Company Number 4981279

KP RENEWABLES PLC

REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2006

KP Renewables Plc

Report and Financial Statements

For the year ended 31 December 2006

	Pages
Directors, Registered Office and Advisers	2
Chairman's Statement	3
Report of the Directors	5
Statement of Directors' Responsibilities	7
Auditors' Report	8
Consolidated Balance Sheet	10
Consolidated Income Statement	11
Consolidated Statement of Changes in Equity	11
Consolidated Cash Flow Statement	12
Company Balance Sheet	13
Company Income Statement	14
Company Statement of Changes in Equity	14
Company Cash Flow Statement	15
Material non-cash transactions	16
Notes to the Consolidated Financial Statements	17

KP Renewables Plc

Directors, Registered Office and Advisers

Directors	John Bryant - Chairman David Lindley OBE Peter Redmond Richard Armstrong
Registered Office	7th Floor Aldermary House 10-15 Queen Street London EC4N 1TX
Company Secretary	Aldermary Secretaries Limited
Registered Number	Registered in England Number 4981279
Nominated Adviser and Broker	Libertas Capital Group PLC 16 Berkeley Street London W1J 8DZ
Auditors	Moore Stephens LLP St Paul's House Warwick Lane London EC4M 7BP
Bankers	Barclays Bank PLC 1 Park Road Leeds LS1 5WU
Solicitors	Bircham Dyson Bell LLP 50 Broadway London SW1H 0BL
Registrars	Computershare Investor Services PLC PO Box 859 The Pavilions Bridgewater Road Bristol BS99 7NH

KP Renewables Plc

Chairman's Statement

Shareholders will already be aware that the year to 31 December 2006 was a particularly difficult one for the company As I explained in my Interim Statement for the period to 30 June 2006, refinancing problems that arose during the year led to the suspension of the company's shares and eventually to serious questions as to whether the company could survive As a result, it was decided that the only way to retain some residual value and some hope of future recovery for creditors and shareholders was to put the company through a Company Voluntary Arrangement ("CVA") and to restructure and refinance the company on that basis

The terms of the CVA and refinancing were outlined in my Interim Statement and more fully set out in the Circular to Shareholders dated 16 March 2007 I am pleased to report that the CVA was approved by creditors and shareholders and, following the restructuring of the company's share capital, a placing took place through which £750,000 was eventually raised, as opposed to £575,000 as indicated in the Interim Statement

As a result, the company is now able to revive its business plan, seek to resuscitate existing projects and to identify new opportunities principally in the renewable energy field, albeit at this stage at a relatively low-key level The company continues to have the benefit of an experienced team with strong connections in the renewables field, both at Board and consultants' level, and is confident of identifying new and viable businesses and projects in the coming months The Board believes that, with increasing interest in this sector and with the help of advisers and brokers, the company will be in a good position to raise the necessary finance as and when such viable propositions are identified

I should meanwhile explain in greater detail the background and reasons for the problems experienced in 2006 Good progress was made in the early months of the year in terms of identifying suitable opportunities for investment and development, and the company entered into a number of significant development agreements The Chief Executive's Report for the year to 31 December 2005 identified a range of potentially large and exciting projects in which the company was involved However, it was also made clear that progressing these opportunities would require additional financing and that this was being actively sought at the time of the announcement of the 2005 results in June 2006 The company's development programme was in fact severely restricted by shortage of funds As I explained in the Interim Statement, this was in large part attributable to the illness and subsequent death of the company's founder and Chief Executive Officer, Dr James Watkins, who had been leading the fund raising efforts

The Board remained hopeful that the company could generate value from its portfolio of projects while continuing negotiations for the injection of new capital However, in the absence of new investment, the Board concluded that there were insufficient resources to devote to these projects to bring them to fruition Indeed, the financial uncertainties surrounding the company were such that, on 21 September 2006, the Board requested that the company's shares be suspended from trading on AIM pending a decision on refinancing

In the months following the suspension, the Board, with the active assistance of its advisers, conducted a review of all the available options, including the sale of the company's interest in certain projects and further negotiations for new investment, and concluded that the only route forward for creditors and shareholders was to propose a CVA as referred to above, whereby the creditors of the company would be asked to materially compromise the amounts owed to each and, conditional on the creditors agreeing to be so compromised, to raise new equity capital

The creditors and shareholders of the Company approved the proposed CVA, which was put to them on 10 April 2007 Under the terms of the CVA, creditors will now receive either a payment of 4p in the £ in cash or, at the option of individual creditors, a cash payment of 2p in the £ plus an allotment of shares to the equivalent value of 2p in the £ As I explained in my Interim Statement, those creditors of the Company who elected for the cash and shares option are entitled to 60% of any net proceeds which may flow from the existing portfolio of projects over a three year period on a pro rata basis, subject to a maximum of 100% of each creditor's CVA claim

KP Renewables Plc

Further to the approval of the CVA, the company completed a placing to raise £750,000 The details of the reorganisation of the share capital and the placing were given in my Interim Statement and are summarised in the Post Balance Sheet Events note in these accounts The placing was effected at 1p per share in the consolidated form, resulting in the issue of 75,000,000 shares After taking account of the issue of a further 6,500,000 in settlement of related costs, the number of shares in issue is 83,829,483

The results for the period under review, which reveal a loss before tax of £2 88m, are largely of academic interest in view of the events described above The loss was exacerbated by the need to make a charge of £1 1m against assets that the Board considered no longer had any value This charge principally related to pre-payments made in respect of the Power Purchase Agreements ("PPAs") referred to in the Chief Executive's Report for the year ended 31 December 2005 In view of the fact that two of the PPAs expired during 2006 and the remaining one contained provisions for cancellation in the event of a company administration and in any case would require substantial investment well beyond the level now or at any time available to the Company, it was thought appropriate to make a full provision against the carrying value of the PPAs and the related intangible asset

David Lloyd-Jacob, Stephen Drummond and Paul Goodrow resigned as directors shortly before the events described above I am pleased to inform you that Peter Redmond and Richard Armstrong, who advised the company on its reorganisation and assisted in the fundraising, joined the Board on completion of the steps taken to place the company on a firmer footing Mr Redmond and Mr Armstrong both have extensive experience in the small cap sector of AIM and have particular experience in restructuring and relaunching smaller quoted companies that have fallen into difficulties I am pleased to report that Dr David Lindley, who has wide experience and expertise in the renewables sector, will remain on the Board and I will continue as Chairman

The company will continue to operate in the renewable energy sector and the immediate priority of the Board will be to attempt to crystallise value from some of the existing projects in a cost effective manner There is a portfolio of eight biomass and thirteen wind projects where the Company had entered into development agreements The company is reviewing these projects to establish whether they can be profitably revived Although it is too early to comment in detail, the Directors are confident that some of them will in due course bear fruit It has always been part of the company's strategy to develop certain projects to a point where they could be "sold on" and this in the short term will continue, both in relation to existing projects and in relation to certain new projects that the Directors are beginning to investigate While the company's business will initially be limited in scale, it is likely to be in shareholders' best interests for consideration to be given either to a significant further fund raising to support investment in a sizable project or to the acquisition of another larger business The Directors will be actively considering these alternatives in the coming months

To all intents and purposes, the company has now been relaunched and your Board hopes to build some value both for previous and for new shareholders Accordingly, the Directors will propose a change of name to Clear Skies Energy Plc at the forthcoming Annual General Meeting of the company, a notice of which is enclosed with these accounts

I would like to take this opportunity to thank shareholders for their continued support The Board is confident that it will now be able to progress the development of the business of the company, building on the stability achieved in recent months

Signed by David Lindley OBE
For and on behalf of John Bryant
Chairman
28 June 2007

KP Renewables Plc

Report of the Directors

The directors present their report and the audited financial statement for the year ended 31 December 2006

Principal Activities

The principal activity of the company during the year was that of a holding company, with a strategy to establish a leading position in the United Kingdom renewable energy sector The company's subsidiary KP Renewables (Operations) Limited entered into a number of framework power purchase agreements (to provide renewable energy) with major suppliers of electricity in the United Kingdom At 31 December 2006 neither the company nor any of its subsidiaries had commenced investment in trading projects to supply power in respect of these agreements, but had incurred management and overhead costs

The activities for the year are described in the Chairman's Statement on page 3 Given that the group has failed to generate any trading revenue, the directors consider the provision of key performance indicators as neither relevant nor useful

Results and Dividends

	£
The net loss after taxation for the year ended 31 December 2006 amounted to	(2,866,079)
Deficit brought forward	(2,160,331)
Deficit carried forward	(5,026,410)

Change in Directors

The following appointment and resignations have occurred subsequent to 31 December 2005

R Smyth	- Resigned on 2 August 2006
W Goodrow	- Appointed 4 August 2006 and - Resigned 14 March 2007
DR J Watkins	- Deceased on 28 October 2006
S Drummond	- Resigned on 14 March 2007
D Lloyd-Jacob CBE	- Resigned on 14 March 2007
P Redmond	- Appointed 10 April 2007
R J Armstrong	- Appointed 10 April 2007

J Bryant and D Lindley OBE remained as directors throughout the period

Directors Interests

The directors who served the company at 31 December 2006 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			
	2006		2005	
	Number	%	Number	%
J Bryant	370,000	0 79	370,000	0 79
D Lindley OBE	250,000	0 54	250,000	0 54
S Drummond	25,000	0 05	425,000	0 91
D Lloyd-Jacob CBE	300,000	0 64	300,000	0 64
W Goodrow	-	-	-	-

No director at 31 December 2006 had been granted share options during either period

Subsequent to the year end, the directors' interests changed in accordance with the CVA, details of which are given in the Chairman's Statement

At 31 December 2006 the estate of Dr James Watkins (a director until his death on 28 October 2006), through Castle Trust Management Services Limited, controlled the company

In accordance with the company's Articles of Association, J Bryant and D Lindley OBE will retire at the Annual General Meeting, and seek re-election P Redmond and R Armstrong who were appointed subsequent to the year end will also seek re-election at the Annual General Meeting

Significant shareholdings

Following the CVA, capital reorganisation and fund raising, details of which are given in the Chairman's statement, shareholdings in excess of 3% as at 26 June 2007, were as follows

	Ordinary shares of £0 01 each	%
Merchant House Group Limited	5,000,000	5 96
Libertas Captial Ventures Fund	5,000,000	5 96
David Newton	5,000,000	5 96
Ezenet Limited	3,000,000	3 58
Wolf Martinick	3,000,000	3 58
John Bryant	2,518,500	3 00

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

A resolution to reappoint Moore Stephens LLP as auditors will be put to the Annual General Meeting

Each of the persons who are directors at the time when this report is approved has confirmed that

(a) so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) each director has taken all the steps that ought to have been taken as a director, including making appropriate enquiries of fellow directors and the company's auditors for that purpose, in order to be aware of any information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information

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
On behalf of Aldermary Secretaries Limited
Secretary

28 June 2007

Independent Auditors' Report 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 2006 which are set out pages 10 to 31 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (United Kingdom and Ireland)("IAS")

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 financial statements This other information comprises only the Directors' Report and Chairman's Statement We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (United Kingdom 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 judgments 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 Auditors' Report to the Shareholders of KP Renewables Plc (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's and the parent company's affairs as at 31 December 2006 and of the group's and parent company's loss for the year then ended, and

- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation, and

- the information given in the Directors' Report is consistent with the financial statements

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 its ability to generate trading revenues In view of the significance of the uncertainty over the timing and provision of additional funding, we consider that it should be drawn to your attention

St Paul's House
Warwick Lane
LONDON EC4M 7BP

Moore Stephens LLP
Registered Auditors
Chartered Accountants

28 June 2007

KP Renewables Plc

Consolidated Balance Sheet at 31 December 2006

	Note	2006 £	2005 £
ASSETS			
Non-current assets			
Goodwill	10	-	-
Investment on product development	10	-	217,796
		-	217,796
Current assets			
Project development costs		13,505	-
Trade and other receivables	12	38,380	1,023,974
Cash and cash equivalents		12,436	1,100,181
		64,321	2,124,155
Total assets		64,321	2,341,951
EQUITY AND LIABILITIES			
Share capital	14	465,897	465,897
Share option reserve	15	244,000	244,000
Share premium	15	3,734,347	3,734,347
Accumulated losses	15	(5,026,410)	(2,160,331)
Total equity		(582,166)	2,283,913
Current liabilities			
Trade and other payables	13	646,487	58,038
Total equity and liabilities		64,321	2,341,951

The financial statements on pages 10 to 31 were approved by the Board on 28 June 2007

P Redmond - Director

D Lindley - Director

KP Renewables Plc

Consolidated Income Statement
For the year ended 31 December 2006

	Note	2006 £	2005 £
Administrative expenses and operating loss	5	(2,876,102)	(1,968,099)
Investment income	7	10,023	30,267
Interest paid		-	(1,548)
Loss for the year		(2,866,079)	(1,939,380)
Loss per share	9	6 15p	4 46p

Consolidated Statement of Changes in Equity
For the year ended 31 December 2006

	Share Capital £	Share premium account £	Share option reserve £	Accumulated losses £	Total £
Balance at 31 December 2004	404,464	273,579	-	(220,951)	457,092
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)	2,283,914
Changes in equity for 2006					
Loss for the year	-	-	-	(2,866,079)	(2,866,079)
	465,897	3,734,347	244,000	(5,026,410)	(582,166)

KP Renewables Plc

Consolidated Cash Flow Statement
For the year ended 31 December 2006

	Note	2006 £	2005 £
Net cash flow from operating activities			
Cash flow from operating activities	16	(2,658,306)	(1,362,104)
Interest paid		-	(1,548)
		(2,658,306)	(1,363,652)
Movement in working capital			
Increase in project development costs		(13,505)	-
Decrease in receivables		985,594	(315,754)
Increase in payables		588,449	(78,622)
Net cash used in operating activities		(1,097,768)	(1,758,028)
Cash flows from investing activities			
Interest received		10,023	30,267
Acquisition of subsidiary		-	-
Net cash from investment activities		10,023	30,267
Cash flows from financing activities			
Loan from parent		-	(20,000)
Proceeds from issue of share capital		-	2,837,202
Net cash from financing activities		-	2,817,202
Net decrease in cash		(1,087,745)	1,089,441
Cash and cash equivalents at beginning of year		1,100,181	10,740
Cash and cash equivalents at end of year		12,436	1,100,181

KP Renewables Plc

Company Balance Sheet at 31 December 2006

	Note	2006 £	2005 £
ASSETS			
Non-current assets			
Investments	11	-	345,000
		-	345,000
Current assets			
Project development costs		13,505	-
Trade and other receivables	12	38,380	1,349,973
Cash and cash equivalents		12,436	1,095,459
		64,321	2,445,432
Total assets		64,321	2,790,432
EQUITY AND LIABILITIES			
Share capital	14	465,897	465,897
Share option reserve	15	244,000	244,000
Share premium	15	3,734,347	3,734,347
Accumulated losses	15	(5,021,452)	(1,711,850)
Total equity		(577,208)	2,732,394
Current liabilities			
Trade and other payables	13	641,529	58,038
Total current liabilities		641,529	58,038
Total equity and liabilities		64,321	2,790,432

The financial statements on pages 10 to 31 were approved by the Board on 28 June 2007

P Redmond - Director

D Lindley - Director

KP Renewables Plc

Company Income Statement
For the year ended 31 December 2006

	Note	2006	2005
		£	£
Administrative expenses and operating loss		(3,319,625)	(1,532,048)
Investment income		10,023	30,267
Interest paid		-	(1,548)
Loss for the year		(3,309,602)	(1,503,329)

Company Statement of Changes in Equity
For the year ended 31 December 2006

	Share Capital	Share premium account	Share option reserve	Accumulated losses	Total
	£	£	£	£	£
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
Changes in equity for 2006					
Loss for the year	-	-	-	(3,309,602)	(3,309,602)
	465,897	3,734,347	244,000	(5,021,452)	(577,208)

KP Renewables Plc

Company Cash Flow Statement
For the year ended 31 December 2006

	Note	2006 £	2005 £
Net cash flow from operating activities			
Cash flow from operating activities	16	(2,974,625)	(1,223,048)
Interest paid		-	(1,548)
		(2,974,625)	(1,224,596)
Movement in working capital			
Increase in project development costs		(13,505)	-
Decrease in receivables		1,311,593	(459,539)
Increase in payables		583,491	(73,587)
Net cash from used in operating activities		(1,093,046)	(1,757,722)
Cash flows from investing activities			
Interest received		10,023	30,267
Investment in subsidiary		-	-
Net cash used in investment activities		10,023	30,267
Cash flows from financing activities			
Loan from parent		-	(20,000)
Proceeds from issue of share capital		-	2,837,202
Net cash from financing activities		-	2,817,202
Net increase in cash		(1,083,023)	1,089,747
Cash and cash equivalents at beginning of year		1,095,459	5,712
Cash and cash equivalents at end of year		12,436	1,095,459

KP Renewables Plc

Cash Flow Statement
For the year ended 31 December 2006

Material non-cash transactions

During the year ended 31 December 2005 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

During the year ended 31 December 2006 the group had no material non-cash transactions

Notes to the Consolidated Financial Statements
For the year ended 31 December 2006

1 General Information

KP Renewables Plc is a company incorporated in England and Wales 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 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 2006

(b) Going Concern

Subsequent to the year end the company entered into a CVA process, in addition to which £750,000 of new equity funding was raised Whilst this is sufficient to enable the company to continue in existence for the foreseeable future it is not sufficient to enable the company to invest in renewable energy projects, which will be income-generating It is the intention of the Board to secure funding opportunities over the next year, however there is no certainty of success

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 2006 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 was retained at the previous UK GAAP amounts and re-categorised as an investment on product development, subject to being tested for impairment

2 Principal Accounting Policies (Continued)

(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

2 Principal Accounting Policies (Continued)

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

3 Turnover

During the year neither the company nor any of its subsidiaries had any trading income but 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 has been dependent on its ability to finance and invest in renewable energy projects, which will supply the power providers with whom the company has contracts The balances were written off during the year

5 Operating Loss

The operating loss is stated after charging

	2006 £	2005 £
Auditors remuneration - non audit services - taxation	2,000	-
- audit services	20,000	18,800
Impairment of investment on product development and write-off of related advance commission expenditure	1,087,796	296,995

6 Directors and Employees

Directors' emoluments

	2006 £	2005 £
Amounts payable in respect of qualifying service	259,736	451,999
Share-based payments	-	244,000
Amounts paid to former directors	-	211,026
Social security cost	6,453	17,443
Pension costs	11,000	25,666
	277,189	950,134

Amounts paid to former directors

During the year ended 31 December 2005 £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

Of the emoluments charged in respect of the directors in 2006 £121,721 was unpaid at the year end and at the date of the company Voluntary Arrangement

Highest paid director

	2006 £	2005 £
Fees or emoluments	108,333	141,167
Social security cost	-	17,443
Payments made to defined contribution pension arrangements	-	25,666
	108,333	184,276

During the year ended 31 December 2005 the highest paid director was paid £141,167, which included arrears of £90,750 paid following the raising of equity financing and admission of the company's shares to AIM

Of the fees charged in 2006, £66,667 was unpaid at both the year and the date of the CVA

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	2006 Number	2005 Number
Administration	2	4

The employment costs of all employees included above were

	2006 £	2005 £
Amount paid to former directors	-	211,026
Share-based payments	-	244,000
Wages and salaries	400,840	490,222
Social security cost	27,992	21,975
Pension costs	30,575	25,995
	459,407	993,218

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 £30,575 (2005 - £25,995)

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

	2006 £	2005 £
Interest receivable on bank deposits	10,023	30,267
Interest payable	-	(1,548)
	10,023	28,719

8 **Taxatıon**

No charge to taxatıon arose due to the losses ıncurred durıng the year

At 31 December 2006, the group had a deferred tax asset (usıng a tax rate of 30%) of approxımately £1,500,000, (2005 - £648,000) ın respect of unused tax losses In vıew of the fact that the group currently has lımıted ıncome generatıng actıvıtıes the dırectors do not consıder ıt approprıate to recognıse thıs asset

9 **Loss per share**

	2006	**2005**
Loss for the fınancıal year attrıbutable to ordınary shareholders	£2,866,079	£1,939,380
Basıc losses per share	6 15p	4 46p

Basıc losses per share has been calculated by dıvıdıng the loss for the fınancıal year attrıbutable to *shareholders by 46,589,663 beıng the weıghted average number of shares ın ıssue durıng the year* (2005 - 43,524,396) The ımpact of shares held ın optıon schemes has not been dısclosed as thıs would be antı-dılutıve

10 **Non-current assets**

Group

	Investment on product development £
Cost	
At 1 January 2005, 31 December 2005 and 2006	514,791
Accumulated ımpaırment losses at	
At 31 December 2004	-
Charged ın the year	296,995
At 31 December 2005	296,995
Charged ın the year	217,796
At 31 December 2006	514,791
Net book value	
At 31 December 2006	-
At 31 December 2005	217,796

The amount of £514,791 arose on the purchase of KP Renewables (Operations) Limited on 31 March 2004
During the year ended 31 December 2005, following a 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 was an impairment loss of £296,995

During the year ended 31 December 2006 the board concluded that the power purchase agreements no longer had any value to the group The result of this was a further impairment charge of £217,796

The impairment losses have been charged within administration expenses

11 Investments

Company	£
At cost	
At 31 December 2004, 2005 and 2006	345,000
Impairment charge made in 2006	(345,000)
Net book value at 31 December 2006	-

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 2006 The other subsidiaries all had an issued share capital of £2 represented by either cash or amounts due from parent undertaking It is the Board's intention to strike off the other subsidiaries in 2007

12 Trade and other receivables

	Group		Company	
	2006	**2005**	**2006**	**2005**
	£	**£**	**£**	**£**
Amount owed by subsidiary	-	-	-	1,191,145
Amount owed by parent undertaking	-	40,576	-	45,430
Other debtors – rent deposit	-	16,000	-	16,000
Prepayments	8,280	925,455	8,280	55,455
Other receivables	30,100	41,943	30,100	41,943
	38,380	1,023,974	38,380	1,349,973

The payment of £925,455, carried forward at 31 December 2005 included non-refundable advance commission expenditure on projects in developments, amounting to £870,000 This was written off in 2006, the group having failed to both commence projects to generate power under the related contracts and also raise new finance to commence such projects

13 Trade and other payables

	Group		Company	
	2006	**2005**	**2006**	**2005**
	£	**£**	**£**	**£**
Amount owed to parent company	4,859	-	-	-
Accruals and other payables	641,628	58,038	641,529	58,038
	646,487	58,038	641,529	58,038

14 Share Capital

	2006 Number	2006 £	2005 Number	2005 £
Authorised				
Ordinary shares of 1p each	100,000,000	1,000,000	100,000,000	1,000,000
Allotted, called up and fully paid				
Ordinary shares of 1p each	46,589,662	465,897	46,589,662	465,897

Authorised

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 1p Number
At 31 December 2004	40,446,374
Issued preceding IPO	3,133,064
Issued on IPO	3,010,224
At 31 December 2005 and 31 December 2006	46,589,662

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 and Warrants

At 31 December 2006 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
Warrants granted to a Supplier			
	200,000	125p	29 July 2005 to 28 July 2010

The options 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 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 ended 31 December 2005 being £244,000

15 Reconciliation of Movement in Shareholders' Funds

	2006 £	2005 £
Loss on ordinary activities after tax	(2,866,079)	(1,939,380)
Net proceeds of issues of new share capital	-	3,522,202
Share option reserve	-	244,000
	(2,866,079)	1,826,822
Opening shareholders' funds	2,283,913	457,091
Closing shareholders' funds	(582,166)	2,283,913

16 Net cash outflow from operating activities

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Operating loss	2,876,102	(1,968,099)	3,319,625	(1,532,048)
Impairment loss	217,796	296,995	345,000	-
Share-based payments	-	244,000	-	244,000
Administration costs paid by issue of shares	-	65,000	-	65,000
Net cash outflow from operating activities	(2,658,306)	(1,362,104)	(2,974,625)	(1,223,048)

17 Contingent Liabilities

On 10 April 2007 each of the matters referred to below became subject to the terms of the CVA, details of which are given in Note 22

Under the terms of an agreement entered into on 2 December 2004 between the company and Partner Capital Limited (formerly Crosby Partners Limited), the balance of commission fees outstanding, up to a maximum amount of £120,900, may become payable 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 may 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 may become payable, for past services as a director, contingent on the successful raising of additional funds subsequent to the IPO in July 2005

Following 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

In 2006 the company was 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 this claim The amount claimed by CO2e com Limited to be due was £250,000 CO2e com Limited has also asserted that the company will be jointly and severally liable with Kwikpower International plc for a further 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 in relation to either claim

17 **Contingent Liabilities (Continued)**

Under such arrangements the company had 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

18 **Related party transactions**

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

CO2e com Limited charged the company £250,000, 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, then a Non-executive Director of the company, was a director of and a shareholder in CO2e com Limited

Partner Capital Limited (formerly Crosby & Partners), a company related to Mr Peter O'Kane, charged the company, £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 17) Mr O'Kane is a past non-executive director of the company

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

Year ended 31 December 2006

During the year the company was charged £ 132,500 by Kwikpower International plc, prior to the death of Dr J Watkins, under the arrangement referred to above

Prior to the death of Dr J Watkins the company had advanced funds of £35,000 to Kwikpower International plc and also incurred expenses on behalf of the company of £34,131 These sums have not been repaid The directors consider there to be serious doubts over the recoverability of these funds and accordingly have made full provision in the financial statements The directors will however make every effort to seek full recovery of the sums due

During the year the company was charged £21,276 by Wellman Engineering Limited, which is a subsidiary of Kwikpower International plc The full balance was unpaid at the year end

19 **Parent undertaking and controlling party**

At 31 December 2006 the company's immediate parent undertaking was Kwikpower International plc, a company incorporated in Gibraltar The ultimate controlling party was the estate of Dr J Watkins With effect from 10 April 2007 there was no controlling party

20 **Operating lease commitments**

At 31 December 2006, the group and the company had a licence to occupy offices which ceased in January 2007, the monthly fee being £9,000

22 Post Balance Sheet Events

Under the terms of a CVA agreed at meetings of the company's creditors and shareholders on 10 April 2007, creditors will receive either a payment of 4p in the £ to be paid in cash or, at the option of individual creditors, a cash payment of 2p in the £ plus an allotment of new ordinary shares to the equivalent value of 2p in the £ issued at par Creditors who choose the cash and share alternative will be entitled to annual dividends to be paid by the CVA Supervisor which will represent 60% of the net proceeds generated from the then existing projects of the company earned over the first three years following the CVA, subject to a maximum of 100% of each creditor's claim under the CVA

At an Extraordinary General Meeting of the company held on 10 April 2007, special resolutions were passed by the shareholders of the company to sub-divide the then existing ordinary shares of the company of 1p each into one new ordinary share of 0 05p and one deferred share of 0 95p, and to consolidate immediately these new ordinary shares on a 1 for 20 basis so that the nominal value of the shares in the company was 1p once more This consolidation reduced the number of shares in the company in issue from 46,589,662 to 2,329,483

Conditional on the above, the company completed a placing issuing 75,000,000 shares at 1p per share, raising £750,000 before expenses Costs of £65,000 were settled by the issue of 6,500,000 shares, taking the number of shares in issue to 83,829,483

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 only a current bank account

The fair value of the group's financial assets and liabilities at 31 December 2006 is as stated in the balance sheet at that date

24 New standards and interpretations not in force

New standards and interpretations

IFRS7	Financial instruments disclosure
IFRS8	Operating segments
IFRIC7	Applying the restatement approach under IAS 29
IFRIC8	Scope of IFRS2 Share based payments
IFRIC9	Reassessment of embedded derivatives
IFRIC10	Interim financial reporting and impairment
IFRIC11	Group and treasury share transactions
IFRIC12	Service concession arrangements

Revisions of Existing Standards

The Directors do not expect the new standards and interpretations, or the revisions to existing standards, to have any impact on the primary financial statements However

IFRS7 – This standard will require additional disclosures concerning the Group's and 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 1st January 2007

IFRS8 – The revisions to this standard will require additional disclosure and effective for accounting periods beginning on or after 1st January 2009

IAS1 – The revisions to this 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 1st January 2007