Company Number 4981279

KP RENEWABLES PLC

REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2005

KP Renewables plc

Report and Financial Statements

For the year ended 31 December 2005

KP Renewables plc

Directors, Registered Office and Advisers

Directors	John Bryant - Non-executive Chairman Dr James Richard Watkins – Chief Executive Robert Franklin Smyth - Finance Director Stephen Mark Drummond - Non-executive Director Dr David Lindley OBE - Non-executive Director David Oliver Lloyd-Jacob CBE - Non-executive Director All of whose business address is at the Company's office: Boston House 69-75 Boston Manor Road Brentford Middlesex TW8 9JJ England
Company Secretary	Hugh Campbell Hamilton
Registered Office	Boston House 69-75 Boston Manor Road Brentford Middlesex TW8 9JJ England
Registered Number	Registered in England Number 4981279
Nominated Adviser	Deloitte & Touche LLP Stonecutter Court 1 Stonecutter Street London EC4A 4TR
Brokers	Libertas Capital Group PLC 16 Berkeley Street London W1J 8DZ The Share Centre Oxford House Oxford Road Aylesbury Bucks HP21 8SZ
Auditors	Moore Stephens LLP St Paul's House Warwick Lane London EC4M 7BP
Bankers	Barclays Bank PLC 1 Park Road Leeds LS1 5WU
Solicitors	Hunton & Williams 30 St Mary Axe London EC3A 8EP
Registrars	Computershare Investor Services PLC PO Box 859 The Pavilions Bridgewater Road Bristol BS99 7NH

KP Renewables plc

Chairman's Statement

2005 was a year of dramatic change for the company, marked by our admission to AIM at the end of July. Since that time, the company has been expanding its resource base, largely by the addition of specialist individual consultants. We have extended our office premises at Brentford and have entered 2006 with a structure in place to deliver the exciting growth prospects, which were outlined in our admission document.

We believe the renewables market continues to present a tremendous opportunity for the Company. It is becoming increasingly clear that the UK electricity industry is facing potential supply shortfalls. There has been much debate about the future of nuclear power and its role within the UK energy sector. However, we believe that without utilising the full potential of the renewables sector, the supply situation will become increasingly stretched.

The Group has produced a loss for the year of £1,939,380 after charging £244,000 in respect of share-based payments as required by IFRS 2. This is in line with the expectations at the time of our admission to AIM. It represents both an expansion of resource and early investment in a number of development projects.

A number of specific projects are now in the later stages of negotiation. These will contribute towards our 2006 objectives. However, delays in obtaining planning permission and grid connections are likely to result in the majority of those projects scheduled for completion in 2006 being delayed until 2007 and beyond.

As stated in its admission document, the company has always required additional funding to meet its longer-term objectives. To this end, approval for a capital increase was granted at an EGM in December 2005. Negotiations are ongoing with a number of potential equity providers, both in relation to corporate equity and specific project funding. In the short-term our parent company, Kwikpower International Plc, has agreed to support the company in respect of its funding requirements.

John Bryant
Chairman

Chief Executive's Review

Summary

Following a successful fund-raising, the Company was admitted to AIM in July 2005 and subsequently to the Frankfurt, Munich and Berlin stock exchanges in August 2005. Since admission, it has focused on developing projects through which renewable energy can be delivered, under the terms of the Power Purchase Agreements ("PPA"), to major power providers.

Market Opportunities

The major focus of the Company since admission has been on developing a technology independent portfolio of renewable energy projects, either on our own or in conjunction with third party co-developers. We call co-development with third parties our "Aggregation Strategy". The Aggregation Strategy assists small developers, who are frequently unable to negotiate favourable PPAs for their renewable energy projects. It also brings value to the utility (who is our counterparty) for which negotiation with small project developers is neither time nor cost effective. The period for nomination of projects under the PPA with British Gas Trading has now expired, however, the Company has sufficient capacity in its remaining PPA agreements to allow the rollout of more than 200MW of projects between now and mid-2008. In our opinion, the Aggregation Strategy has been shown to be successful and we are now working with a number of co-developers to bring renewables projects to market and are currently negotiating the finance to enable this to happen.

Business Development Agreements

RE3

On 24 November 2005, KPR and Resource, Recycling & Recovery Limited ("RE3") entered into a strategic alliance to develop up to 100MW of renewable biomass power stations in Northern Ireland and Ireland.

The projects will use the "Carbon Recycling" concept of diverting municipal, commercial and industrial waste from landfill using the steam treatment and recycling ("STAR") autoclave treatment of waste to create a bio- fibre feedstock suitable for the generation of renewable electricity.

RE3 has advised us that several sites are under evaluation. Once the acquisition of a suitable site has been finalised, RE3 will work with a contractor to construct the front-end recycling facility. Based on expected completion dates for the front-end we anticipate that the first commercial operations of renewable power generation on the back-end will commence operation in late 2007 - early 2008.

Wave Dragon

On 14 December 2005 KPR announced that it had entered into a JDA with Wave Dragon Limited ("Wave Dragon"), which provides a framework for the two-stage development, financing, construction and operation of up to 77MW of wave energy projects in Wales.

KPR announced on March 14, 2006 that the formal award letter for the £5m "Objective 1" grant from the Welsh European Funding Office had been received which would assist in funding development of the initial prototype 7MW Wave Dragon unit off the coast of West Wales.

Currently, PMSS (a specialist Consultancy) and six different consultants are working to complete seabed studies, (ecological and anchorage) seawater studies, a grid connection study (seabed, beach and onshore routing of connection), shipping movements, a fisheries assessment, a marine mammal assessment and a visual impact assessment which will form the basis of a final environmental impact assessment used as part of a formal submission for planning approval. These studies are ongoing and are expected to be completed sometime in the late autumn of 2006.

Living Buildings

On 9 March 2006, KPR announced that it had entered into a Project Development Agreement with Living Buildings Limited ("Living Buildings") to develop up to 15MW per year of small bio-fuel based power projects on industrial sites.

Chief Executive's Review (continued)

Market opportunities (continued)

The first project is based in Nottinghamshire, and will produce 1.2MW. The first stage of this project was operational on a trial basis in February 2006, producing power for the project customer's own use on site and full commercial operation of this initial project is expected in the third quarter 2006 It is anticipated that up to four additional projects will be jointly developed later in 2006.

Additional Opportunities

Under the Aggregation Strategy, the Company is currently in advanced negotiations with a number of third party co-developers for both Carbon Recycling/Biomass and wind projects. We believe these agreements should assist the Company in meeting its project development targets for 2007 and beyond.

Finance

Project finance

Financing for the above mentioned projects will be achieved through a combination of debt and equity invested in special purpose vehicles in which, it is intended, KPR will hold a stake of between 20% and 50%.

To this end, we announced on 1 February 2006 that, together with its majority shareholder, Kwikpower International plc ("KPI"), KPR had entered into an agreement with Marathon Capital LLC ("Marathon") of Illinois, USA, with the objective of raising £10 million of equity investment in KPR and £115 million of additional project finance to develop, build and acquire a portfolio of renewable energy projects in the UK and Europe.

The due diligence accompanying this fund raising process has been completed by Marathon, who is proposing to schedule meetings in mid-July at our UK offices with up to 10 qualified prospective investors who are interesting in investing in renewable projects in the UK and Europe.

Investment into the Company

As described in its circular to shareholders dated 25 November 2005, KPR is seeking further equity investment.

As above, the Company has been working with Marathon to complete the necessary due diligence and paperwork for an equity placing to raise up to £10 million from Marathon's institutional investor base. It intended that these funds will be utilised by KPR for both working and project development capital.

In addition, we are in discussions with other potential equity providers in relation to securing ongoing funding for the Company.

In the short-term, KPI has agreed to provide financial support in relation to the Company's funding requirements.

Conclusion

We strongly believe that KPR is well positioned within the renewables sector as a technology neutral aggregator and developer of independent green energy projects, which in turn, will allow us to generate value for our shareholders.

Dr James Watkins
Chief Executive

Report of the Directors

The directors present their report and the audited financial statements for the year ended 31 December 2005.

This is the first year in which the financial statements have been prepared under, and comply with, International Financial Reporting Standards. The Group has chosen to adopt International Financial Reporting Standards with effect from 1 January 2005. The comparatives are stated for the period from incorporation on 1 December 2003 to 31 December 2004 and will therefore not be directly comparable to the current period in respect of the income statement, statement of changes in equity, cash flow statement and related notes.

Principal Activities

The principal activity of the Company during the year was that of a holding company. The Company's subsidiary KP Renewables (Operations) Limited has entered into a number of framework power purchase agreements (to provide renewable energy) with major suppliers of electricity in the UK. At 31 December 2005 neither the Company nor any of its subsidiaries had commenced investment in trading projects, but had incurred management and overhead costs.

On 29 July 2005, following the raising of £3.9 million by way of an Offer for Subscription, the Company listed its entire issued share capital on the Alternative Investment Market ("AIM").

At 31 December 2005 the Company's principal risk was that of its ongoing administration funding through to June 2007. This is covered in more detail in note 2 (b) in the notes to the consolidated financial statements.

Results and Dividends

	£
The net loss after taxation for the year ended 31 December 2005 amounted to	1,939,380
Deficit brought forward	220,951
Deficit carried forward	£2,160,331

Directors and their Interests

The Directors who served the company during the period ended 31 December 2005 together with their beneficial interests, including family holdings, in the shares of the Company were as follows:

	Ordinary Shares of £0.01 each at 31 December			
	2005		**2004**	
	Number	%	Number	%
J Bryant	370,000	0.79	370,000	0.91
Dr J Watkins	-	-	-	-
R Smyth	850,000	1.82	-	-
D Lindley OBE	250,000	0.54	250,000	0.62
S Drummond	425,000	0.91	25,000	0.06
D Lloyd-Jacob CBE	300,000	0.64	300,000	0.74

Dr J Watkins is the ultimate controlling party, owning a majority of the issued shares of Kwikpower International plc, which company owned 34,000,200 shares in the Company at 31 December 2004 and at 31 December 2005, representing 84.06% and 72.98% of the issued share capital at those dates.

In accordance with the Company's Articles of Association, Dr J Watkins and Mr D Lloyd-Jacob CBE will retire at the Annual General Meeting, and seek re-election.

Report of the Directors (continued)

Significant shareholdings

Shareholders owning more than 3 per cent of the issued share capital at 31 December were:

	Ordinary Shares of £0.01 each			
	2005		2004	
	Number	%	Number	%
Kwikpower International plc	34,000,200	72.98	34,000,200	84.06
Rockstone Ventures Limited	2,707,465	5.81	2,707,465	6.69

Employees

The company has a written Equal Opportunities Policy that all employees will be given equal opportunity without prejudice or discrimination by reason of race, colour, nationality, religious belief, sex, sexual orientation, marital status, age, disability, national or ethnic origin, or any other criteria that cannot be shown to be justifiable.

The company operates an extensive, structured training programme supported by regular staff appraisals and encourages employees to obtain professional qualifications.

Regular staff presentations are held to inform all employees of the group's performance and communicate on key operational issues. Departmental meetings and regular newsletters support these.

Auditors

On 3 October 2005, Moore Stephens, the company's auditor, transferred its entire business to Moore Stephens LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Directors consented to treating the appointment of Moore Stephens as extending to Moore Stephens LLP with effect from 3 October 2005. A resolution to re-appoint Moore Stephens LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting.

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period. In preparing those accounts, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board
Hugh C Hamilton
Secretary

29 June 2006

Independent Report of the Auditors to the Members of KP Renewables plc

We have audited the group and parent company financial statements ("the financial statements") of KP Renewables plc for the year ended 31 December 2005 set out on pages 10 to 32. These financial statements have been prepared under the historical cost convention and the accounting policies set out on pages 17 and 18.

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

Respective Responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS") as adopted by the EU.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and whether, in addition, the group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent Report of the Auditors to the Members of KP Renewables plc

Opinion

In our opinion the financial statements

- *give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Group's and* the parent company's affairs as at 31 December 2005 and of the Group's and the parent company's result *for the period then ended; and*
- have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

As explained in note 2(a) to the group financial statements, the group in addition to complying with its legal obligation to comply with IFRS as adopted by the European Union, has also complied with the IFRS as issued by the International Accounting Standards Board.

In our opinion the group financial statements give a true and fair view, in accordance with IFRS, of the state of the group's affairs at 31 December 2005 and of its loss for the year then ended.

Emphasis of Matter: Going Concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in Note 2(b) of the financial statements concerning the financial position of the Group, and the provision of funding by the parent *company. In view of the significance of the uncertainty over the timing and provision of funding, we consider that it* should be drawn to your attention.

Moore Stephens LLP

St. Paul's House
London, EC4M 7BP

MOORE STEPHENS LLP

Registered Auditor
Chartered Accountants

29 June 2006

KP Renewables plc

Consolidated Balance Sheet at 31 December 2005

	Note	2005 £	2004 £
ASSETS			
Non-current assets			
Goodwill		-	514,791
Investment on product development	10	217,796	-
		217,796	514,791
Current assets			
Trade and other receivables	12	1,023,974	88,220
Cash and cash equivalents		1,100,181	10,740
		2,124,155	98,960
Total assets		2,341,951	613,751
EQUITY AND LIABILITIES			
Share capital	14	465,897	404,464
Share option reserve	15	244,000	-
Share premium	15	3,734,347	273,578
Accumulated losses	15	(2,160,331)	(220,951)
Total equity		2,283,913	457,091
Current liabilities			
Trade and other payables	13	58,038	156,660
Total current liabilities		58,038	156,660
Total equity and liabilities		2,341,951	613,751

Approved by the Board on 29 June 2006

Dr J B Watkins - Director

R F Smyth - Director

KP Renewables plc

Consolidated Income Statement
For the year ended 31 December 2005

	Note	2005 £	13 months from 1 December 2003 to 31 December 2004 £
Administrative expenses and operating loss		(1,968,099)	(220,951)
Investment income	7	30,267	-
Interest paid	7	(1,548)	-
Loss for the year	5	(1,939,380)	(220,951)

Consolidated Statement of Changes in Equity
For the year ended 31 December 2005

	Share Capital	Share premium account	Share option reserve	Accumulated losses	Total
	£	£	£	£	£
Balance at 1 December 2003	2	-	-	-	2
Changes in equity for 13 months to 31 December 2004					
Loss for the period	-	-	-	(220,951)	(220,951)
Issue of share capital	404,462	273,578	-	-	678,040
Balance at 31 December 2004	404,464	273,578	-	(220,951)	457,091
Changes in equity for 2005					
Loss for the year	-	-	-	(1,939,380)	(1,939,380)
Issue of share capital	61,433	4,510,435	-	-	4,571,868
Costs of issue of shares	-	(1,049,666)	-	-	(1,049,666)
Equity share options	-	-	244,000	-	244,000
Balance at 31 December 2005	465,897	3,734,347	244,000	(2,160,331)	2,283,913

KP Renewables plc

Consolidated Cash Flow Statement
For the year ended 31 December 2005

	Note	2005 £	13 months from 1 December 2003 to 31 December 2004 £
Net cash flow from operating activities			
Cash flow from operating activities	17	(1,362,104)	(219,701)
Interest paid		(1,548)	-
		(1,363,652)	(219,701)
Movement in working capital			
(Increase) in receivables		(315,754)	(65,630)
(Decrease)/increase in payables		(78,622)	136,664
Net cash used in operating activities		(1,758,028)	(148,667)
Cash flows from investing activities			
Interest received		30,267	-
Acquisition of subsidiary		-	14,367
Net cash from investment activities		30,267	14,367
Cash flows from financing activities			
Loan from parent		(20,000)	50,000
Proceeds from issue of share capital		2,837,202	95,040
Net cash from financing activities		2,817,202	145,040
Net increase in cash		1,089,441	10,740
Cash and cash equivalents at beginning of year		10,740	-
Cash and cash equivalents at end of year		1,100,181	10,740

KP Renewables plc

Balance Sheet at 31 December 2005

	Note	2005 £	2004 £
ASSETS			
Non-current assets			
Investments	11	345,000	345,000
		345,000	345,000
Current assets			
Trade and other receivables	12	1,349,973	270,438
Cash and cash equivalents		1,095,459	5,712
		2,445,432	276,150
Total assets		2,790,432	621,150
EQUITY AND LIABILITIES			
Share capital	14	465,897	404,464
Share option reserve	15	244,000	-
Share premium	15	3,734,347	273,578
Accumulated losses	15	(1,711,850)	(208,521)
Total equity		2,732,394	469,521
Current liabilities			
Trade and other payables	13	58,038	151,629
Total current liabilities		58,038	151,629
Total equity and liabilities		2,790,432	621,150

Approved by the Board on 29 June 2006

Dr J R Watkins - Director

R F Smyth - Director

KP Renewables plc

Income Statement
For the year ended 31 December 2005

	Note	2005 £	13 months from 1 December 2003 to 31 December 2004 £
Administrative expenses and operating loss		(1,532,048)	(208,521)
Investment income	7	30,267	-
Interest paid	7	(1,548)	-
Loss for the year	5	(1,503,329)	(208,521)

Statement of Changes in Equity
For the year ended 31 December 2005

	Share Capital £	Share *premium* account £	Share *option* reserve £	*Accumulated* losses £	Total £
Balance at 1 December 2003	2	-	-	-	2
Changes in equity for 13 months to 31 December 2004					
Loss for the period	-	-	-	(208,521)	(208,521)
Issue of share capital	404,462	273,578	-	-	678,040
Balance at 31 December 2004	404,464	273,578	-	(208,521)	469,521
Changes in equity for 2005					
Loss for the year	-	-	-	(1,503,329)	(1,503,329)
Issue of share capital	61,433	4,510,435	-	-	4,571,868
Costs of issue of shares	-	(1,049,666)	-	-	(1,049,666)
Equity share options	-	-	244,000	-	244,000
Balance at 31 December 2005	465,897	3,734,347	244,000	(1,711,850)	2,732,394

KP Renewables plc

Cash Flow Statement
For the year ended 31 December 2005

	Note	2005 £	13 months from 1 December 2003 to 31 December 2004 £
Net cash flow from operating activities			
Cash flow from operating activities	17	(1,223,048)	(207,271)
Interest paid		(1,548)	-
		(1,224,596)	(207,271)
Movement in working capital			
(Increase) in receivables		(459,539)	(270,438)
(Decrease)/increase in payables		(73,587)	100,379
Net cash from used in operating activities		(1,757,722)	(377,330)
Cash flows from investing activities			
Interest received		30,267	-
Investment in subsidiary		-	(345,000)
Net cash used in investment activities		30,267	(345,000)
Cash flows from financing activities			
Loan from parent		(20,000)	50,000
Proceeds from issue of share capital		2,837,202	678,042
Net cash from financing activities		2,817,202	728,042
Net increase in cash		1,089,747	5,712
Cash and cash equivalents at beginning of year		5,712	-
Cash and cash equivalents at end of year		1,095,459	5,712

KP Renewables plc

Cash Flow Statement
For the year ended 31 December 2005

Material non-cash transactions

During the year the Group had the following material non-cash transactions:

Under the terms of a deed of novation agreement entered into on 2 July 2004 by Kwikpower International plc, the Company, KP Renewables (Operations) Limited and CO2e.com Limited, the Company issued 400,000 Ordinary Shares to CO2e.com Limited on 15 August 2005 at the subscription price of 125p in settlement of sums due for advanced brokerage commission amounting to £500,000. This sum has been included within prepayments.

Under the terms of a marketing agreement entered into on 16 May 2005 between Kwikpower International plc and BizzEnergy Limited, the Company issued 148,000 Ordinary Shares on 16 August 2005 at the subscription price of 125p in full and final settlement of sums due in respect of marketing services to KP Renewables (Operations) Limited amounting to £185,000. Of this sum £65,000 has been charged within administration costs and £120,000 included within prepayments.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2005

1. **General Information**

KP Renewables plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 2. The company is a holding company and the group was established to provide renewable energy services.

These financial statements are presented in pounds sterling because that is the currency in which the Group operates.

2. **Principal Accounting Policies**

(a) *Basis of preparation*

The financial statements have been prepared under the historical cost convention and to comply with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The group has chosen to adopt IFRS with effect from 1 January 2005.

The group has adopted all new and revised Standards and Interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to the group's operations and effective for accounting periods beginning on 1 January 2005.

(b) Going Concern

The directors are aware that significant revenues from projects entered into are not anticipated until 2007 and that the existing cash resources of the group will expire in August 2006. The group's parent company is currently undertaking a fund-raising exercise which is expected to generate significant funding, both equity and project based, however this is unlikely to be concluded until July 2006. There is one potential investor which, the directors understand has given approval at credit committee level, with funding to be considered at its full Board level. There are other investors, who, whilst positive, are yet to formally commit to funding.

The parent company Board has confirmed that it believes that the fund raising will be successful and has provided the company with a facility to draw an inter-company loan of £500,000 through to 30 June 2007. The parent company Board has confirmed that it has the financial resources to provide this facility. The directors anticipate that this funding will be followed by the provision of further project funding.

Another shareholder of the company has also provided a facility to draw a loan of £500,000 through to 30 June 2007.

The directors consider that these facilities will be sufficient to enable the company to operate through to 30 June 2007, meeting its liabilities as they fall due.

As set out in note 19 the company and its parent company are subject to a claim, however the directors of the company and its parent company do not consider that any financial liability will arise.

On the basis of the above the directors consider it appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would be needed if the going concern basis is inappropriate.

(c) Basis of consolidation

The consolidated balance sheet and income statement include the financial statements of the Company and its subsidiaries made up to 31 December 2005. Subsidiary undertakings acquired are accounted for using the purchase method and their results are included in the financial statements from the dates of acquisition.

(d) Goodwill

Goodwill on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, associate or jointly-controlled entity at the date of acquisition. Goodwill is recognised as an asset and is tested for impairment annually, or on such other occasions that events or change in circumstances indicate that it might be impaired.

Goodwill arising on the acquisition of an associate is included within the carrying value of the associate. Goodwill arising on the acquisition of subsidiaries and jointly-controlled entities is presented separately in the balance sheet.

Goodwill arising on acquisitions before the date of the transition to IFRS has been retained at the previous UK GAAP amounts and re-categorised as an investment on product development, subject to being tested for impairment at that date.

(e) Research and development costs

Research and development costs are only recognised as an asset from the date when it is virtually certain that a fuel supply project will commence and that project is expected to result in future net cash inflows with a present value no less than all amounts recognised as an asset.

All other research costs are written off as incurred.

(f) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable result for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on all temporary differences which result in an obligation to pay more tax, or a right to pay less tax in the future, at rates which are expected to apply when they crystallise based on current tax rates and applicable law. Deferred tax assets are recognised only to the extent that it is more likely than not that there will be suitable taxable profits from which future reversals of the underlying differences can be deducted.

(g) Pensions

The company contributes to personal pension plans according to the arrangements agreed with employees. Contributions to employees' personal pension arrangements during the period are charged to the profit and loss account as incurred.

(h) Leasing

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their useful life. The interest element of the rental obligation is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals under operating leases are charged to the income statement on a straight line basis over the term of the lease.

(i) Cash and cash equivalents

Cash and cash equivalents comprises cash in hand and short-term deposits with a maturity of less than three months with any qualifying financial institution.

(j) Revenue Recognition

Revenue comprises the value of services supplied by the group, exclusive of value added tax, in respect of renewable energy operations carried out during the year.

(k) Share Based Payments

The Group has applied the requirements of IFRS 2 Share-based Payments in respect of payments made to certain employees. Equity-settled share-based payments are measured at fair value at the end of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Share-based payments, issued on the termination of employment, have been written off immediately.

Fair value is measured by use of a binomial model adjusted for a volatility factor.

(l) Power Purchasing Contract Development Costs

Power purchasing development costs are recognised as pre-contract costs and will be written-off against the income generated under the power purchasing agreements on the basis of power sales to third parties. The write-off will be at the rate of 2% of power sales.

3. Turnover

During the year neither the Company nor any of its subsidiaries had any trading income but had incurred management and overhead costs.

4. Critical Accounting Judgements

On an ongoing basis, the group evaluates its estimates using historical experience, consultation with experts and other methods considered reasonable in the particular circumstances. Actual results may differ significantly from the estimates, the effect of which is recognised in the period in which the facts that give rise to the revision become known.

The group's ability to recover its investment on product development and prepayments in respect of advance commission is dependent on its ability to finance and invest in renewable energy projects, which will supply the power providers with whom the company has contracts.

5. Operating Loss

The operating loss is stated after charging:

	2005 £	13 months from 1 December 2003 to 31 December 2004 £
Auditors remuneration - non audit services	3,000	-
- audit services	15,800	4,400
Research costs	437,660	-
Impairment of investment on product development	296,995	-

6. **Directors and Employees**

Directors' emoluments

	2005 £	13 months from 1 December 2003 to 31 December 2004 £
Amounts paid in respect of qualifying service	451,999	43,333
Share-based payments	244,000	-
Amounts paid to former directors	211,026	-
Social security cost	17,443	5,147
Pension costs	25,666	-
	950,134	48,480

Amounts paid to former directors

The amount of £211,026 was paid to former directors, P Taylor, R McGrigor and E Delamer House, all of whom resigned during 2004, following the receipt of funds from the raising of equity finance and the admission of the company's shares to AIM.

Share-based payments charges amounting to £244,000 are in respect of former directors (see note 14).

Highest paid director

	2005 £	13 months from 1 December 2003 to 31 December 2004 £
Emoluments	141,167	23,333
Social security cost	17,443	2,786
Payments made to defined contribution pension Arrangements	25,666	-
	184,276	26,119

During the year ended 31 December 2005 Mr R F Smyth was paid £141,167, which includes the arrears of £90,750 paid following the raising of equity financing and admission of the company's shares to AIM.

6. Directors and Employees - continued

Employees

The average monthly number of persons employed by the company including executive directors, during the period analysed by activity, was as follows:

By Activity	2005 Number	13 months from 1 December 2003 to 31 December 2004 Number
Operations	-	-
Administration	4	3

The employment costs of all employees included above were:

	2005 £	13 months from 1 December 2003 to 31 December 2004 £
Amount paid to former directors	211,026	-
Share-based payments	244,000	-
Wages and salaries	490,222	43,333
Social security cost	21,975	5,147
Pension costs	25,995	-
	993,218	48,480

The Group contributes to personal pension schemes on behalf of certain employees. The schemes are administered independently of the Group. The total pension cost, which is charged to the Income Statement, represents contributions payable by the Group and amounted to £25,995 (2004 - £nil).

Upon receipt of funds from the issue of shares in 2005, further salary costs became payable in respect of contractual obligations for which the benefit was received during the 13 months ended 31 December 2004. These costs were charged to the Income Statement in 2005.

7. Income from investments

	2005 £	13 months from 1 December 2003 to 31 December 2004 £
Interest receivable on bank deposits	30,267	-
Interest payable	(1,548)	-
	28,719	-

8. **Taxation**

No charge to taxation arose due to the losses incurred during the year.

At 31 December 2005, the Group had a deferred tax asset (using a tax rate of 30%) of approximately £648,000, (2004 - £66,000) in respect of unused tax losses. In view of the fact that the group currently has no income generating activities the directors do not consider it appropriate to recognise this asset.

9. ***Earnings per share***

	2005	**13 months from 1 December 2003 to 31 December 2004**
Loss for the financial year attributable to ordinary shareholders	£1,939,380	£220,951
Basic losses per share	0.04p	0.01p

Basic losses per share has been calculated by dividing the loss for the financial year attributable to shareholders by 43,524,396 being the weighted average number of shares in issue during the year (2004 - 26,087,559). The impact of shares held in option schemes has not been disclosed as this would be anti-dilutive.

10. **Non-current assets**

Group

Cost	Goodwill £	Investment on product development £
At 31 December 2003	-	-
Recognised on acquisition of a subsidiary	514,791	-
At 31 December 2004	514,791	-
Transfer	(514,791)	514,791
At 31 December 2005	-	514,791
Accumulated impairment losses		
At 1 December 2003 and 31 December 2004	-	-
Charge for the year	-	296,995
At 31 December 2005	-	296,995
Net book value		
At 31 December 2005	-	£217,796
At 31 December 2004	£514,791	-

The amount of £514,791 arose on the purchase of KP Renewables (Operations) Limited on 31 March 2004.

Following review of its portfolio of power purchase agreements the board decided not to renew the contract with Centrica to supply 300 mega watts of power. The result of this has been an impairment loss of £296,995.

11. Investments

Company	£
At 31 December 2003	-
on acquisition of a subsidiary	345,000
At 31 December 2004 and 2005	345,000

The subsidiary undertakings of the Company during the year were:

Name	*Parent Company*	*Country of Incorporation*	*Principal Activity*	*Effective proportion of shares held*
KP Renewables (Operations) Limited	KP Renewables plc	England	Holding company	100%
KP Bioenergy Holding Limited	KP Renewables (Operations) Limited	England	Holding company	100%
KP Wind Holdings Limited	KP Renewables (Operations) Limited	England	Holding company	100%
KP Snodland Power Limited	KP Bioenergy Holding Limited	England	Renewable energy	100%
KP Crayford Power Limited	KP Bioenergy Holding Limited	England	Renewable energy	100%
North Otter Windfarm Limited	KP Wind Holdings Limited	England	Renewable energy	100%
Lephinmore Windfarm Limited	KP Wind Holdings Limited	England	Renewable energy	100%

Of these companies, only KP Renewables (Operations) Limited had incurred expenses at 31 December 2005. Further details are set out below. The other subsidiaries all had an issued share capital of £2 represented by either cash or amounts due from parent undertaking.

The Company had acquired the whole of the issued share capital of KP Renewables (Operations) Limited on 31 March 2004 from the Company's ultimate parent undertaking, Kwikpower International plc (a Gibraltar company), in consideration for the issue of 34,500,000 ordinary shares of 1p each in the Company at par. The cost of the acquisition was £345,000, based on the directors' valuation of the fair value at that time.

12. Trade and other receivables

	Group		*Company*	
	2005	**2004**	**2005**	**2004**
	£	**£**	**£**	**£**
Amount owed by subsidiary	-	-	1,191,145	182,218
Amount owed by parent undertaking	40,576	-	45,430	-
Other debtors – rent deposit	16,000	14,000	16,000	14,000
Prepayments	925,455	61,896	55,455	61,896
Other receivables	41,943	12,324	41,943	12,324
	£1,023,974	£88,220	£1,349,973	£270,438

The prepayment of £925,455 includes non-refundable advanced commission expenditure on projects in development, amounting to £870,000 at 31 December 2005, which will be charged against income generated from the supply of power.

13. Trade and other payables

	Group		Company	
	2005	**2004**	**2005**	**2004**
	£	**£**	**£**	**£**
Loan from parent company	-	20,000	-	20,000
Amount owed to parent company	-	44,850	-	44,500
Accruals and other payables	58,038	91,810	58,038	87,129
	£58,038	£156,660	£58,038	£151,629

14. Share Capital

	2005 Number	2005 £	2004 Number	2004 £
Authorised				
Ordinary shares of 1p each	100,000,000	1,000,000	75,000,000	750,000
Allotted, called up and fully paid				
Ordinary shares of 1p each	46,589,662	465,897	40,446,374	404,464

Authorised

On incorporation, the Company had an authorised share capital of £50,000 divided into 50,000 ordinary shares of £1 each, of which 2 ordinary shares of £1 each were issued at par. On 20 December 2003 the £1 shares were sub-divided into 1p shares, creating 5,000,000 authorised ordinary shares of 1p each and 200 issued ordinary shares of 1p each; furthermore, the authorised share capital of the Company was increased by £700,000 to £750,000, resulting in 75,000,000 authorised ordinary shares of 1p each.

The authorised share capital of the Company was increased on 13 May 2005 by £250,000 to £1,000,000, resulting in a total of 100,000,000 authorised ordinary shares of 1p each.

Allotted, Called Up and Fully Paid

The following shares have been issued by the company:

	Ordinary **Shares of £1** *Number*	*Ordinary* **Shares of 1p** *Number*
At 1 December 2003	2	-
Subdivision at 1p shares	(2)	200
31 March 2004		
Issued on acquisition of KP Renewables (Operations) Limited		34,500,000
Issued during the year		5,946,174
At 31 December 2004	-	40,446,374
Issued preceding IPO		3,133,064
Issued on IPO		3,010,224
At 31 December 2005		46,589,662

The weighted average price of shares issued in 2004 was 2p, with a maximum and minimum of 72.3p and 1p respectively.

The weighted average price of shares issued in 2005 was 76p, with a maximum and minimum of 125p and 1p respectively.

14. **Share Capital - continued**

Shareholder Entitlement

All shares rank equally in respect of all shareholder rights.

Share Options

At 31 December 2005 the company had the following unexercised share options:

Granted under the Company Share Option Plan

Number	Price	Exercise Dates
600,000	1p	17 June 2004 to 16 June 2009
850,000	1p	5 July 2006 to 4 January 2010
116,474	125p	29 July 2008 to 28 July 2015

Granted to a Supplier

200,000	125p	29 July 2005 to 28 July 2010

In addition an employee has an option to acquire 349,422 shares at the market price on 28 July 2006, exercisable between 29 July 2009 and 28 July 2016.

The share options, other than those granted to a supplier, disclosed above were issued conditional on the company's flotation on AIM, the price of the company's shares at that date being 125p per ordinary share. Those issued for 1,450,000 shares were granted to directors on their resignation and accordingly have been charged to the Income Statement in full in 2005.

The options issued over 116,474 and 349,422 shares has been granted to a current employee.

The options, granted under the company share option plan were valued on the basis of the market price at the time the option was granted and were calculated using the binomial method with a 75% volatility, covering the period to exercise cessation date. The expected volatility was estimated on the basis of the share price history subsequent to floatation. The risk free interest rate was assessed at the yield on a gilt edged security with a maturity term of either 5 or 10 years, with the further assumption of no dividend yield. The options were valued at prices up to 17.2p per share, the charge for the year being £244,000.

15. Reserves

Group	Retained Earnings / (losses) £	Share Premium £	Share Option Reserve £
Loss in the period from incorporation to 31 December 2004	(220,951)	-	-
Ordinary shares issued in the year	-	273,578	-
At 31 December 2004	(220,951)	273,578	-
Loss for the period	(1,939,380)	-	-
Ordinary shares issued in the year	-	4,510,435	244,000
Costs of issue of shares	-	(1,049,666)	-
At 31 December 2005	£(2,160,331)	£3,734,347	£244,000

Company	£	£	£
Loss in period from incorporation to 31 December 2004	(208,521)	-	-
Ordinary shares issued in the year	-	273,578	-
At 31 December 2004	(208,521)	273,578	-
Loss for the period	(1,503,329)		
Ordinary shares issued in the year	-	4,510,435	244,000
Costs of issue of shares	-	(1,049,666)	-
At 31 December 2005	£(1,711,850)	£3,734,347	£244,000

16. Reconciliation of Movement in Shareholders' Funds

	2005 £	2004 £
Loss on ordinary activities after tax	(1,939,380)	(220,951)
Net proceeds of issues of new share capital	3,522,202	678,040
Share option reserve	244,000	-
	1,826,822	457,089
Opening shareholders' funds	457,091	2
Closing shareholders' funds	£2,283,913	£457,091

17. Net cash outflow from operating activities

	Group		Company	
	2005	**2004**	**2005**	**2004**
	£	**£**	**£**	**£**
Operating loss	(1,968,099)	(220,951)	(1,532,048)	(208,521)
Impairment loss	296,995	-	-	-
Share-based payments	244,000	-	244,000	-
Administration costs paid by issue of shares	65,000	1,250	65,000	1,250
Net cash outflow from operating activities	£(1,362,104)	£(219,701)	£(1,223,048)	£(207,271)

18. Reconciliation of net cash flow to movement in net funds

	Group		Company	
	2005	**2004**	**2005**	**2004**
	£	**£**	**£**	**£**
Increase in cash for the period	1,089,441	10,740	1,089,747	5,712
Net funds at 31 December 2004	10,740	-	5,712	-
Net cash flow from operating activities	£1,100,181	£10,740	£1,095,459	£5,712

Analysis of movements in net funds:

	At 1 January 2005	**Cash Flows**	**At 31 December 2005**
	£	**£**	**£**
Cash	10,740	1,089,441	1,100,181
	£10,740	£1,089,441	£1,100,181

19. ***Contingent Liabilities***

Under the terms of an agreement entered into on 2 December 2004 between the Company and Partner Capital Limited (formerly Crosby Partners Limited), the Company agreed to pay the balance of commission fees outstanding, up to a maximum amount of £120,900, to be paid from additional funds raised from any source subsequent to the IPO in July 2005.

Under the terms of an agreement between the Company and Mr R McGrigor, a former director of the Company who resigned on 10 August 2004, an amount of £9,002 will become payable, for past services as a director, contingent on the successful raising of additional funds subsequent to the IPO in July 2005.

Under the terms of an agreement between the Company and Mr P Taylor, a former director of the Company who resigned on 10 August 2004, an amount of £12,602 will become payable, for past services as a director, contingent on the successful raising of additional funds subsequent to the IPO in July 2005.

Following the successful raising of equity finance by the Company a further payment, in the amount of £10,000 may become payable to Mr P Carey, a former director of the Company who resigned on 28 February 2005, for past services as a director.

The Company has been notified of a claim against Kwikpower International plc by CO2e.com Limited. It has been asserted by CO2e.com Limited that the Company is jointly and severally liable in respect of the claim. The amount claimed by CO2e.com Limited to be currently due is £250,000. CO2e.com Limited has also asserted that the Company will be jointly and severally liable for a claim which will not be determinable and which will not fall due until January 2007 at the earliest but which is currently estimated at £380,000. The Company has received legal advice that it has no such joint and several liability.

Under these arrangements the company has agreed to pay brokerage fees to Kwikpower International plc, as a percentage of revenue earned under its power purchase agreements, to a maximum value of £250,000.

The company has issued a letter of support to enable one subsidiary to continue to trade as a going concern.

20. **Related party transactions**

Period to 31 March 2004

On 31 March 2004, the Company acquired KP Renewables (Operations) Limited from Kwikpower International plc, the Company's parent undertaking, for £345,000, issuing 34,500,000 ordinary shares of 1p each at par.

During the period 31 March 2004 (date of acquisition by the Company) to 31 December 2004, KP Renewables (Operations) Limited incurred costs totalling approximately £7,000 in connection with a services agreement with Kwikpower International plc. This agreement provided for the services of, *inter alia*, Dr James Watkins, a director of the Company. This agreement was terminated on 30 April 2004 and replaced by an agreement between the Company and Kwikpower International plc (see below). At 31 December 2004, the liability had been settled in full.

Prior to its acquisition by the Company, KP Renewables (Operations) Limited collected cash totalling £206,750 on behalf of the Company. As a result of the foregoing, and certain other transactions between the Company and KP Renewables (Operations) Limited, at 31 March 2004, the date of acquisition, the Company was owed £194,274 by KP Renewables (Operations) Limited.

Period from 1 April 2004 to 31 December 2004

The Company was charged £64,000 by Kwikpower International plc in respect of management charges, in accordance with a service agreement, which commenced on 1 May 2004. At 31 December 2004, £44,500 remained outstanding. This agreement provides for the services of *inter alia*, Dr J Watkins, a director of the Company.

The Company was charged £35,000 by a fellow subsidiary undertaking, Kwikpower Management Services Limited in respect of the rental of offices. Other charges resulted in £36,647 remaining outstanding as at 31 December 2004.

20. Related party transactions - continued

Period from 1 April 2004 to 31 December 2004 - continued

Kwikpower International plc loaned the Company £50,000 on an interest free, unsecured basis, repayable on the Company's successful raising of equity finance. On 31 December 2004 £30,000 of this loan was converted into 3 million ordinary shares of 1p each, issued at par; these shares were subsequently transferred to an external third party. The balance outstanding at 31 December 2004 of £20,000 was repaid during 2005.

Year Ended 31 December 2005

The Company was charged £166,417 by Kwikpower International plc in respect of management charges, in accordance with a service agreement, which commenced on 1 May 2004. At 31 December 2005, £nil remained outstanding. This agreement provides for the services of, *inter alia* Dr J Watkins, a director of the Company.

Included in the management charges by Kwikpower International plc were consultancy services, carried out by Mr C Moore in accordance with a service agreement, which commenced on 28 May 2004, up-dated on 20 April 2005.

This agreement provides for consultancy services by Renewable Energy Development Limited, of, *inter alia*, Mr C Moore a consultant of Kwikpower International plc and a director of Renewable Energy Development Limited, which is a shareholder of the company.

Dr G Fairbairn, who is a key employee of the Company, is also a director of Renewable Energy Development Limited.

CO2e.com Limited charged the Company £250,000 (2004 - £nil), which monies were paid on 9 August 2005, following the Company's successful listing on AIM. In addition, shares with a total value of £500,000 were issued to CO2e.com Limited. Mr Steve Drummond, a Non-executive Director of the company, is a director of and a shareholder in CO2e.com Limited.

Partner Capital Limited (formerly Crosby & Partners), a company in which Mr Peter O'Kane, a past Non-executive Director of the Company from 5 May 2004 to 18 August 2004, charged the Company, as a director, £201,500, which monies became payable on the Company's successful listing on AIM. Of this sum a balance of £120,900 has not been paid, but, as such, is included within contingent liabilities (see note 19).

During the year ended 31 December 2005, the Company was charged £30,950 by Lindley Associates Limited, in respect of consultancy services to the Company by Dr D Lindley OBE, a Non-executive Director of the Company and a director of Lindley Associates Limited.

21. Parent undertaking and controlling party

The Company's immediate parent undertaking is Kwikpower International plc, a company incorporated in Gibraltar.

The ultimate controlling party is Dr James Watkins, a director of the Company.

22. Operating lease commitments

At 31 December 2005, the Group and the Company had a licence agreement with a fellow subsidiary undertaking (which in turn has a rental agreement with the freeholder of the Group's premises) for the licence to occupy offices for which £96,000 is payable within one year. Subsequent to the year-end, based on the contract entered into, the Company is committed to pay rent totalling £117,000 (£9,000 per month until 31 January 2007).

23. Derivatives and other financial instruments

The group financial instruments comprise bank accounts and various items such as trade receivables and payables that arise directly from its operations. The group does not enter into any derivative transactions and has minimal exposure to exchange rate movement as its trade takes place entirely within the United Kingdom.

At the year end the group held bank accounts with two institutions, with funds on deposit attracting interest at a rate of 4.16% per annum.

The fair value of the group's financial assets and liabilities at 31 December 2005 is as stated in the balance sheet at that date.

24. New standards and interpretations not in force

New standards and interpretations

IFRS 6	Exploration and evaluation of mineral resources
IFRS 7	Financial instruments: disclosure
IFRIC 4	Determining whether an arrangement contains a lease
IFRIC 5	Rights to interest arising from decommissioning, restoration and environmental rehabilitation funds
IFRIC 6	Liabilities arising from participating in a specific market - waste electrical and electronic equipment
IFRIC 7	Applying the restatement approach under IAS 29

Revisions to existing standards

IAS 29	Changes re the fair value option
IAS 1	Changes re capital disclosures

The directors do not anticipate the new standards and interpretations, or the revisions to existing standards, to have any impact on the primary financial statements. However:

IFRS 7	This standard will require additional disclosures concerning the group's and the company's financial instruments, to enable users of the financial statements to appreciate the financial risks to which the group and the company are subject. This standard is effective for accounting periods beginning on or after 1 January 2007.
IAS 1	The revisions to the standard will require additional disclosures, both qualitative and quantitative, concerning the capital of the group and company. The revisions to this standard are effective for accounting periods beginning on or after 1 January 2007.