559)
Sale of property, plant and equipment		53,320	-
Finance income		5,896	21,835
<b>Net cash outflow from investing activities</b>		(1,466,947)	(80,648)
<b>Cash flows from financing activities</b>			
Issue of equity share capital, net of share issue costs		7,619	3,791,392
Convertible loan from shareholder		-	1,537,900
Unsecured loans raised		4,739,130	-
Finance expenses		(193,091)	(70,395)
<b>Net cash inflow from financing activities</b>		4,553,658	5,258,897
<b>Net increase in cash and cash equivalents</b>		1,913,426	1,303,847
<b>Cash and cash equivalents at beginning of the year</b>		1,563,428	255,224
Exchange (losses)/gains on cash and cash equivalents		(249,440)	4,357
<b>Cash and cash equivalents at end of the year</b>	16	3,227,414	1,563,428

The notes on pages 35 to 75 form part of these financial statements.

## ACTIVE ENERGY GROUP PLC

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

	Share capital	Share premium	Merger reserve	Foreign exchange reserve	Own shares held reserve	Convertible debt, capital and warrant reserve	Retained earnings	Total equity
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
<b>At 31 December 2012</b>	3,849,472	7,028,887	1,485,106	(294,100)	(147,192)	498,331	(9,904,583)	2,515,921
Loss for the year	-	-	-	-	-	-	(3,547,278)	(3,547,278)
Other comprehensive income	-	-	-	220,529	-	-	-	220,529
Issue of share capital	4,243,881	334,300	865,069	-	-	-	-	5,443,250
Conversion of convertible loan	447,978	-	-	-	-	(447,978)	-	-
Issue of convertible loan	-	-	-	-	-	217,231	-	217,231
Issue of warrants	-	-	-	-	-	688,764	-	688,764
Share based payments	-	-	-	-	-	-	490,465	490,465
Share issue expenses	-	(134,669)	-	-	-	-	-	(134,669)
Shares issued to escrow	961,188	-	-	-	(961,188)	-	-	-
JSOP shares issued	223,515	55,879	-	-	-	-	-	279,394
Own shares held by JSOP	-	-	-	-	(268,442)	-	-	(268,442)
<b>At 31 December 2013</b>	9,726,034	7,284,397	2,350,175	(73,571)	(1,376,822)	956,348	(12,961,396)	5,905,165
Loss for the year	-	-	-	-	-	-	(2,783,393)	(2,783,393)
Other comprehensive income	-	-	-	(776)	-	-	-	(776)
Issue of share capital	48,293	59,867	-	-	-	-	-	108,160
Transfer of own shares held	-	-	-	-	147,192	-	(147,192)	-
Issue of convertible loan	-	-	-	-	-	118,953	-	118,953
Share based payments	-	-	-	-	-	-	266,557	266,557
<b>At 31 December 2014</b>	9,774,327	7,344,264	2,350,175	(74,347)	(1,229,630)	1,075,301	(15,625,424)	3,614,666

The notes on pages 35 to 75 form part of these financial statements.



# ACTIVE ENERGY GROUP PLC

## COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

	Note	2014 US\$	2013 US\$	2012 US\$
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	10	1,650	1,595	-
Investment in subsidiaries	11	4,412,237	4,683,810	2,534,322
Investment in associate	12	797,767	-	-
Available for sale financial assets	13	93,191	-	-
		<u>5,304,845</u>	<u>4,685,405</u>	<u>2,534,322</u>
<b>CURRENT ASSETS</b>				
Trade and other receivables	15	4,527,122	3,604,219	559,902
Cash and cash equivalents	16	136,993	1,226,951	210,094
		<u>4,664,115</u>	<u>4,831,170</u>	<u>769,996</u>
<b>TOTAL ASSETS</b>		<u>9,968,960</u>	<u>9,516,575</u>	<u>3,304,318</u>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	17	542,982	366,461	246,403
		<u>542,982</u>	<u>366,461</u>	<u>246,403</u>
<b>NON-CURRENT LIABILITIES</b>				
Loans and borrowings	19	4,353,462	1,445,681	-
		<u>4,353,462</u>	<u>1,445,681</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>		<u>4,896,444</u>	<u>1,812,142</u>	<u>246,403</u>
<b>NET ASSETS</b>		<u>5,072,516</u>	<u>7,704,433</u>	<u>3,057,915</u>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>				
Share capital	20	9,774,327	9,726,034	3,849,472
Share premium	22	7,344,264	7,284,397	7,028,887
Merger reserve	22	2,350,175	2,350,175	1,485,106
Foreign exchange reserve	22	(118,002)	175,722	(238,558)
Own shares held reserve	22	(1,229,630)	(1,229,630)	-
Convertible debt, capital and warrant reserve	22	1,075,301	956,348	498,331
Retained earnings	22	(14,123,919)	(11,558,613)	(9,565,323)
<b>TOTAL EQUITY</b>		<u>5,072,516</u>	<u>7,704,433</u>	<u>3,057,915</u>

The notes on pages 35 to 75 form part of these financial statements.

## **ACTIVE ENERGY GROUP PLC**

### **COMPANY STATEMENT OF FINANCIAL POSITION (Continued) AS AT 31 DECEMBER 2014**

The financial statements were approved and authorised for issue by the Directors on 7 June 2015 and were signed on their behalf by:

**R G Spinks**  
Chief Executive Officer

**B Evans-Jones**  
Chief Financial Officer

The notes on pages 35 to 75 form part of these financial statements.

# ACTIVE ENERGY GROUP PLC

## COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 US\$	2013 US\$
<b>Cash outflow from operations</b>	23	(3,104,513)	(4,236,297)
<b>Net cash outflow from operating activities</b>		(3,104,513)	(4,236,297)
<b>Cash flows from investing activities</b>			
Contribution to associate		(797,767)	-
Incorporation of subsidiaries		-	(35,470)
Purchase of property, plant and equipment		(2,100)	(2,018)
Finance income		5,896	21,835
<b>Net cash outflow from investing activities</b>		(793,971)	(15,653)
<b>Cash flows from financing activities</b>			
Issue of equity share capital, net of share issue costs		7,619	3,791,392
Convertible loan from shareholder		-	1,537,900
Unsecured loans raised		3,000,000	-
Finance expenses		(193,091)	(70,395)
<b>Net cash inflow from financing activities</b>		2,814,528	5,258,897
<b>Net (decrease)/increase in cash and cash equivalents</b>		(1,083,956)	1,006,947
<b>Cash and cash equivalents at beginning of the year</b>		1,226,951	210,094
Exchange (losses)/gains on cash and cash equivalents		(6,002)	9,910
<b>Cash and cash equivalents at end of the year</b>	16	136,993	1,226,951

The notes on pages 35 to 75 form part of these financial statements.

## ACTIVE ENERGY GROUP PLC

### COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

	Share capital	Share premium	Merger reserve	Foreign exchange reserve	Own shares held reserve	Convertible debt and warrant reserve	Retained earnings	Total equity
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
<b>At 31 December 2012</b>	3,849,472	7,028,887	1,485,106	(238,558)	-	498,331	(9,565,323)	3,057,915
Loss for the year	-	-	-	-	-	-	(2,483,755)	(2,483,755)
Other comprehensive income	-	-	-	414,280	-	-	-	414,280
Issue of share capital	4,243,881	334,300	865,069	-	-	-	-	5,443,250
Conversion of convertible loan	447,978	-	-	-	-	(447,978)	-	-
Issue of convertible loan	-	-	-	-	-	217,231	-	217,231
Issue of warrants	-	-	-	-	-	688,764	-	688,764
Share based payments	-	-	-	-	-	-	490,465	490,465
Share issue expenses	-	(134,669)	-	-	-	-	-	(134,669)
Treasury shares issued	961,188	-	-	-	(961,188)	-	-	-
JSOP shares issued	223,515	55,879	-	-	-	-	-	279,394
Own shares held by JSOP	-	-	-	-	(268,442)	-	-	(268,442)
<b>At 31 December 2013</b>	9,726,034	7,284,397	2,350,175	175,722	(1,229,630)	956,348	(11,558,613)	7,704,433
Loss for the year	-	-	-	-	-	-	(2,831,863)	(2,831,863)
Other comprehensive income	-	-	-	(293,724)	-	-	-	(293,724)
Issue of share capital	48,293	59,867	-	-	-	-	-	108,160
Issue of convertible loan	-	-	-	-	-	118,953	-	118,953
Share based payments	-	-	-	-	-	-	266,557	266,557
<b>At 31 December 2014</b>	9,774,327	7,344,264	2,350,175	(118,002)	(1,229,630)	1,075,301	(14,123,919)	5,072,516

The notes on pages 35 to 75 form part of these financial statements.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 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 27.

#### **Going concern**

Based on the latest trading expectations and associated cash flow forecasts of the Group headed by Active Energy Group Plc, the Directors have considered the cash requirement for both the Group and the Company and have determined that a further issue of share capital is required to fund the Group's increased requirement for working capital and need for further capital expenditure.

Accordingly, the Directors intend to raise funds through the issue of further equity in the near future. The Directors are confident that an issue of further equity will be successful and that the Group and Company shall be able to meet their liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements.

The Directors are confident they would be able to raise any additional funding as and when required; however, this cannot be guaranteed. As such the ability to obtain additional funding is considered to be a material uncertainty that may cast significant doubt over the Group's and Company's ability to continue as a going concern.

#### **Change in presentation currency**

The Group and Company has changed its presentation currency from United Kingdom Pounds Sterling ("Sterling") to United States Dollars ("US Dollar", "US\$"), as it most reliably reflects the global business performance of the Group as a whole.

In order to satisfy the requirements of IAS 21 with respect to a change in presentation currency, the statutory financial information as previously reported in the Group's and Company's Statements of financial position for the years ended 31 December 2012, 2013, 2014 has been restated from Sterling into US Dollars using the procedures outlined below:

- Assets and liabilities of foreign operations where the functional currency is other than US Dollars were translated into US Dollars at the relevant closing rates of exchange;

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 1. ACCOUNTING POLICIES (continued)

#### Change in presentation currency (continued)

- Non-US Dollar trading results were translated into US Dollars at the relevant average rates of exchange. Differences arising from the retranslation of the opening net assets and the results for the year have been taken to the foreign currency translation reserve;
- The Company's functional currency is sterling and it is the only member of the group with a functional currency other than US dollars. The cumulative foreign currency translation reserve therefore relates to this entity and was set to nil at 1 January 2006, the date of transition to IFRS. All subsequent movements comprising differences on the retranslation of the opening net assets have been taken to the foreign currency translation reserve;
- Share capital, share premium and other reserves were translated at the historic rates prevailing at the dates of transactions.

#### Standards, interpretations and amendments to existing standards

##### Interpretations and revised standards that are not yet effective and have not been early adopted by the Group

The following interpretations to existing standards have been published that are mandatory for the Group's future accounting but which the Group has not adopted early. Management has not yet fully assessed the impact of these new standards but does not believe they will have any material impact on the financial statements.

- IFRS 9: Financial Instruments (from 1 January 2018)
- IFRS 15: Revenue from Contracts with Customers (from 1 January 2017)
- Annual improvements to IFRS (from 1 July 2014)
- Amendments to IAS 1: Presentation of financial statements (from 1 January 2016)
- Amendments to IAS 27: Equity Method in Separate Financial Statements (from 1 January 2016)
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (from 1 January 2016)

IFRS 9: Financial Instruments (effective from 1 January 2018). It is envisaged that this standard will replace IAS 39: Financial Instruments: Recognition and Measurement in its entirety. IFRS 9 deals with classification and measurement of financial assets and its requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: at amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. IFRS 9 has not yet been adopted by the European Union.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 1. ACCOUNTING POLICIES (continued)

IFRS 15: Revenue from Contracts with Customers (for accounting periods beginning on or after 1 January 2017) establishes a single comprehensive model to use in the accounting of revenue arising from customers. Its core principle is that an entity should recognise revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity is entitled in exchange for those goods or services.

#### **Basis of consolidation**

The financial information incorporates the results of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Group has power over relevant activities, is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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 statement of financial position, investments in subsidiaries are stated at cost less provisions for any permanent diminution in value.

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts and value added taxes. The Group recognises revenue when the following conditions have been satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership;
- the Group does not retain either the continuing managerial involvement normally associated with ownership or effective control over the goods;
- the amount of revenue can be reliably measured;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs to be incurred in respect of the transaction can be reliably measured.

#### **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.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 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.

#### **Associates**

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the consolidated statement of financial position at cost. Subsequently associates are accounted for using the equity method, where the Group's share of post acquisition profits and losses and other comprehensive income is recognised in the consolidated statement of profit and loss and other comprehensive income (except for losses in excess of the Group's investment in the associate unless there is an obligation to make good those losses).

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

#### **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.



# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 1. ACCOUNTING POLICIES (continued)

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

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.

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 27 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:

<b>Intangible asset</b>	<b>Useful economic life</b>	<b>Valuation method</b>
Contractual relationships	Term of contract (49 years)	Estimated discounted cash flow

During the year the contract term was extended from 10 years to 49 years.

#### **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.

#### **Inventories**

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 1. ACCOUNTING POLICIES (continued)

#### **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, 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 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.

#### *Available for sale financial assets*

Available for sale financial assets are non derivatives that are either designated in this category or not classified in any of the other categories. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at fair value with changes in fair value recognised in other comprehensive income. When available for sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in equity are transferred to the income statement. Dividends on available for sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

#### *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.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 1. ACCOUNTING POLICIES (continued)

#### Financial instruments (continued)

##### *Classification of financial instruments issued by the Group*

Under IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

#### 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.

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.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 1. ACCOUNTING POLICIES (continued)

#### 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 the Group's presentation currency, US Dollars, 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.

#### 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.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 1. ACCOUNTING POLICIES (continued)

#### 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 Black-Scholes and Monte Carlo 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.

#### Own shares held

Consideration paid/received for the purchase/sale of shares held in escrow or in trust for the benefit of employees is recognised directly in equity. The nominal value of such shares held is presented within the "own shares held" reserve. Any excess of the consideration received on the sale of the shares over the weighted average cost of the shares sold is credited to retained earnings.

Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the Group consolidated income statement.

#### Investment in subsidiaries

Investments in subsidiaries are stated at cost less provision for impairment in the Company financial statements.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 2. SEGMENTAL INFORMATION

The Group reports four operating segments:

- 'MDF Wood Chip' denotes the Group's Medium-Density Fibreboard (MDF) wood chip processing and supply business division.
- 'BFE Wood Chip' denotes the Group's renewable Biomass for Energy wood chip processing and supply business division
- 'Forestry & Natural Resources' denotes the Group's initiatives to secure ownership of the entire timber supply chain - from forest to finished product
- 'BFE Fuel Solutions' denotes the Group's renewable Biomass for Energy fuel division, which engages in development of second-generation BFE fuel solutions and systems

#### *Factors that management used to identify the Group's reportable segments*

The Group's reportable segments are strategic business units that offer different products. They are managed separately because each business operates in different markets and locations.

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 the Chief Executive Officer and the Group Finance Director.

#### *Measurement of operating segment profit or loss*

The Group evaluates segmental performance on the basis of profit or loss from operations calculated in accordance with IFRS but excluding corporate overheads, non-recurring losses, such as goodwill impairment, the effects of share-based payments, and joint venture profit and losses.

Inter-segment sales are eliminated for segment reporting purposes.

All assets and liabilities as at 31 December 2014 and capital expenditure for the period are interchangeable between the divisions of company and therefore no segmental analysis has been presented.

This policy was applied consistently throughout the current and prior period.

## ACTIVE ENERGY GROUP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

#### 2. SEGMENTAL INFORMATION (continued)

	<b>2014</b>	<b>2014</b>	<b>2014</b>	<b>2014</b>	<b>2014</b>
	<b>MDF</b>	<b>BFE</b>	<b>Forestry</b>	<b>BFE</b>	<b>Total</b>
	<b>Wood Chip</b>	<b>Wood Chip</b>	<b>&amp; Natural</b>	<b>Fuel</b>	
	<b>Resources</b>		<b>Solutions</b>		
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Revenue from external customers	17,395,499	5,929,464	-	-	23,324,963
Operating segment profit/(loss)	2,058,270	(367,694)	(666,609)	(300,535)	723,432
Finance income	-	-	-	-	-
Finance costs	(161,965)	-	-	-	(161,965)
Segment profit/(loss) before tax	1,896,305	(367,694)	(666,609)	(300,535)	561,467
Tax charge/(credit)	(91,851)	(21,545)	35,235	-	(78,161)
Segment profit/(loss) for the period	1,804,454	(389,239)	(631,374)	(300,535)	483,306
			<b>2013</b>	<b>2013</b>	<b>2013</b>
			<b>MDF</b>	<b>BFE</b>	<b>Total</b>
			<b>Wood Chip</b>	<b>Wood Chip</b>	
			<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Revenue from external customers			1,596,082	6,611,149	8,207,231
Operating segment loss			(154,661)	(613,553)	(768,214)
Finance income			-	-	-
Finance costs			-	-	-
Segment loss before tax			(154,661)	(613,553)	(768,214)
Tax charge			-	(56,201)	(56,201)
Segment loss for the period			(154,661)	(669,754)	(824,415)

## ACTIVE ENERGY GROUP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

#### 2. SEGMENTAL INFORMATION (continued)

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

	<b>2014</b>	<b>2013</b>
	<b>US\$</b>	<b>US\$</b>
Total profit /(loss) from reportable segments	483,306	(824,415)
Unallocated amount - corporate expenses	(2,098,564)	(1,988,315)
Unallocated amount - other income	7,981	-
Unallocated amount - finance income	5,896	21,835
Unallocated amount - finance expense	(915,455)	(153,443)
Share based payments	(266,557)	(602,940)
	<u>(2,783,393)</u>	<u>(3,547,278)</u>
Loss for the period	<u>(2,783,393)</u>	<u>(3,547,278)</u>

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

	<b>2014</b>	<b>2013</b>
	<b>US\$</b>	<b>US\$</b>
Turkey	17,395,499	1,587,985
Italy	5,929,464	6,611,149
Ukraine	-	8,097
	<u>23,324,963</u>	<u>8,207,231</u>

An analysis of non-current assets by location of assets is given below:

	<b>2014</b>	<b>2013</b>
	<b>US\$</b>	<b>US\$</b>
United Kingdom	143,660	1,595
Ukraine	4,947,946	4,743,195
Canada	446,156	-
	<u>5,537,762</u>	<u>4,744,790</u>

Revenue derived from two external customers amounted to US\$10,972,729 and US\$5,078,003 respectively, which were attributed to the MDF Wood Chip segment. Two other external customers generated revenue of US\$3,489,158 and US\$2,308,172 respectively, which were attributed to the BFE Wood Chip segment. In 2013, revenue of US\$4,774,475 was derived from one customer.

#### 3. REVENUE

The Group's revenue comprises:

	<b>2014</b>	<b>2013</b>
<b>Group</b>	<b>US\$</b>	<b>US\$</b>
Sale of goods	<u>23,324,963</u>	<u>8,207,231</u>



# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 4. EMPLOYEE COSTS AND DIRECTORS

	<b>2014</b>	<b>2013</b>
	<b>US\$</b>	<b>US\$</b>
<b>Group</b>		
Wages and salaries	1,116,681	672,450
Social security costs	129,783	56,741
	<u>1,246,464</u>	<u>729,191</u>
Share based payments	266,557	419,076
	<u>1,513,021</u>	<u>1,148,267</u>

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

	<b>2014</b>	<b>2013</b>
Directors	4	4
Administration	15	14
Production	29	48
	<u>48</u>	<u>66</u>

#### Directors' and key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. During the period these were considered to be the Directors of the Company listed on page 16.

	<b>2014</b>	<b>2013</b>
	<b>US\$</b>	<b>US\$</b>
Directors' emoluments	669,954	469,454
Compensation for the loss of office	24,714	-
	<u>694,668</u>	<u>469,454</u>
Social security costs	2,427	-
Share based payments	266,557	251,707
	<u>963,652</u>	<u>721,161</u>

The emoluments of the highest paid Director for the year were US\$249,818 (2013: US\$219,004). Further details are included on page 21.

## ACTIVE ENERGY GROUP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

#### 5. OPERATING LOSS

<b>Group</b>	<b>2014</b>	<b>2013</b>
The loss before income tax is stated after charging/(crediting):	<b>US\$</b>	<b>US\$</b>
Operating leases – premises	61,497	16,752
Operating leases – vehicles	810	1,338
Operating leases – equipment	18,487	147,949
Amortisation of intangible assets	293,743	293,869
Depreciation - owned assets	127,778	38,091
(Profit)/loss on disposal of fixed assets	(171)	53,149
Auditors' remuneration - parent company and consolidation	102,977	91,689
Auditors' remuneration - taxation services	23,067	12,832
Share based payments	266,557	602,940
Foreign exchange (gains)/losses	(192,191)	104,622

The share based payment charge includes an amount of US\$Nil (2013: US\$112,475) in respect of shares issued to employees.

#### 6. FINANCE INCOME AND COSTS

<b>Group</b>	<b>2014</b>	<b>2013</b>
	<b>US\$</b>	<b>US\$</b>
<b>Finance income</b>		
Bank interest	5,896	21,835
<b>Finance costs</b>		
Bank interest	1,166	-
Interest on convertible loan	220,638	101,132
Unsecured loan interest	298,525	-
Unsecured loan participation fee	161,965	-
Foreign exchange losses	395,126	52,311
	<b>1,077,420</b>	<b>153,443</b>

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 7. INCOME TAX

Group	2014 US\$	2013 US\$
<b>Current tax</b>		
Overseas tax charge	113,396	41,521
<b>Deferred tax</b>		
Reversal of temporary differences	(58,725)	(55,789)
Effect of tax rate change	23,490	70,469
	<u>(35,235)</u>	<u>14,680</u>
Total income tax charge	<u>78,161</u>	<u>56,201</u>

#### 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:

	2014 US\$	2013 US\$
Loss on ordinary activities before tax	(2,705,232)	(3,491,077)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 21.5% (2013: 23.25%)	(581,625)	(811,675)
Effects of:		
Expenses non-deductible for tax purposes	518,243	301,899
Current year tax losses	119,494	569,832
Overseas tax rate difference from UK rate	22,049	(3,855)
Total income tax charge	<u>78,161</u>	<u>56,201</u>

### 8. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the loss attributable to equity holders of the company of US\$2,783,393 (2013: US\$3,547,278) by the weighted average number of ordinary shares in issue during the year, excluding own shares held, of 542,713,070 (2013: 391,315,205).

At 31 December 2014, own shares held amounted to 77,500,000 (2013:77,710,000) ordinary shares. The weighted average number of own shares held by the company during the year are not included in the weighted average ordinary shares in issue during the financial year.

## ACTIVE ENERGY GROUP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

#### 9. INTANGIBLE ASSETS

Group	Goodwill US\$	Contractual relationships US\$	Other US\$	Total US\$
<b>Cost</b>				
At 31 December 2012	-	2,936,252	362	2,936,614
Acquired in business combination	2,212,930	-	-	2,212,930
At 31 December 2013 and 2014	2,212,930	2,936,252	362	5,149,544
<b>Accumulated amortisation</b>				
At 31 December 2012	-	293,625	-	293,625
Charge for year	-	293,625	244	293,869
At 31 December 2013	-	587,250	244	587,494
Charge for year	-	293,625	118	293,743
At 31 December 2014	-	880,875	362	881,237
<b>Net book value</b>				
At 31 December 2014	2,212,930	2,055,377	-	4,268,307
At 31 December 2013	2,212,930	2,349,002	118	4,562,050
At 31 December 2012	-	2,642,627	362	2,642,989

#### Goodwill

Goodwill arises from the acquisition of Nikofeso. This business is a single cash generating unit ("CGU") and the asset has been reviewed to ascertain if it has been impaired. The review was based upon future income growth projections including further capital expenditure and the resultant cash generated was discounted. The review used management's forecasts for years one and two, an annual revenue growth rate of 20% from year three to six and no growth thereafter, a gross margin of 15%, annual overhead escalation of 10% from years two to six and a weighted cost of capital ("WACC") of 30%. No impairment was required. The projections were sensitised by both reducing the income growth rate to 15% and increasing the WACC to 35% and this would still not result in an impairment to the carrying value of the asset.

#### Contractual relationships

Contractual relationships comprise a supply contract granted by the Lyuboml Forestry, which is the administrator of the Lyuboml Forest in Ukraine. The remaining useful life on contractual relationships is assessed to be 45 years following the extension of the contract term during the year. The supply contract is treated as a CGU and future projections for the remaining life of the supply contract have been produced and the resultant cash generated was discounted. The review assumed a WACC of 30%. No impairment was recognised. The WACC would need to increase to 33% and cash flows decrease by 13% before an impairment would be recorded.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 10. PROPERTY, PLANT AND EQUIPMENT

Group	Plant and equipment US\$	Furniture and office equipment US\$	Total US\$
<b>Cost</b>			
At 31 December 2012	43,032	76,221	119,253
Acquired in business combination (Note 25)	78,314	11,315	89,629
Additions	192,309	14,250	206,559
Disposals	(87,174)	(77,558)	(164,732)
Foreign exchange difference	-	531	531
At 31 December 2013	226,481	24,759	251,240
Additions	702,655	25,741	728,396
Disposals	(149,327)	(388)	(149,715)
Foreign exchange difference	-	(633)	(633)
At 31 December 2014	779,809	49,479	829,288
<b>Accumulated depreciation</b>			
At 31 December 2012	43,032	75,134	118,166
Acquired in business combination (Note 25)	24,841	2,462	27,303
Charge for year	26,915	11,176	38,091
Disposals	(46,322)	(69,187)	(115,509)
Foreign exchange difference	-	449	449
At 31 December 2013	48,466	20,034	68,500
Charge for year	122,603	5,175	127,778
Disposals	(96,059)	(507)	(96,566)
Foreign exchange difference	-	(532)	(532)
At 31 December 2014	75,010	24,170	99,180
<b>Net book value</b>			
At 31 December 2014	704,799	25,309	730,108
At 31 December 2013	178,015	4,725	182,740
At 31 December 2012	-	1,087	1,087

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 10. PROPERTY, PLANT AND EQUIPMENT (continued)

<b>Company</b>	<b>Furniture and office equipment US\$</b>
<b>Cost</b>	
At 31 December 2012	8,490
Additions	2,018
Disposals	(2,191)
Foreign exchange difference	531
	<hr/>
At 31 December 2013	8,848
Additions	2,100
Foreign exchange difference	(633)
	<hr/>
At 31 December 2014	<u><u>10,315</u></u>
<b>Accumulated depreciation</b>	
At 31 December 2012	8,490
Charge for year	505
Disposals	(2,191)
Foreign exchange difference	449
	<hr/>
At 31 December 2013	7,253
Charge for year	1,944
Foreign exchange difference	(532)
	<hr/>
At 31 December 2014	<u><u>8,665</u></u>
<b>Net book value</b>	
At 31 December 2014	<u><u>1,650</u></u>
At 31 December 2013	<u><u>1,595</u></u>
At 31 December 2012	<u><u>-</u></u>

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 11. INVESTMENTS IN SUBSIDIARIES

	US\$
<b>Cost</b>	
At 31 December 2012	3,329,453
Additions through acquisition (Note 25)	1,920,268
Additions through incorporation	35,470
Foreign exchange translation difference	<u>210,241</u>
At 31 December 2013	5,495,432
Foreign exchange translation difference	<u>(318,632)</u>
At 31 December 2014	<u>5,176,800</u>
<b>Provision for impairment</b>	
At 31 December 2012	795,131
Foreign exchange translation difference	<u>16,491</u>
At 31 December 2013	811,622
Foreign exchange translation difference	<u>(47,059)</u>
At 31 December 2014	<u>764,563</u>
<b>Net book value</b>	
At 31 December 2014	<u>4,412,237</u>
At 31 December 2013	<u>4,683,810</u>
At 31 December 2012	<u>2,534,322</u>

At 31 December 2014 the Group's significant subsidiary undertakings were as follows:

Subsidiary undertaking	Country of incorporation	Nature of business	Percentage Holding
Cinpart EBT Limited	Hong Kong	Trustee	100
Active Energy Ukraine Limited	Ukraine	Wood chip processing and distribution	100
Nikofeso Holdings Limited	Cyprus	Wood chip distribution	100
Nikwood Company LLC*	Ukraine	Wood chip processing and distribution	100
Active Energy Trading (EMEA) SarL	Switzerland	Wood chip distribution	100
Active Energy Italia s.r.l.	Italy	Wood chip distribution	100
AEG Trading Limited	United Kingdom	Wood chip distribution	100
AEG Pelleting Limited	United Kingdom	BFE Fuel Solutions & Systems	100

\* denotes subsidiary is indirectly held

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 12. INVESTMENT IN ASSOCIATE

	2014	Group	Company	2013
	US\$	2013	2014	2013
	US\$	US\$	US\$	US\$
Contribution to Joint Venture arrangement	797,767	-	797,767	-
Share of loss for the year	(372,984)	-	-	-
Share of other comprehensive income for the year - translation of foreign operation	21,373	-	-	-
	<hr/>			
Carrying value at end of the year	446,156	-	797,767	-

During the year under review the Group acquired a 45% interest in a joint venture, KAQUO Forestry & Natural Resources Development Corporation (KAQUO), incorporated in Canada, to exclusively commercialise substantial forestry and agricultural land holdings belonging to the indigenous Métis Settlements of Alberta in Western Canada. KAQUO's initial focus is on optimising the value of the mature timberland and forestry assets on the land.

The contractual arrangement provides the Group with only the rights to the net assets, with the rights to the assets and obligation for liabilities of the arrangement resting primarily with KAQUO. In terms of the agreement certain control decisions vest with the KAQUO board of directors, which may not necessarily establish joint control by the respective parties. Under IAS 28 this arrangement is classified as an associate and has been included in the consolidated financial statements using the equity method.

Summarised financial information in relation to the joint venture is presented below:

	2014
	US\$
<b>At 31 December 2014</b>	
Current assets	16,131
Current liabilities	(797,767)
<b>Period ended 31 December 2014</b>	
Revenues	-
Loss for the year	(829,131)
Other comprehensive income	47,496
Total comprehensive income	(781,635)
Dividends received by Group from associate	-
Included in the above amounts are:	
Depreciation and amortisation	-
Interest income	-
Interest expense	2
Income tax expense	-



# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 13. AVAILABLE FOR SALE FINANCIAL ASSET

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
At beginning of the year	-	-	-	-
Additions	93,191	-	93,191	-
At end of the year	<u>93,191</u>	<u>-</u>	<u>93,191</u>	<u>-</u>

Available for sale assets consist of quoted equity instruments and is classified as non-current assets. Given the fact that the equity instruments are not actively traded, the assets have been valued with reference to the company's underlying net assets. There was no significant movement in fair value of the equity instruments since its acquisition during the year. The available-for-sale financial asset is denominated in Pound Sterling.

### 14. INVENTORIES

<b>Group</b>	<b>2014</b>	<b>2013</b>
	<b>US\$</b>	<b>US\$</b>
Raw materials	239,129	321,066
Finished goods and goods for resale	<u>287,769</u>	<u>1,099,817</u>
Total inventories	<u>526,898</u>	<u>1,420,883</u>

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to US\$13,071,570 (2013: US\$3,904,740).

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 15. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2014 US\$	2013 US\$	2014 US\$	2013 US\$
<b>Current</b>				
Trade receivables	1,006,314	247,866	-	-
Provision for impairment	(24,659)	(76,887)	-	-
Trade receivables – net	981,655	170,979	-	-
Amounts due from Group companies	-	-	4,465,383	3,233,212
Other receivables	1,497,632	252,682	17,191	312,278
VAT	58,389	30,770	35,209	30,770
Prepayments	313,006	419,437	9,339	27,959
<b>Total</b>	<b>2,850,682</b>	<b>873,868</b>	<b>4,527,122</b>	<b>3,604,219</b>

In the Directors' opinion the carrying values of trade and other receivables are stated at their fair value.

Trade and other receivables that have not been received within the payment terms are classified as overdue. As at 31 December 2014 trade receivables of US\$331,280 (2013: Nil, 2012: Nil) were overdue but not impaired. They relate to the customers with no default history. The ageing analysis of these receivables is as follows:

	2014 US\$	2013 US\$
Up to 3 months	-	-
3 to 6 months	315,781	-
More than 6 months	15,499	-
	<u>331,280</u>	<u>-</u>

As at 31 December 2014, Group trade receivables of US\$24,659 (2013: US\$76,887) were past due and impaired. The provision for impairment is analysed as follows:

	2014 US\$	2013 US\$
At beginning of the period	76,887	56,839
Provision utilised	(52,228)	(7,843)
Provision acquired on business combination	-	27,891
	<u>24,659</u>	<u>76,887</u>

An analysis of the Group's trade and other receivables classified as financial assets by currency is provided in Note 24.

## ACTIVE ENERGY GROUP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

#### 16. CASH AND CASH EQUIVALENTS

	Group		2014	2013
	2014	2013	2014	2013
	US\$	US\$	US\$	US\$
Cash in hand	336	185	336	185
Bank accounts	3,227,078	1,563,243	136,657	1,226,766
	<u>3,227,414</u>	<u>1,563,428</u>	<u>136,993</u>	<u>1,226,951</u>

#### 17. TRADE AND OTHER PAYABLES

	Group		Company	
	2014	2013	2014	2013
	US\$	US\$	US\$	US\$
<b>Current:</b>				
Trade payables	1,249,028	446,038	186,081	99,815
Social security and other taxes	10,699	34,161	-	1,522
Accruals and deferred income	365,916	318,602	356,739	265,124
Other payables	304,935	-	162	-
	<u>1,930,578</u>	<u>798,801</u>	<u>542,982</u>	<u>366,461</u>

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. Maturity analysis of the trade and other payables, excluding borrowings, classified as financial liabilities measured at amortised cost, is as follows (the amounts shown are undiscounted and represent the contractual cash-flows):

	Group		Company	
	2014	2013	2014	2013
	US\$	US\$	US\$	US\$
Less than three months	1,823,718	764,640	542,982	364,939
Three to 12 months	96,161	-	-	-
	<u>1,919,879</u>	<u>764,640</u>	<u>542,982</u>	<u>364,939</u>

An analysis of the Group's trade and other payables classified as financial liabilities by currency is provided in Note 24.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 18. 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 and the balance relates to deferred tax on fair value adjustments related to intangibles:

	<b>2014</b>	<b>2013</b>
	<b>US\$</b>	<b>US\$</b>
<b>Group</b>		
At beginning of the period	446,310	431,630
Effect of rate change	23,490	70,469
Reversal of temporary differences	(58,725)	(55,789)
	<hr/>	<hr/>
At the end of the period	<u>411,075</u>	<u>446,310</u>

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 not recognised amount to US\$2,419,286 (2013: US\$5,100,066) and US\$2,267,550 (2013: US\$3,982,728) for the Group and Company respectively.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 19. LOANS AND BORROWINGS

The book value and fair value of loans and borrowings are as follows:

Group	Book value	Fair value	Book value	Fair value
	2014	2014	2013	2013
	US\$	US\$	US\$	US\$
<b>Non-Current</b>				
Convertible debt	1,430,067	1,430,067	1,445,681	1,445,681
Unsecured loans	2,923,395	2,923,395	-	-
	<u>4,353,462</u>	<u>4,353,462</u>	<u>1,445,681</u>	<u>1,445,681</u>
<b>Current</b>				
Unsecured loans	1,739,130	1,739,130	-	-
	<u>1,739,130</u>	<u>1,739,130</u>	<u>-</u>	<u>-</u>
<b>Company</b>				
<b>Non-Current</b>				
Convertible debt	1,430,067	1,430,067	1,445,681	1,445,681
Unsecured loans	2,923,395	2,923,395	-	-
	<u>4,353,462</u>	<u>4,353,462</u>	<u>1,445,681</u>	<u>1,445,681</u>

#### Unsecured loans

On 10 April 2014, a significant shareholder of the Group granted an unsecured loan facility of up to US\$2 million at an interest rate of 15%. On 12 June 2014 a further interest free US\$1 million facility was granted. The fair value of the liability component at inception was calculated using a market rate of interest of 15% and the balance recorded in equity. These loans are for an indefinite period and require repayment notice of 366 days.

In addition, the Group entered into an unsecured loan facility of US\$1,739,130. The amount can be repaid at any time without penalty subject to a final repayment date on 31 December 2015. The loan is subject to a "participation fee agreement", which requires the Group to pay the lender US\$5 per metric tonne of woodchip contained in any shipment during the period between 1 July 2014 and 28 February 2015.

The rate reduces to US\$1 per metric tonne for the period from 1 March 2015 until the date of repayment. At inception, the effective interest rate was determined to be 56% based on forecast shipments and the expected repayment date. At the year end the estimates were revised and the carrying amount recalculated at the present value of estimated future cash flows discounted at the original effective interest rate.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 19. LOANS AND BORROWINGS (continued)

#### Convertible debt

In June 2013 the parent company issued 1,000,000 notes of 9% convertible loan at a face value of £1 each (US\$1.65). The loan is repayable in 3 years from the issue date at its total face value of £1,000,000 (US\$1,553,200) or can be converted at any time into shares at the holder's option at the rate of 1 share per 1.75 pence (2.72 US cent) of loan, and was issued together with warrants to subscribe for 19,047,619 shares at a price of 1.75 pence (2.72 US cent) within a three year period (see Note 21). The value of the liability component and the equity conversion component were determined at the date the instrument was issued.

The fair value of the liability component, included in non-current borrowings, at inception was calculated using a market interest rate for an equivalent instrument without conversion option. The imputed interest applied was 15%.

Maturity analysis of loan and borrowings is as follows (the amounts shown are undiscounted and represent the contractual cash-flows):

Group	Up to 3 months	Between 3 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Total
	US\$	US\$	US\$	US\$	
<b>At 31 December 2014</b>					
Convertible debt	-	-	1,553,200	-	1,553,200
Unsecured loans	-	1,739,130	4,353,462	-	6,092,592
	-	1,739,130	5,906,662	-	7,645,792
<b>At 31 December 2013</b>					
Convertible debt	-	-	-	1,648,800	1,648,800
<b>Company</b>					
	Up to 3 months	Between 3 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Total
	US\$	US\$	US\$	US\$	US\$
<b>At 31 December 2014</b>					
Convertible debt	-	-	1,553,200	-	1,553,200
Unsecured loans	-	-	2,923,395	-	2,923,395
	-	-	4,476,595	-	4,476,595
<b>At 31 December 2013</b>					
Convertible debt	-	-	-	1,648,800	1,648,800

## ACTIVE ENERGY GROUP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

#### 20. CALLED UP SHARE CAPITAL

	2014 Number	2014 US\$	2013 Number	2013 US\$
<b>Allotted, called up and fully paid</b>				
Ordinary shares of 1 pence each				
At 1 January	618,625,570	9,726,034	237,352,237	3,849,472
Shares issued for cash	450,000	7,619	203,660,000	3,131,099
Shares issued to settle liabilities	400,000	6,516	9,880,000	151,897
Shares issued to acquire an investment	2,000,000	34,158	-	-
Shares issued for JSOP Trustees	-	-	15,000,000	223,515
Share issue in relation to business combinations (Note 25)	-	-	62,500,000	960,885
Shares issued as Shares held in escrow	-	-	62,500,000	961,188
Conversion of Unsecured Loan Note	-	-	27,733,333	447,978
As at 31 December 2014	<u>621,475,570</u>	<u>9,774,327</u>	<u>618,625,570</u>	<u>9,726,034</u>

#### Shares issued for Cash

The Company issued 2,850,000 shares during the year for a total consideration of US\$108,160 as follows:

- 400,000 shares at 3.7US cent (2.2 pence) each in settlement of professional fees payable in December 2013. The shares were recorded at fair value and the excess over the extinguished liability was recorded as an expense to the income statement and included in the amount disclosed for the share based payment charge.
- In May 2014, 450,000 shares were issued at 1.7 US cent (1 pence) each in settlement of former employee share based payments.
- In July 2014, 2,000,000 shares were issued when the market price was 4.4US cent (2.6 pence) each pursuant to the acquisition of an investment in Alpha Prospects Plc, classified as available-for-sale financial asset (see Note 13).

During 2013 the following shares were issued:

On 27 June 2013, 203,660,000 ordinary shares of 1 pence each were issued at 1.8 US cent per share to fund the working capital of the new Group following the acquisition of Nikofeso. Attaching to the shares were warrants to subscribe for 67,886,665 ordinary shares of 1 pence each for a three year period from the date of the first anniversary at an exercise price of 1.25 pence per share. The proceeds received for the issue were allocated to the ordinary shares and warrant reserve in the same proportion as the fair value of the shares and warrants. Further details on the warrants are set out in Note 21.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 20. CALLED UP SHARE CAPITAL (continued)

#### Shares issued to settle liabilities

On 27 June 2013, 8,280,000 ordinary shares of 1 pence each were issued together with warrants to subscribe for 2,760,000 ordinary shares of 1 pence each for a three year period from the date of the first anniversary at an exercise price of 1.25 pence (1.94 US cent) per share, to settle liabilities to directors and employees of US\$159,173. The shares and warrants were recorded at fair value and the excess of US\$136,965 over the extinguished liability was recorded as an expense to the income statement and included in the amount disclosed for the share based payment charge.

On 10 July 2013, a further 1,600,000 ordinary shares of 1 pence each were issued to settle an outstanding liability for professional fees of US\$29,802. Similarly the shares were recorded at fair value and the excess of US\$26,941 over the extinguished liability was recorded as an expense to the consolidated income statement.

#### Shares issued under the Joint Share Ownership Plan ("JSOP")

On 4 July 2013 the Company issued 15,000,000 ordinary shares under the terms of the Company's newly established JSOP at a price of 1.25 pence (1.90US cent) per share. US\$11,179 was subscribed in cash by the beneficiary and US\$286,442 was advanced to the Trustees of the Plan in order that the shares were issued fully paid. To this extent the transaction was effectively cash neutral to the Company. See Note 21 for further details regarding the accounting treatment of these awards.

#### Shares issued in relation to business combinations

On 27 June 2013, 62,500,000 new ordinary shares of 1 pence each were issued together with warrants to subscribe for 12,500,000 ordinary shares of 1 pence each for three years from the date of the first anniversary at an exercise price of 3p (4.61US cent) per share. The shares and warrants were recorded at fair value. Further details on the warrants are set out in Note 21

#### Shares issued to escrow

In addition to the consideration shares noted above, a further 62,500,000 ordinary shares of 1 pence were issued into escrow on acquisition so as to be available to fulfil potential deferred contingent consideration. As the deferred contingent consideration was cancelled and recorded as a measurement period adjustment, the shares have been recorded at nominal value and included within the "own shares held" reserve.

#### Conversion of convertible loan notes

On 27 June 2013, the convertible loan notes that were recorded in equity due to the terms of the conversion rights attached to the notes, were converted into 27,733,333 ordinary shares of 1p each and warrants to subscribe for 9,244,444 ordinary shares of 1 pence each for a period of three years from the date of the first anniversary at an exercise price of 1.25 pence (1.92 US cent) per share. The fair value of consideration received for the loan notes of US\$498,331 was allocated to the ordinary shares and warrant reserve in the same proportion as the fair value of the shares and warrants with a minimum value ascribed to the ordinary shares of 1 pence each, being the nominal value. Further details on the warrants are set out in Note 21.



# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 21. SHARE OPTIONS AND WARRANTS

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 vest immediately with the exception of 40 million options which are based on market performance conditions. The number of warrants and share options exercisable at 31 December 2014 was 185,480,491 (2013: 185,930,491).

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

	2014		2013	
	Weighted average exercise price (US cent)	Number of Warrants and Share Options	Weighted average exercise price (US cent)	Number of Warrants and Share Options
Outstanding at beginning of the period	3.3	185,930,491	12.4	16,008,386
Granted	-	-	2.6	72,438,727
Exercised	1.6	(450,000)	-	-
Expired	-	-	13.7	(2,516,622)
Outstanding at end of the period	3.1	185,480,491	3.3	185,930,491

At 31 December 2014, the weighted average remaining contractual life of warrants and share options exercisable was 4.0 years (2013 – 5.0 years). There were no options granted in 2014. The weighted average fair value of options and warrants granted during 2013, estimated using the Black-Scholes option-pricing model was 3.1 US cent. The estimated fair values of options granted during 2013 were based on the following weighted average assumptions:

Option pricing model	Options Black Scholes 2013
Weighted average share price at date of grant	3.38 cent
Weighted average exercise price	2.47 cent
Expected life	3 years
Expected volatility	49.8%
Expected dividend yield	0%
Risk free interest rate	0.8%

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

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 21. SHARE OPTIONS AND WARRANTS (continued)

Options outstanding at 31 December 2014 were exercisable as follows:

Exercise price range (Pence, US cent in brackets)	2014 Number	2013 Number
1.000p (1.553 cent)	500,000	950,000
1.250p (1.942 cent)	119,891,108	119,891,108
1.500p (2.330 cent)	7,500,000	7,500,000
1.750p (2.718 cent)	19,047,619	19,047,619
3.000p (4.657 cent)	26,000,000	26,000,000
6.375p (9.902 cent)	1,823,480	1,823,480
7.000p (10.872 cent)	1,214,284	1,214,284
7.500p (11.649 cent)	9,000,000	9,000,000
20.000p (31.064 cent)	504,000	504,000
At the end of the period	185,480,491	185,930,491

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

#### JSOP awards

Under the JSOP, shares in the Company are jointly purchased at fair market value by the participating employee and the trustees of the JSOP trust, with such shares held in the JSOP trust. For accounting purposes the awards are valued as employee share options.

The JSOP trust holds the shares of the JSOP until such time as the JSOP shares are vested and the participating employee exercises their rights under the JSOP. The JSOP trust is granted an interest bearing loan by the Company in order to fund the purchase of its interest in the JSOP shares. The loan held by the trust is eliminated on consolidation in the financial statements of the Group. The Company funded portion of the share purchase price is deemed to be held in treasury until such time as the shares are transferred to the employee and is recorded as a reduction in equity in both the Group and Company financial statements.

The exercise price of the "option" is in effect the issue price of the shares as the employee only benefits from any subsequent uplift in the share price under the arrangement. The awards vest based on a market condition, which requires the shares to meet a specific share price hurdle, or a change in control condition, as defined by the plan. Under the JSOP and subject to the vesting of the employee's interest, the participating employee will, when the JSOP shares are sold, be entitled to a share of the proceeds of sale equal to the growth in market value of the JSOP shares versus the exercise price, less simple interest on the original share purchase price, net of executives' cash contribution at inception, as agreed for each grant (the "Carry Charge"). The balance of proceeds will remain to the benefit of the JSOP trust and be applied to the repayment of the loan originally made by the Company to the JSOP trust. Any funds remaining in the JSOP trust after settlement of the loan and any expenses of the JSOP trust are for the benefit of the Company.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 21. SHARE OPTIONS AND WARRANTS (continued)

The Group measures the fair value of the awards using Monte Carlo simulations and the share based payment expense is recorded over the expected life of the option. Having established the full value of the JSOP awards using the Monte Carlo simulation outlined above a deduction is made in respect of the anticipated Carry Charge in order that the expense recorded in the financial statements only represents the participating employee's net interest in the awards. No awards were made in 2014. The total fair value of the 2013 awards, after offsetting the Carry Charge, was US\$93,154. The Group recognised a charge of US\$16,339 (2013: US\$14,418) in the year ended 31 December 2014.

On exercise of the JSOP awards by the employee the Carry Charge due to the Company will be recognised as share premium, arising from the sale of shares held in escrow.

The Group granted 15 000,000 JSOP awards on 4 July 2013. The JSOP awards granted during 2013 contained a share price hurdle of 3p per share. None of the awards have vested in 2013 or 2014 and all remain outstanding at year end. The Group used the following assumptions for the 2013 JSOP awards:

	<b>2013</b>
Weighted average share price at date of grant	2.93 cent
Weighted average exercise price	1.93 cent
Expected life	3 years
Expected volatility	49.8%
Expected dividend yield	0%
Risk free interest rate	0.8%

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

The total charge for equity settled share based payments in the year ended 31 December 2014 was US\$266,557 (2013: US\$602,940), including an amount in 2013 of US\$112,475 in respect of shares issued to employees).

### 22. RESERVES

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

<b>Reserve</b>	<b>Description and purpose</b>
Share premium	Amounts subscribed for share capital in excess of nominal value
Merger reserve	Difference between fair value and nominal value of shares issued to acquire 90% or more interest in subsidiaries
Foreign exchange reserve	Gains/losses arising on retranslating the net assets of overseas operations into Pound Sterling
Own shares held reserve	Cost of own shares held by the employee benefit trust, the JSOP trust or the company as shares held in escrow
Convertible debt and warrant reserve	Equity component of the convertible loan and the fair value of equity component of warrants issued that do not form part of a share based payment
Retained earnings	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income

## ACTIVE ENERGY GROUP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

#### 23. NOTES SUPPORTING THE STATEMENT OF CASH FLOWS

Reconciliation of loss before taxation to cash outflows from operating activities

<b>Group</b>	<b>2014 US\$</b>	<b>2013 US\$</b>
Loss for the period	(2,783,393)	(3,547,278)
Adjustments for:		
Share of loss of associate	372,984	-
Share based payment expense	266,557	602,940
Depreciation	127,778	38,091
Amortisation of intangibles	293,743	293,869
(Profit)/loss on disposal of property, plant and equipment	(171)	49,223
Professional services settled through issue of shares	7,350	188,975
Finance income	(5,896)	(21,835)
Finance expenses	1,077,420	153,443
Income tax	78,161	56,201
	(565,467)	(2,186,371)
Decrease/(Increase) in inventories	893,985	(228,692)
(Increase)/Decrease in trade and other receivables	(1,976,814)	497,231
Increase/(Decrease) in trade and other payables	501,574	(1,915,747)
Net cash outflow from operating activities	(1,146,722)	(3,833,579)

<b>Company</b>	<b>2014 US\$</b>	<b>2013 US\$</b>
Loss for the period	(2,831,863)	(2,483,755)
Adjustments for:		
Share based payment expense	266,557	602,940
Depreciation	1,944	505
Professional services settled through issue of shares	7,350	188,975
Finance income	(5,896)	(21,835)
Finance expenses	666,015	101,132
	(1,895,893)	(1,612,038)
Increase in trade and other receivables	(922,903)	(3,044,317)
Increase in trade and other payables	(285,717)	420,058
Net cash outflow from operating activities	(3,104,513)	(4,236,297)

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 23. NOTES SUPPORTING THE STATEMENT OF CASH FLOWS (continued)

Significant non-cash transactions are as follows:

	2014	2013
	US\$	US\$
Equity consideration for available for sale asset acquisition	93,191	-
Equity consideration for operating expense settlements	7,350	188,975
Equity consideration for subsidiary acquisition	-	1,920,268
Conversion of convertible loan	-	447,978
Shares issued to escrow	-	961,188
Own shares held by JSOP	-	268,442

### 24. 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
- Available-for-sale financial assets
- Loans and borrowings

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 24. FINANCIAL INSTRUMENTS (continued)

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

	Group		Company	
	2014 US\$	2013 US\$	2014 US\$	2013 US\$
<b>Financial assets</b>				
<i>Loans and receivables</i>				
Cash and cash equivalents	3,227,414	1,563,428	136,993	1,226,950
Trade and other receivables	2,479,287	423,661	4,482,574	3,545,490
	5,706,701	1,987,089	4,619,567	4,772,440
<i>Available-for-sale financial asset</i>	93,191	-	93,191	-
Total financial assets	5,799,892	1,987,089	4,712,758	4,772,440
	Group		Company	
	2014 US\$	2013 US\$	2014 US\$	2013 US\$
<b>Financial liabilities</b>				
<i>Financial liabilities at amortised cost</i>				
Trade and other payables	1,919,879	764,640	542,982	364,939
Loans and borrowings	6,092,592	1,445,681	4,353,462	1,445,681
	8,012,471	2,210,321	4,896,444	1,810,620

#### Fair value measurement

A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value. The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

Level 1: Quoted prices in active markets for identical items (unadjusted)

Level 2: Observable direct or indirect inputs other than Level 1 inputs

Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item.

Transfers of items between levels are recognised in the period they occur.

The only financial asset carried at fair value consists of the available for sale financial asset, which is classified as level 3. Further information on its basis of valuation is presented in Note 13. Financial liabilities for which disclosures are set out in Note 19 are also classified as level 3.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 24. FINANCIAL INSTRUMENTS (continued)

#### Market Risk

##### Currency risk

The Group's financial risk management objective is broadly to seek to make neither profit nor loss from exposure to currency or interest rate risks. The Group is exposed to transactional foreign exchange risk and takes profits and losses as they arise, as in the opinion of the directors, the cost of hedging against fluctuations would be greater than the related benefit from doing so.

The carrying amounts of the Group's trade and other receivable financial instruments are denominated in the following currencies:

	Group		Company	
	2014	2013	2014	2013
	US\$	US\$	US\$	US\$
US Dollar	1,038,475	253,919	4,368,257	3,312,347
UK Pound Sterling	75,168	95,468	114,317	233,143
Euro	644,780	74,274	-	-
Ukrainian Hryvnia	720,864	-	-	-
	<u>2,479,287</u>	<u>423,661</u>	<u>4,482,574</u>	<u>3,545,490</u>

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2014	2013	2014	2013
	US\$	US\$	US\$	US\$
US Dollar	2,948,858	124,439	51,613	123,274
UK Pound Sterling	86,480	678,714	84,114	678,714
Euro	7,534	434,446	1,266	424,962
Ukrainian Hryvnia	184,542	325,829	-	-
	<u>3,227,414</u>	<u>1,563,428</u>	<u>136,993</u>	<u>1,226,950</u>

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 24. FINANCIAL INSTRUMENTS (continued)

The carrying amounts of the Group's trade and other payable financial instruments are denominated in the following currencies:

	Group			
	2014	2013	2014	2013
	US\$	US\$	US\$	US\$
US Dollar	1,216,548	302,096	-	-
UK Pound Sterling	542,658	171,909	542,982	364,939
Euro	16,477	154,404	-	-
Ukrainian Hryvnia	144,196	136,231	-	-
	<u>1,919,879</u>	<u>764,640</u>	<u>542,982</u>	<u>364,939</u>

The effect of a 5 per cent strengthening of the US Dollar at the reporting date on the foreign denominated financial instruments carried at that date would, all variables held constant, have resulted in a decrease in total comprehensive income for the period and reduced net assets by US\$22,946 (2013: US\$57,309). A 5 per cent weakening in the exchange rate would, on the same basis, have increased total comprehensive income and increased net assets by the same amount.

#### Interest rate risk

The Group and Company finances its operations through a mixture of equity introductions and loans. The Group and Company exposure to interest rate fluctuations on its borrowings has been limited by the terms of the Unsecured Loans described in Note 19, all of which bear fixed interest rates, or returns directly linked to operational output. The Directors monitor the shipment of woodchip quantities as part of its efforts to manage the group's exposure 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 15.

##### *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.



# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 24. FINANCIAL INSTRUMENTS (continued)

#### Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, the Group finances its operations through a mix of equity and borrowings. The Group's objective is to provide funding for future growth and achieve a balance between continuity and flexibility through loan and overdraft facilities. 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. Further disclosure of the Directors' consideration of going concern is included in note 1.

The Group had no bank loans or invoice finance facilities at 31 December 2014 (2013: Nil). The Group had no overdraft at 31 December 2014 (2013: 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

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.

## ACTIVE ENERGY GROUP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

#### 25. ACQUISITIONS DURING THE PREVIOUS YEAR

On 27 June 2013, the Group acquired 100% of the issued share capital of Nikofeso Holdings Limited. This acquisition is core to the Company's development strategy. The Directors' provisional fair value determination of the assets and liabilities acquired is set out in the table below.

	Book values at acquisition US\$	Fair value adjustments US\$	Fair value US\$
Property, plant and equipment	62,326	-	62,326
Inventories	1,192,191	-	1,192,191
Trade and other receivables	880,119	-	880,119
Cash and cash equivalents	104,076	-	104,076
Trade and other payables	(2,531,374)	-	(2,531,374)
Net liabilities acquired	(292,662)	-	(292,662)
<b>Fair value of consideration paid</b>			
Consideration satisfied by:			
Issue of shares (see note 20)			1,826,256
Issue of warrants (see note 21)			94,012
Total consideration			<u>1,920,268</u>
Goodwill (note 9)			<u><u>2,212,930</u></u>

Acquisition costs of US\$284,066 arose as a result of the transaction. These have been recognised as part of administrative expenses in the statement of comprehensive income.

Following a detailed review, management concluded that the separately identifiable intangible assets in respect of customer relationships and contractual relationships had negligible value. The main factor leading to the recognition of goodwill was the presence of certain intangible assets, such as the assembled workforce of the acquired entity, which do not qualify for separate recognition. The goodwill recognised will not be deductible for tax purposes.

Since the acquisition date, Nikofeso Group Holdings has contributed US\$8,042,723 to 2013 Group revenues and a loss US\$426,255 to 2013 Group losses.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 26. RELATED PARTY DISCLOSURES

Details of Director's remuneration are given in the Directors' Report.

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 made net cash advances to fellow Group companies of US\$1,232,171 (2013: US\$3,130,835).

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

	2014 US\$	2013 US\$
Amounts due from Group companies	4,465,383	3,233,212

During the year the Group advanced a loan of €30,000 to a company controlled by the Group's Chief Operations Officer, Matteo Girlanda. The amount is due to be repaid following the year end.

Trade payables included in the Group and the Company as at 31 December 2013 include an amount of US\$41,220 in respect of the fees payable to C W Hill, a former Director.

Included in loans and borrowing are unsecured loans with a recorded liability of \$2,923,395 (2013: US\$nil) with Gravendonck Private Foundation, a significant shareholder of the Group. Interest costs of US\$298,525 (2013: US\$nil) were recorded. Further details on these loans are set out in Note 19.

### 27. 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:

#### **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's 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.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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

#### **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.

#### **Determination of effective interest rate on participation loan**

In respect of the participation loan set out in note 19, determination of the effective interest rate requires significant judgement as a result of estimating the participation payment payable which in turn is driven estimates of the volumes of wood to be shipped. 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.

#### **Assessing the nature of joint arrangements and associates**

For all joint arrangements structured in separate vehicles the Group must assess the substance of the joint arrangement in determining whether it is classified as a joint venture or joint operation. This assessment requires the Group to consider whether it has rights to the joint arrangement's net assets (in which case it is classified as a joint venture), or rights to and obligations for specific assets, liabilities, expenses, and revenues (in which case it is classified as a joint operation). Factors the Group must consider include:

- Structure
- Legal form
- Contractual agreement
- Other facts and circumstances.

Where the Group holds less than 20% of voting rights in an investment but the Group has the power to exercise significant influence, such an investment is treated as an associate. More information is disclosed in note 12. In the opposite situation where the Group holds over 20% of voting rights (but not over 50%) and the Group does not exercise significant influence, the investment is treated as an available-for-sale investment. Details are given in note 13.

Upon consideration of these factors, the Group has determined that its joint arrangement structured through separate vehicles give it rights to significant influence and is therefore classified as an associate.

# **ACTIVE ENERGY GROUP PLC**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014**

### **28. CAPITAL COMMITMENTS**

At 31 December 2014 the Group had committed to acquire property, plant and equipment for a total amount of US\$684,342 (2013: US\$Nil).

### **29. SUBSEQUENT EVENTS**

On 9 April 2015, the Group announced that it had granted options over new ordinary shares to its CEO Richard Spinks, COO Matteo Girlanda, and CFO Brian Evans-Jones.

There are no other matters that occurred between the reporting date and the date of approval of these financial statements that the directors wish to draw attention to.

### **30. ULTIMATE CONTROLLING PARTY**

In the opinion of the directors there is no one ultimate controlling party.