



# **POWERHOUSE ENERGY GROUP PLC**

**COMPANY NUMBER 03934451**

**ANNUAL REPORT AND CONSOLIDATED FINANCIAL  
STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011**

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## COMPANY INFORMATION

Directors	Robert Keith Allaun (Executive Chairman) Nigel Brent Fitzpatrick (Non-executive director) James John Pryn Greenstreet (Non-executive director)	
Company secretary	Nigel Brent Fitzpatrick	
Company number	03934451	
Registered office	16 Great Queen Street London WC2B 5DG, United Kingdom	
Website	<a href="http://www.powerhouseenergy.net">www.powerhouseenergy.net</a>	
Bankers	HSBC 79 Piccadilly London W1J 8EU, United Kingdom	Citibank 285 South Lake Avenue Pasadena California, United States 91101
Nominated Adviser and Broker	Merchant Securities Limited 51-55 Gresham Street London EC2V 7EL, United Kingdom	
Registrar	Neville Registrars Limited Neville House, 18 Laurel Lane Halesowen B63 3DA, United Kingdom	
Auditor	Deloitte LLP 1 City Square Leeds LS1 2AL, United Kingdom	
Press and Investor enquiries	Pelham Bell Pottinger 5th Floor, Holborn Gate, 330 High Holborn London WC1V 7QD, United Kingdom	



## CHAIRMAN'S REPORT

As the recently appointed Executive Chairman of PowerHouse Energy Group plc (PHEG) I share your disappointment and concern about the turbulence this past year has witnessed for the Company and the shareholders.

The Company's intent when listing on AIM was to leverage the skills, experience and technology to which it had access to manufacture and distribute Ultra High Temperature (UHT) Waste-to-Energy facilities. That objective subsequently included the acquisition of the remaining 70% interest in Pyromex Holding, AG ("Pyromex"), the owner of a patented UHT technology, of which the Group already owned 30%. Through the US-based subsidiary, PowerHouse Energy, Inc., the Company planned to manufacture and sell Pyromex units in the United States and in certain other areas of the world.

The challenges of finalizing the Pyromex technology and bringing it to a commercial level of completion, as well as difficulties in the capital market, made the obtaining of further funding for the Company unachievable, despite holding discussions with various third parties. On 12 April 2012 the Company requested the suspension of trading in its shares pending clarification of its financial position and on 8 May 2012, the Company announced that the option to acquire the remaining 70% interest in Pyromex had lapsed.

On 19 June 2012, the Company announced that it has entered into a convertible loan agreement with Linc Energy Limited ("Linc") under which Linc has agreed to advance \$250,000 to the Company. The loan is unsecured, repayable on 18 June 2014 and carries interest of 15 per cent. per annum. Linc has the option at any time to convert the loan in part or whole at a conversion price of 1p per share. This loan has allowed the Company to reorganize its management team, re-prioritize its objectives and resolve outstanding issues with its creditors. It has also allowed the Company get to a position whereby it has negotiated an additional financing facility to operate as a going concern for the foreseeable future. On 8 October 2012, Linc advised the Company that it had assigned all its rights under the above convertible loan agreement to Hill Grove Investments Limited ("Hill Grove") (see below).

Since its listing on the AIM market in June 2010, PHEG has not achieved the success it envisioned. However, the Directors believe there remains significant opportunity for the Company. By ensuring there are sufficient cash resources in place to maintain the operational costs (which have been minimised through an 80% reduction of head-count, the mothballing of the US subsidiary, elimination of unnecessary services, and certain of the Directors and the former Directors agreeing to release any claim to their accrued fees and salaries) we are positioned to fully evaluate the Pyromex technology (of which the Group is still a 30% owner) and to make further headway into several other strategic relationships we have been pursuing over the past few months. These potential relationships are extremely exciting and promising and will be discussed in greater detail as they progress.

I bring a background of emerging technology, rapidly growing organisations, and international management to the role of Executive Chairman of PHEG. My former employers include Apple, Yahoo, and PWC among others during my 30 year career. I have worked in the semi-conductor, computer, biotechnology and the energy sectors. I can also see, as do others, the revolution that is beginning to appear in the Waste-to-Energy Market.

With worldwide multi-million pound projects being announced regularly, it is clear that recovering energy from the existing waste stream is a sustainable, scalable and expandable business model, one which can deliver significant returns to the shareholders of those companies involved. It's our intention to be in the forefront of this industry and to deliver highly efficient, clean, environmentally sustainable, energy through future PHEG projects.

The annual accounts for the year ended 31 December 2011 show separate financial statements for both the Company and the Group. The Company financial statements have been presented prior to the Group financial statements as the Board of Directors believes that this more accurately represents the ongoing position of PHEG. The Company has significantly reduced the value of its investment in US subsidiary, PowerHouse Energy, Inc. - a result of the inability of the subsidiary to execute its business plan i.e. manufacture and sell Pyromex UHT units. The lack of progress with the Pyromex technology has also resulted in an impairment of the value of the Company's 30% holding in Pyromex.



The Group accounts also include the results of the Pyromex Group due to the fact that the Group held an option to acquire the remaining 70% of Pyromex throughout the accounting period. That option subsequently lapsed without PHEG exercising its right to acquire the remainder of Pyromex. Due to challenges with the Pyromex technology, assets previously recognized and related to the Pyromex valuation have been significantly written down to reflect the current status of the technology. Pyromex will no longer be included in Group accounts with effect from 7 May 2012.

### **Settlement of US legal proceedings**

As announced on 22 May 2012, certain former employees of the Company's subsidiary, PowerHouse Energy, Inc., filed a lawsuit in the US District Court (Nevada) against PowerHouse Energy, Inc. and the Company for amounts due under their service contracts. The Board is pleased to announce that the litigation has been conditionally settled by the agreement to issue 520,000 new Ordinary Shares and pay \$37,000 in cash to the claimants. The settlement is conditional, amongst other things, on the suspension of the trading in the Company's shares on the AIM market being lifted.

### **Hill Grove loan**

Hill Grove Investments Limited ("Hill Grove") has provided the Company with a convertible loan agreement amounting to £380,000 ("Convertible Loan Agreement"). The loan is unsecured, repayable on 8 October 2014 and carries interest of 15 per cent. per annum. Hill Grove has the option at any time to convert the loan in part or whole at a conversion price of 1p per share. The convertible loan, which is additional to the convertible loan agreement provided by Linc on 19 June 2012, has been provided to the Company for working capital purposes.

Hill Grove is beneficially owned by Peter Bond, who holds approximately 40 per cent of the issued share capital of Linc, of which he is Chief Executive and Managing Director. Under the AIM Rules, Hill Grove and its associates are treated as a related party to the Company. The independent Directors, Brent Fitzpatrick and James Greenstreet, having consulted with Merchant Securities Limited, consider that the terms of the Convertible Loan Agreement are fair and reasonable insofar as the shareholders of the Company are concerned.

The Company has also been advised that Linc has assigned its rights in connection with the convertible loan agreement dated 19 June 2012 to Hill Grove. This convertible loan note agreement was for \$250,000 and, to date, the Company has drawn down \$80,000 but intends to fully draw down the loan in the near future.

### **Going concern**

The principal risks of the Company are included in note 12 of the Company financial statements. A key risk for the Company, that of maintaining the cash resources necessary to operate as a going concern, has been mitigated through the provision of the convertible loan agreement provided by Hill Grove.

The Directors have a reasonable expectation that the Company will have adequate resources to continue as a going concern for the foreseeable future. Thus we continue to adopt the going concern basis of accounting for the preparation of the annual financial statements.

Over the past few months, while we have reorganised the Company, we have achieved a number of other significant objectives. The Company's balance sheet is in a far stronger state. We have negotiated a favourable settlement for the Company in regard to the lawsuit brought against it by a Group of former employees in the United States and we have negotiated on-going funding for the Company for the foreseeable future. The Directors are currently in productive negotiations with RenewMe regarding the existing licensing agreement.

### **Lifting of the suspension of trading of the Company's shares on the AIM Market**

On 12 April 2012 the Company requested the suspension of trading in the Company's ordinary shares on the AIM market pending clarification of the Company's financial position. These accounts have been prepared on a going concern basis and accordingly, following the publication of the accounts for the year ended 31 December 2011 and the announcement of the interim results for the six months ended 30 June 2012, which

will immediately follow the announcement of these results, the Directors intend to request that the suspension of trading of the Company's shares on the AIM Market is lifted.

It is the Directors' belief that the strategic discussions, assessments and negotiations in which we are currently engaged will afford PHEG a clear, powerful and successful future. The Waste-to-Energy market is poised for tremendous growth and we are positioning ourselves to be a major factor. We realise that this will require capital, expertise and dedication. Our objective is to deliver a clearly defined, cash-generating, business model to our shareholders over the next few months. I hope that you will continue to be a part of the journey on which we're ready to embark.



**Keith Allaun**

Chairman

8 October 2012



## DIRECTORS' REPORT

The Directors present their report along with the Company's financial statements and the consolidated financial statements for the year ended 31 December 2011. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and will be laid before the shareholders of the Company at the Annual General Meeting to be held on 8 November 2012.

### Principal activities

The principal activity of the Company was, through its subsidiary, PowerHouse Energy, Inc., to be an alternative energy Group specializing in the manufacture and sale of zero emission Pyromex waste-to-energy equipment systems. As noted in the Chairman's Report, the Company is currently re-assessing the Pyromex technology and the principal activities of the Company will be to explore other alternative energy technologies for the foreseeable future.

### Review of developments and future prospects

A review of the development of the business together with an indication of future developments is included in the Chairman's Report set out on pages 4 to 6.

The Company financial statements for the year ended 31 December 2011 are set out on pages 12 to 23. The Company loss for the year after taxation amounted to £49,853,783 (2010: £89,154), after accounting for impairment of its investment in subsidiaries of £47,830,451. The Group financial statements are set out on pages 26 to 42. The Group loss for the year after taxation amounted to \$32,259,560 (2010: \$2,384,162). The Group loss was caused primarily by the impairments of \$33,387,720 relating to Pyromex assets. The net liabilities of the Company of £1,750,808 compare to net assets in the prior year of £90,988. The movement in the year is set out on page 13.

The Directors do not recommend the payment of a dividend (2010: £nil).

Principal risks and uncertainties are discussed in the Chairman's Report and in note 12 to the Company financial statements.

Details of significant events since the balance sheet date are contained in note 14 to the Company financial statements.

### Charitable and political donations

During the year, the Company and Group made no charitable or political donations (2010: £nil).

### Research and development

During the year, no research and development expenditure was incurred by the Company. The Group incurred research and development related costs of \$177,237 (2010: nil). The research and development was related to development of the Pyromex waste-to-energy systems.

### Substantial shareholdings

Shareholders holding in excess of 3 per cent. of the issued share capital of the Company, which the Company was aware of as at 31 December 2011 were as follows:

	Number of ordinary shares of 1.0p each	Percentage of voting rights
David Mitchell Moard	58,031,989	20.4
Credal Trust Management Limited	28,473,967	10.0
Linc Energy Limited	28,350,000	10.0
Thomas McMahon	26,340,017	9.3
Credit First Holding Limited	18,340,017	6.4
Credit First Asset Management Limited	9,681,529	3.4



## Directors

The Directors who served during the year, and subsequently, were as follows:

Robert Keith Allaun	Executive Chairman	Appointed 19 June 2012
Nigel Brent Fitzpatrick	Non-Executive	
James John Pryn Greenstreet	Non-Executive	Appointed 29 June 2011
Anthony Thomas Brennan	Non-Executive Deputy Chairman	Resigned 6 March 2012
Wilfred Mark Johnston	Chief Financial Officer	Appointed 1 August 2011
		Resigned 19 July 2012
Ross Mitchell Lyndon-James	Executive Chairman	Appointed 29 June 2011
		Resigned 19 July 2012
David Mason Moard	Executive Director	Appointed 29 June 2011
		Resigned 19 April 2012
Julian Peter Moore	Interim Finance Director	Resigned 1 August 2011

## Corporate Governance

As AIM companies are not required to provide corporate governance disclosures, the Directors have chosen not to do so.

## Payment to suppliers

The Group does not have a standard or code which deals specifically with the payment of suppliers. Total creditor days for the Company the year ended 31 December 2011 were 38 days (2010: 257 days) and for the Group 127 days (2010: 101 days).

## Going concern basis

The Directors have considered all available information about the future events when considering going concern. The Chairman's Report sets out detail of the mitigation around the uncertainty of maintaining cash resources. The Directors have reviewed cash flow forecasts for twelve months following the date of these accounts. The cash flow forecasts assume no further funding by the Company of PowerHouse Energy, Inc. and Pyromex. The £380,000 convertible loan obtained from Hill Grove Investments Limited, secured prior to these accounts being signed, together with the \$250,000 convertible loan advanced by Linc Energy Limited on 19 June 2012 is considered sufficient to settle outstanding creditors of the Company and maintain the Company's reduced overhead and other limited unforeseen events for at least the next twelve months. In addition, the company is in receipt of a letter of intention of financial support from Hill Grove Investments Pty Limited to ensure the company continues to meet its obligations as they fall due and to ensure it operates as a going concern for a period of at least 12 months. Based on this, the Directors continue to adopt the going concern basis of accounting for the preparation of the annual financial statements.

## Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- So far as the director is aware there is no relevant audit information of which the Company's auditor is aware; and
- The director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given, and should be interpreted, in accordance with the provisions of s.418 of the Companies Act 2012.

Approved by the Board of Directors and signed on behalf of the Board on 8 October 2012.



Keith Allaun  
Director

## DIRECTORS' RESPONSIBILITIES STATEMENTS

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and have also chosen to prepare the parent Company financial statements under IFRSs as adopted by the EU. Under Company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

BY ORDER OF THE BOARD



Keith Allaun  
Director

8 October 2012



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

We have audited the parent Company financial statements of PowerHouse Energy Group plc for the year ended 31 December 2011 which comprise the Company Statement of Comprehensive Income, the Company Statement of Changes in Equity the Company Statement of Financial Position, the Company Statement of Cash Flows and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

## **Respective responsibilities of Directors and auditor**

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

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on financial statements**

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Opinion on other matter prescribed by the Companies Act 2006**

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



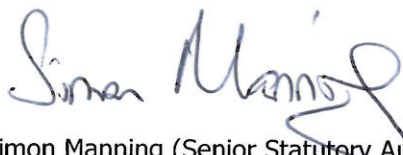
**Matters on which we are required to report by exception**

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

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

**Other matters**

We have reported separately on the Group financial statements of PowerHouse Energy Group plc for the year ended 31 December 2011. That report includes disclaimer of opinion in respect of the audit evidence available to us and, as a result of this, we have been unable to express an opinion on the Group financial statements.



Simon Manning (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Leeds, United Kingdom  
8 October 2012

## COMPANY STATEMENT OF COMPREHENSIVE INCOME

	Note	31 December 2011 £	31 December 2010 £
<b>Revenue</b>		<b>25,000</b>	-
Administrative expenses	<b>2</b>	<b>(2,045,178)</b>	(89,216)
<b>Operating loss</b>		<b>(2,020,178)</b>	(89,216)
Finance income		<b>77</b>	174
Finance costs		<b>(3,231)</b>	(112)
Impairments		<b>(47,830,451)</b>	-
<b>Loss before taxation</b>		<b>(49,853,783)</b>	(89,154)
Income tax expense	<b>3</b>	-	-
<b>Total comprehensive expense</b>		<b>(49,853,783)</b>	(89,154)
Loss per share (pence)	<b>4</b>	<b>(33.39)</b>	(0.09)

The notes numbered 1 to 14 are an integral part of the financial information.

## COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital £	Share premium £	Deferred shares (4.0p) £	Deferred shares (4.5p) £	Retained earnings £	Total £
Balance at 1 January 2010	486,868	714,948	781,808	-	(1,803,482)	180,142
- Total comprehensive expense	-	-	-	-	(89,154)	(89,154)
Balance at 31 December 2010	486,868	714,948	781,808	-	(1,892,636)	90,988
<i>Transactions with equity participants:</i>						
- Consolidation and subdivision	(389,494)	-	-	389,494	-	-
- Equity issued for acquisition	2,737,665	45,171,464	-	-	-	47,909,129
- Shares issued for services received	1,666	28,333	-	-	-	29,999
- Shares issue to settle subsidiary's liability	6,000	66,737	-	-	-	72,737
- Conversion of warrants	7	115	-	-	-	122
- Total comprehensive expense	-	-	-	-	(49,853,783)	(49,853,783)
<b>Balance at 31 December 2011</b>	<b>2,842,712</b>	<b>45,981,597</b>	<b>781,808</b>	<b>389,494</b>	<b>(51,746,419)</b>	<b>(1,750,808)</b>

The notes numbered 1 to 14 are an integral part of the interim financial information.



## COMPANY STATEMENT OF FINANCIAL POSITION

	Note	2011 £	2010 £
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	2,843	-
Other non-current assets	6	120,000	-
<b>Total non-current assets</b>		<b>122,843</b>	-
<b>Current Assets</b>			
Trade and other receivables	7	116,820	308,350
Cash and cash equivalents		74,522	120,772
<b>Total current assets</b>		<b>191,342</b>	429,122
<b>Total assets</b>		<b>314,185</b>	429,122
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	8	(202,510)	(43,172)
Loans	9	(1,862,483)	(294,962)
<b>Total current liabilities</b>		<b>(2,064,993)</b>	(338,134)
<b>Net (liabilities) / assets</b>		<b>(1,750,808)</b>	90,988
<b>EQUITY</b>			
Share capital	10	2,842,712	486,868
Share premium		45,981,597	714,948
Deferred shares		1,171,302	781,808
Accumulated losses		(51,746,419)	(1,892,636)
<b>Total (deficit) / equity</b>		<b>(1,750,808)</b>	90,988

The financial statements were approved by the board of Directors and authorised for issue on 8 October 2012 and signed on its behalf by:



Keith Allaun  
Director

The notes numbered 1 to 14 are an integral part of the financial information.

## COMPANY STATEMENT OF CASH FLOWS

	2011 £	2010 £
<b>Cash flows from operating activities</b>		
Loss after taxation	(49,853,783)	(89,154)
Adjustments for:		
- Shares issued for services	29,999	-
- Depreciation and amortisation	359	-
- Finance income	(77)	(174)
- Finance costs	3,231	112
- Impairment of non-current assets	47,830,451	-
Changes in working capital:		
- Decrease / (increase) in trade and other receivables	191,530	(306,831)
- Increase in trade and other payables	159,338	297,439
- Increase in loans - intercompany	1,598,936	-
<b>Net cash used in operations</b>	<b>(40,016)</b>	<b>(98,608)</b>
<b>Cash flows from investing activities</b>		
Purchase of tangible assets	(3,202)	-
<b>Net cash flows used in investing activities</b>	<b>(3,202)</b>	<b>-</b>
<b>Cash flows from financing activities</b>		
Share issue	122	-
Finance income	77	174
Finance costs	(3,231)	(112)
<b>Net cash flows (used in) / from financing activities</b>	<b>(3,032)</b>	<b>62</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(46,250)</b>	<b>(98,546)</b>
Cash and cash equivalents at beginning of period	120,772	219,318
<b>Cash and cash equivalents at end of period</b>	<b>74,522</b>	<b>120,772</b>

The notes numbered 1 to 14 are an integral part of this financial information.

# NOTES TO THE COMPANY ACCOUNTS

## 1. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial information.

### 1.1. Basis of preparation

This financial information is for the year ended 31 December 2011 and has been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted for use by the European Union and the Companies Act 2006. These accounting policies and methods of computation are consistent with the prior year.

### 1.2. Judgements and estimates

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial statements. The areas involving a higher degree of judgements or complexity, or areas where assumptions or estimates are significant to the financial statements such as the impairment of investments and going concern are disclosed within the relevant notes.

### 1.3. Going concern

The Directors have considered all available information about the future events when considering going concern. The Directors have reviewed cash flow forecasts for twelve months following the date of these accounts. The cash flow forecasts assume no further funding of PowerHouse Energy, Inc. and Pyromex by the Company. The £380,000 convertible loan obtained from Hill Grove Investments Limited, secured prior to these accounts being signed, together with the \$250,000 convertible loan advanced by Linc Energy Limited on 19 June 2012 is considered sufficient to settle outstanding creditors of the Company and maintain the Company's reduced overhead and other limited unforeseen events for at least the next twelve months. In addition, the company is in receipt of a letter of intention of financial support from Hill Grove Investments Pty Limited to ensure the company continues to meet its obligations as they fall due and to ensure it operates as a going concern for a period of at least 12 months. Based on this, the Directors continue to adopt the going concern basis of accounting for the preparation of the annual financial statements.

### 1.4. Foreign currency translation

The financial information is presented in sterling which is the Company's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are revalued to the exchange at date of settlement or at reporting dates (as appropriate). Exchange gains and losses resulting from such revaluations are recognised in the income statement.

Foreign exchange gains and losses are presented in the income statement within 'administration expenses'.

### 1.5. Revenue

Revenue represents the amounts (excluding VAT) derived from the supply of management and administration services to the Company's subsidiary, PowerHouse Energy, Inc. Revenue is recognised when amounts fall due under the formalised contract.

### 1.6. Employee costs

The Company only has defined contribution pension plans and pays contributions to separately administered pension or healthcare insurance entity on a contractual basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

### 1.7. Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease rentals are charged to the income statement on a straight line basis over the period of the lease. The Company has no finance leases.



### **1.8. Finance income and expenses**

Finance income and expenses are recognised as they are incurred or as a result of financial assets or liabilities being measured at amortised cost using the effective interest method. No finance expenses were incurred in the production of a qualifying asset.

### **1.9. Income tax expense**

The tax expense for the period comprises current and deferred tax.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements.

### **1.10. Plant, property and equipment**

Plant, property and equipment is stated at cost less accumulated depreciation. Cost represents the cost of acquisition or construction, including the direct cost of financing the acquisition or construction until the asset comes into use.

Depreciation on plant, property and equipment is provided to allocate the cost less the residual value by equal instalments over their estimated useful economic lives of 3 years.

The expected useful lives and residual values of plant, property and equipment are reviewed on an annual basis and, if necessary, changes in useful life or residual value are accounted for prospectively.

### **1.11. Other non-current assets**

Other non-current assets represents the investment in PowerHouse Energy, Inc. The investment is carried at cost less accumulated impairment. Cost was determined using the fair value of shares issued to acquire the investment.

During the year the Company's investment PowerHouse Energy, Inc. was identified as being impaired. The recoverable amount was determined by taking the fair value of its investment in Pyromex less the fair value of known liabilities and obligations of PowerHouse Energy, Inc. The fair value of Pyromex was determined taking into account profits from sale of Pyromex, adjusted for the possibility of success of the sale, and discounted for timing of the cash flows related to the sales less the fair value of known liabilities and obligations of Pyromex.

### **1.12. Trade and other receivables**

Trade receivables are recognised at fair value. Subsequently they are carried at their initial recognition value less any impairment losses.

### **1.13. Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits and are recognised and subsequently carried at fair value.

### **1.14. Trade and other payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers and employees. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### **1.15. Loans**

Loans are financial obligations arising from funding received from PowerHouse Energy, Inc. These were recognised at fair value. The loan was subsequently carried at amortised cost using the effective interest method.

### 1.16. Impairment testing

Assets not subsequently carried at fair value are reviewed periodically for indications of impairment. On recognition of an impairment event, the book values of the assets are compared to their recoverable amount. In the event the recoverable amount is less than the book value, asset is reduced to the recoverable amount and the difference recognised as an expense.

### 1.17. Adoption of new and revised standards

New and revised standards adopted during the year and those standards and interpretations in issue but not yet effective are shown in note 1.23 to the Group financial statements.

## 2. Administrative expenses

Included in administration expenses are:

	2011 £	2010 £
Employee expenses and Directors' fees	477,471	36,788
Depreciation and amortisation	359	-
Operating leases	44,973	-
Net foreign exchange loss	4,276	-
Auditor's remuneration – fees payable to the Company's auditor for the audit of the Company's annual accounts	16,000	6,000
Auditor's remuneration – taxation advisory services	23,000	-

## 3. Income tax expense

As the Company incurred a loss, no current tax is payable (2010: £nil). In addition, there is no certainty about future profits from which accumulated tax losses could be utilised and accordingly no deferred tax asset has been recognised. Tax losses amount to £2,939,787 (2010: £916,455).

## 4. Loss per share

	2011	2010
Total comprehensive loss (£)	(49,853,783)	(89,154)
Weighted average number of shares	149,285,334	97,373,523
Loss per share (pence)	(33.39)	(0.09)

As the Company incurred a loss, potential ordinary shares are anti-dilutive and accordingly no diluted earnings per share has been presented.

## 5. Property, plant and equipment

	Office equipment £
Opening carrying value	-
Purchases	3,202
Depreciation	(359)
Net carrying value	2,843
At 31 December 2011	
Cost	3,202
Accumulated amortisation	(359)
Net carrying value	2,843

## 6. Other non-current assets

Other non-current asset consists solely of the investment in PowerHouse Energy, Inc. PowerHouse Energy, Inc. ("the subsidiary") is incorporated in California in the United States of America and the Company holds 100% of the common stock and voting rights of the subsidiary.

	<b>2011</b> <b>£</b>
Investment - Cost	47,909,129
Accumulated impairment	(47,789,129)
	<b>120,000</b>

The cost of the subsidiary was determined using an issue price of 17.5 pence (the price of the Company's shares on re-listing after the reverse takeover) for the 273,766,456 shares issued to acquire PowerHouse Energy, Inc.

The impairment of the subsidiary was determined by taking into account the fair value of all known assets (including a 30% investment in Pyromex Holdings AG ("Pyromex")), and liabilities of the subsidiary. The impairment test assumed no cash flows from the sale of the Pyromex systems by the subsidiary.

## 7. Trade and other receivables

	<b>2011</b> <b>£</b>	2010 <b>£</b>
Other receivables	<b>122</b>	304,541
Prepayments	<b>16,745</b>	3,809
VAT receivable	<b>99,952</b>	-
Pyromex	<b>1</b>	-
	<b>116,820</b>	308,350

The receivable from Pyromex of £41,321 is repayable on demand, is unsecured and attracts interest at a rate of 10 per cent. per annum. This receivable has been impaired to £1 due to the inherent uncertainty of its recoverability.

## 8. Trade and other payables

	<b>2011</b> <b>£</b>	2010 <b>£</b>
Trade payables	<b>62,841</b>	-
Salary and wages accrual	<b>57,855</b>	-
Other accruals	<b>81,814</b>	43,172
	<b>202,510</b>	43,172

## 9. Loans

	<b>2011</b> <b>£</b>	2010 <b>£</b>
PowerHouse Energy, Inc.	<b>1,862,483</b>	294,962

The loan from PowerHouse Energy, Inc. is unsecured, interest free and has no fixed terms of repayment.



## 10. Share capital

	0.5 p Ordinary shares	1.0 p Ordinary shares	4.5 p Deferred shares	4.0 p Deferred shares
Balance at 1 January 2010	97,373,523	-	17,373,523	-
Balance at 31 December 2010	97,373,523	-	17,373,523	-
Allotment of shares	7	-	-	-
Consolidation and subdivision of ten 0.5p ordinary shares into one 1.0p ordinary share and one 4p deferred share	(97,373,530)	9,737,353	-	9,737,353
Consideration shares to acquire 100% of PowerHouse Energy, Inc.	-	273,766,453	-	-
Issue of shares for services received	-	166,667	-	-
Issue of shares to settle Inc. liability	-	600,048	-	-
Exercise of Warrants	-	676	-	-
<b>Balance at 31 December 2011</b>	<b>-</b>	<b>284,271,197</b>	<b>17,373,523</b>	<b>9,737,353</b>

## 11. Convertible instruments

	Notes	Average exercise price	Exercisable				Total
			Currently	Within 1 year	1 to 5 years	Conditional	
Warrant holders	11.1	£0.180	9,736,677	-	-	-	<b>9,736,677</b>
Linc Energy	11.2	£0.129	7,000,000	-	-	-	<b>7,000,000</b>
Hill Grove	11.3	£0.122	3,000,000	-	-	-	<b>3,000,000</b>
Driftwood	11.4	£0.125	-	-	2,956,929	-	<b>2,956,929</b>
Management	11.5	£0.175	697,316	139,463	278,927	1,673,559	<b>2,789,265</b>
Other	11.6	£0.194	2,499,999	-	-	-	<b>2,499,999</b>
Total convertible instruments			22,933,992	139,463	3,235,856	1,673,559	<b>27,982,870</b>

### 11.1. Warrants

Warrant holders hold 9,736,677 warrant instruments to subscribe ordinary shares at an exercise price of £0.180 per share convertible on or before 29 June 2013. 676 Warrants were exercised during the year ended 31 December 2011. An additional 243,229 warrants had been exercised post the balance sheet date.

### 11.2. Linc Energy

Linc Energy Limited holds options to acquire ordinary shares as follows:

- 3,333,333 ordinary shares up to 29 June 2012 at US\$0.30 (£0.194) per share (These options had not been exercised by 29 June 2012 and have lapsed); and
- up to a value of US\$6,000,000 (£3,882,741), exercisable at any time in the 30 month period following Admission (29 June 2011) at a price equal to a 20 per cent discount to the previous 60 day volume weighted price of an ordinary share.

### 11.3. Hill Grove

Hill Grove Investments Proprietary Limited holds an option to acquire ordinary shares up to a value of US\$3,000,000 (£1,941,371), exercisable at any time in the 30 month period following 29 June 2011 at a price equal to a 20 per cent discount to the previous 60 day volume weighted price of an ordinary share.

### 11.4. Driftwood

On 13 July 2011, PowerHouse Energy Group plc granted 2,956,929 options over ordinary shares to Driftwood Capital Pty Limited (as trustee for Driftwood Capital Unit Trust) exercisable as follows:

- 535,500 after 1 October 2013 at an exercise price of US\$0.12 (£0.078) per share; and
- 2,421,429 after 1 April 2014 at an exercise price of US\$0.21 (£0.136) per share.

### **11.5. Management**

On 29 July 2011, PowerHouse Energy Group plc granted 2,789,265 options over ordinary shares to James Greenstreet at an exercise price of £0.175 per share, exercisable at any time up to 29 July 2021 as follows:

- 25 per cent of the total grant to vest immediately;
- 5 per cent of the total grant on each of the three years on the first, second and third anniversaries of Admission; and
- 60 per cent of the total grant to vest as follows:
  - 10 per cent if the Company's market capitalisation is £100 million (US\$160 million) or more at any time;
  - 20 per cent if the Company's market capitalisation is £200 million (US\$300 million) or more at any time; and
  - 30 per cent if the Company's market capitalisation is £300 million (US\$480 million) or more at any time

### **11.6. Other**

Kailing Wang holds 833,333 options over ordinary shares at an exercise price of US\$0.30 (£0.194) per share exercisable at any time up to 10 June 2013.

John Carter Brookhart holds 833,333 options over ordinary shares at an exercise price of US\$0.30 (£0.194) per share exercisable at any time up to 10 June 2013.

Andrew Forbes holds 833,333 options over ordinary shares at an exercise price of US\$0.30 (£0.194) per share exercisable at any time up to 10 June 2013.

### **11.7. Johnston options**

On 29 July 2011, PowerHouse Energy Group plc committed to grant Mark Johnston options over 6,000,000 ordinary shares at an exercise price of £0.175 per share. This commitment has not been fulfilled at 31 December 2011 and therefore not included in the convertible instruments table above. Subsequent to the balance sheet date, this commitment has been waived.

## **12. Material risks**

### **12.1. Requirement for further funds**

In assessing the going concern, the Directors have reviewed cash flow forecasts for 12 months following the date of these accounts. The cash flow forecasts assumed no further funding of PowerHouse Energy, Inc. and Pyromex. The funding secured prior to these accounts is considered sufficient to maintain the Company's reduced overhead and other limited unforeseen events. Any additional equity financing may be dilutive to shareholders and debt financing.

### **12.2. Reliance on the Pyromex technology**

As a result of technical issues identified since the Group's investment in Pyromex technology, there has been material reductions to the carrying values of assets previously recognised. This highlights the Company's dependency on its exploitation of the Pyromex technology through its subsidiary's licence agreement and on Pyromex's ability to exploit its own technology as the Company's ultimate primary asset is its 30% shareholding in Pyromex. In the event the Pyromex technology continues to be unproven competing technologies may capture the market targeted by the Pyromex technology resulting in further write downs of the investments and reduced returns for shareholders.

### **12.3. Discovery of other business opportunities**

As part of the revised business plan, a discovery period will be undertaken of other alternative energy technologies. In the event no other technologies are considered for investment, the Company will continue its dependence on the Pyromex technology which will further affect the Company's ability to raise funds.



### 13. Directors' Remuneration

The Directors who held office at 31 December 2011 had the following interests, including any interests of a connected person in the ordinary shares of the Company:

	Number of ordinary shares of 1.0p each	Percentage of voting rights
Anthony Thomas Brennan	500,000	0.2
Nigel Brent Fitzpatrick	103,459	>0.1
Wilfred Mark Johnston	250,000	0.1
Ross Mitchell Lyndon-James	28,066,239	9.9
David Mason Moard	58,031,989	20.41

The Directors who held office at 31 December 2011 had the following options over ordinary shares, including those of a connected person:

	Number of instruments	Exercise price	Date exercisable	Expiry date
Anthony Thomas Brennan	500,000	£0.18	29 June 2011	29 June 2013
Nigel Brent Fitzpatrick	103,459	£0.18	29 June 2011	29 June 2013
James John Pryn Greenstreet	697 316	£0.175	29 June 2011	29 June 2021
	139,463	£0.175	29 June 2012	29 June 2021
	139,463	£0.175	29 June 2013	29 June 2021
	139,463	£0.175	29 June 2014	29 June 2021
	1,673,560	£0.175	Conditional	29 June 2021

The remuneration of the Directors of the Company paid for the year or since date of appointment, if later, to 31 December 2011 is:

	2011 £ Salary/Fee	2011 £ Pension	2011 £ Benefits	2011 £ Total	2010 £ Total
Anthony Thomas Brennan	20,000	-	-	20,000	15,000
Nigel Brent Fitzpatrick	12,167	-	-	12,167	6,788
James John Pryn Greenstreet	12,000	-	-	12,000	-
Wilfred Mark Johnston	40,000	5,333	1,430	46,763	-
Ross Mitchell Lyndon-James	79,165	-	-	79,165	-
David Mason Moard <sup>1</sup>	92,297	-	12,456	104,753	-
Julian Peter Moore <sup>2</sup>	5,250	-	-	5,250	6,000

Notes:

1. David Moard's remuneration was paid by the Company's subsidiary PowerHouse Energy, Inc.
2. Other amounts paid to Julian Moore include £5,250 for Company secretarial fees and £142,378 paid to Headstream Capital Limited and Anya Capital Holdings Limited (companies in which Mr Moore has a beneficial interest) for services provided to Company's subsidiary PowerHouse Energy, Inc.

#### Service contracts

Anthony Brennan had a service contract which could be terminated by providing three months' written notice. Brent Fitzpatrick and James Greenstreet have service contracts which can be terminated by providing three months' written notice. Ross Lyndon-James's service contract termination clauses required 12 months' notice to be provided by the Company and six months' notice by Mr Lyndon-James. Mark Johnston's contract service contract required six months' notice. David Moard's service contract required 30 day' notice, however in the event of terminating without good cause Mr Moard would be entitled to a severance pay equal to 12 months' salary.



## **14. Post balance sheet events and contingent liabilities**

### **14.1. Warrant holders**

Since 31 December 2011, 243,229 instrument were exercised and converted into ordinary shares at an exercise price of 18p per share.

### **14.2. Share suspension**

On 12 April 2012 the Company's shares were suspended from trading on the AIM market. The Directors intend to seek the lifting of the suspension of trading in the Company's shares as soon as possible following the publication of these accounts and the announcement of the interim results for the six months ended 30 June 2012.

### **14.3. Legal action**

On 7 May 2012 certain former employees of the Company's subsidiary, PowerHouse Energy, Inc. filed a lawsuit in the US District Court (Nevada) against PowerHouse Energy, Inc. and PowerHouse Energy Group plc for accrued salaries and amounts due to the end of their service contracts to the value of \$1,961,938, plus interest, damages and legal costs. On 1 October 2012 a conditional settlement agreement was reached with the claimants whereby in exchange for a cash settlement of \$37,000 and the issue of 520,000 shares in the Company the case would be withdrawn and the Company and its subsidiary released from obligations to the claimants. The case was withdrawn on 1 October 2012. The settlement agreement was conditional, amongst other things, on the suspension of the trading in the Company's shares on the AIM market being lifted.

### **14.4. Lapse of Pyromex option**

On 7 May 2012 the Company's option to acquire 70% of Pyromex Holdings AG, expired. The Company indirectly holds 30% of Pyromex Holdings AG through its subsidiary, PowerHouse Energy, Inc.

### **14.5. Aspermont loan**

Aspermont Ltd, Dilato Holdings Pty Ltd and Tesla Nominees Pty Ltd collectively provided a facility of £100,000 to the Company repayable on demand, which incurs interest at 1 per cent. per month. The Company has fully utilised the facility and is currently in productive negotiations to revise the terms of the loan.

### **14.6. Hill Grove loan**

On 19 June 2012 the Company entered into a convertible loan agreement with Linc under which Linc agreed to advance \$250,000 to the Company. The loan is unsecured, repayable on 18 June 2014 and carries interest of 15 per cent. per annum. Linc has the option at any time to convert the loan in part or whole at a conversion price of 1p per share. On 8 October 2012, the Company was advised that all rights under this agreement have been assigned to Hill Grove.

On 8 October 2012, the Company entered into a further convertible loan agreement with Hill Grove under which Hill Grove has agreed to advance £380,000 to the Company. The loan is unsecured, repayable on 8 October 2014 and carries interest of 15 per cent. per annum. Hill Grove has the option at any time to convert the loan in part or whole at a conversion price of 1p per share.

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

We were engaged to audit the Group financial statements of PowerHouse Energy Group plc for the year ended 31 December 2011 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flow and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

## **Respective responsibilities of Directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. Because of the matter described in the basis for disclaimer of opinion on financial statements paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Basis for disclaimer of opinion on financial statements**

The audit evidence available to us was limited because we were unable to obtain accounting records in respect of PowerHouse Energy, Inc. and Pyromex Holding AG. As a result of this we have been unable to obtain sufficient appropriate audit evidence concerning the state of the Group's affairs as at 31 December 2011 and of its loss of the year then ended.

## **Disclaimer of opinion on financial statements**

Because of the significance of the matter described in the basis for disclaimer of opinion on financial statements paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly we do not express an opinion on the financial statements.

## **Opinion on other matter prescribed by the Companies Act 2006**

Notwithstanding our disclaimer of an opinion on the financial statements, in our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

## **Matters on which we are required to report by exception**

Arising from the limitation of our work referred to above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether adequate accounting records have been kept.



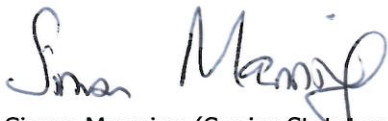
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made.

**Other matter**

As the comparative figures relate to the results of PowerHouse Energy, Inc. and this Company was exempt from audit in the prior year, we have not audited the corresponding amounts for that year.

We have reported separately on the parent Company financial statements of PowerHouse Energy Group plc for the year ended 31 December 2011. The opinion in that report is unqualified.



Simon Manning (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Leeds, United Kingdom  
8 October 2012



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2011 US\$	Year ended 31 December 2010 US\$
<b>Revenue</b>		<b>62,379</b>	299,712
Cost of sales		<b>(73,416)</b>	(439,529)
<b>Gross loss</b>		<b>(11,037)</b>	(139,817)
Administrative expenses	<b>2</b>	<b>(7,790,179)</b>	(1,911,402)
<b>Operating loss</b>		<b>(7,801,216)</b>	(2,051,219)
Finance income		<b>848</b>	11,761
Other income		-	12,324
Fair value gain on step acquisition	<b>1.2</b>	<b>6,209,876</b>	-
Finance expenses	<b>4</b>	<b>(310,231)</b>	(138,028)
Impairment of non-current assets		<b>(33,387,720)</b>	(219,000)
<b>Loss before taxation</b>		<b>(35,288,443)</b>	(2,384,162)
Income tax credit	<b>5</b>	<b>3,028,883</b>	-
<b>Loss after taxation</b>		<b>(32,259,560)</b>	(2,384,162)
Foreign exchange arising on consolidation		<b>(3,621,791)</b>	-
<b>Total comprehensive expense</b>		<b>(35,881,351)</b>	(2,384,162)
<b>Total comprehensive expense attributable to:</b>			
Owners of the Company		<b>(13,588,143)</b>	(2,384,162)
Non-controlling interests		<b>(22,293,208)</b>	
Loss per share (US\$)	<b>6</b>	<b>(0.05)</b>	(0.02)

The notes numbered 1 to 16 are an integral part of the financial information.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY


	Shares and stock US\$	Accumulated losses US\$	Other reserves US\$	Non-control- ling interests US\$	Total US\$
Balance at 1 January 2010	1,819,645	(3,132,506)	-	-	(1,312,861)
<i>Transactions with equity participants:</i>					
- Issue of common stock	4,590,620	-	-	-	4,590,620
- Costs related to issue of common stock	(191,900)	-	-	-	(191,900)
<i>Total comprehensive expense:</i>					
- Loss after taxation	-	(2,384,162)	-	-	(2,384,162)
Balance at 31 December 2010	6,218,365	(5,516,668)	-	-	701,697
<i>Transactions with equity participants:</i>					
- Issue of common stock	10,199,941	-	-	-	10,199,941
- Costs related to issue of common stock	(1,521,802)	-	-	-	(1,521,802)
- Common stock issued for services received	206,250	-	-	-	206,250
- Equity issued for acquisition	-	-	2,019,736	-	2,019,736
- Equity reclassification arising from reverse takeover	64,780,459	-	(64,780,459)	-	-
- Shares issued for services received	167,492	-	-	-	167,492
- Acquisition of Pyromex	-	-	-	23,951,661	23,951,661
- Exercise of warrants	188	-	-	-	188
<i>Total comprehensive income:</i>					
- Loss after taxation	-	(12,574,238)	-	(19,685,322)	(32,259,560)
- Foreign exchange arising on consolidation	-	-	(1,020,946)	(2,600,845)	(3,621,791)
<b>Balance at 31 December 2011</b>	<b>80,050,893</b>	<b>(18,090,906)</b>	<b>(63,781,669)</b>	<b>1,665,494</b>	<b>(156,188)</b>

The notes numbered 1 to 16 are an integral part of the financial information.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2011 US\$	31 December 2010 US\$
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	7	2,062,838	454,167
Property, plant and equipment	8	1,825,636	42,753
Other non-current assets		-	4,005,121
<b>Total non-current assets</b>		<b>3,888,474</b>	<b>4,502,041</b>
<b>Current Assets</b>			
Inventories	9	637,601	-
Trade and other receivables	10	278,384	467,866
Cash and cash equivalents	11	382,455	197,170
<b>Total current assets</b>		<b>1,298,440</b>	<b>665,036</b>
<b>Total assets</b>		<b>5,186,914</b>	<b>5,167,077</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred taxation	12	(372,277)	-
Loans	13	(376,973)	-
Trade and other payables	14	(777,000)	-
<b>Total non-current liabilities</b>		<b>(1,526,250)</b>	<b>-</b>
<b>Current liabilities</b>			
Loans	13	(57,996)	(2,980,432)
Trade and other payables	14	(3,758,856)	(1,484,948)
<b>Total current liabilities</b>		<b>(3,816,852)</b>	<b>(4,465,380)</b>
<b>Total liabilities</b>		<b>(5,343,102)</b>	<b>(4,465,380)</b>
<b>Net (liabilities) / assets</b>		<b>(156,188)</b>	<b>701,697</b>
<b>EQUITY</b>			
Shares and stocks		80,050,893	6,218,365
Other Reserves		(63,781,669)	-
Accumulated losses		(18,090,906)	(5,516,668)
Non-controlling interests		1,665,494	-
<b>Total (deficit) / equity</b>		<b>(156,188)</b>	<b>701,697</b>

The financial statements were approved by the board of Directors and authorised for issue on 8 October 2012 and signed on its behalf by:

  
Keith Allaun  
Director

The notes numbered 1 to 16 are an integral part of the financial information.



## CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2011 US\$	Year ended 31 December 2010 US\$
<b>Cash flows from operating activities</b>			
Loss before taxation		(35,288,443)	(2,384,162)
Adjustments for:			
- Finance income		(848)	(11,761)
- Finance costs		310,231	138,028
- Fair value gain on step acquisition		(6,209,876)	-
- Impairment of non-current assets		33,387,720	219,000
- Depreciation and amortisation		1,824,241	51,955
- Common stock and shares issued for services		373,742	-
- Foreign exchange revaluations		140,581	-
Changes in working capital:			
- (Increase) / decrease in trade and other receivables		(178,542)	278,490
- (Decrease) / increase in trade and other payables		1,588,261	480,509
- Taxation paid		(800)	-
<b>Net cash used in operations</b>		<b>(4,053,733)</b>	<b>(1,227,941)</b>
<b>Cash flows from investing activities</b>			
Purchase of other non-current assets		(85,000)	(3,224,122)
Purchase of tangible and intangible assets		(494,429)	-
Reverse acquisition	1.2	(949,660)	(461,213)
<b>Net cash flows used in investing activities</b>		<b>(1,529,089)</b>	<b>(3,685,335)</b>
<b>Cash flows from financing activities</b>			
Common stock issue (net of issue costs)		8,678,326	4,398,720
Finance income		848	11,761
Finance costs		(310,231)	(138,028)
Loans (repaid) / received		(2,596,592)	851,773
<b>Net cash flows from financing activities</b>		<b>5,772,351</b>	<b>5,124,226</b>
<b>Net increase in cash and cash equivalents</b>		<b>189,529</b>	<b>210,950</b>
Cash and cash equivalents at beginning of period		197,170	(13,780)
Foreign exchange on cash balances		(4,244)	-
<b>Cash and cash equivalents at end of period</b>		<b>382,455</b>	<b>197,170</b>

The notes numbered 1 to 16 are an integral part of the financial information.

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 1. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group financial information.

### 1.1. Basis of preparation

This consolidated financial information is for the year ended 31 December 2011 and has been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted for use by the European Union and the Companies Act 2006. These accounting policies and methods of computation are consistent with those used in the Prospectus issued pursuant to the proposed acquisition of PowerHouse Energy, Inc. by PowerHouse Energy Group plc ("the Listing Document").

The Group's date of transition to IFRS is 1 January 2007, being the beginning of the period for which historical IFRS financial information was prepared for the Listing Document. This consolidated financial information is the first prepared by the Group in accordance with accounting standards as adopted for use in the EU and as such take account of the requirements and options in IFRS 1 "First-time adoption of International Financial Reporting Standards" as they relate to the comparative financial information.

### 1.2. Consolidation and goodwill

#### Reverse takeover

On 29 June 2011, PowerHouse Energy Group plc acquired 100 per cent of the common stock holding of PowerHouse Energy, Inc. by issuing 273,766,453 PowerHouse Energy Group plc shares to the common stockholders of PowerHouse Energy, Inc. ("the Reverse Takeover").

The Reverse Takeover has been treated as a reverse acquisition under IFRS3 (2008) "Business combinations" whereby PowerHouse Energy, Inc. has been treated as the acquirer PowerHouse Energy Group plc. Accordingly the Group's results for the year ended 31 December 2011 constitute the full year's trading by PowerHouse Energy, Inc. and 6 months trading of PowerHouse Energy Group plc. Comparative figures relate to the results of PowerHouse Energy, Inc. The comparative figures are unaudited as PowerHouse Energy, Inc. was exempt from audit.

A reverse takeover reserve (included with other reserves) has been created to account for the fair value of the consideration for the reverse acquisition and to account for the change in the equity structure from that of PowerHouse Energy, Inc. to that of the legal holding Company, PowerHouse Energy Group plc.

Cash flows related to funds provided by PowerHouse Energy, Inc. to PowerHouse Energy Group plc, prior to the reverse acquisition by way of loans have been presented in the statement of cash flows in the line item called 'Reverse acquisition'. To ensure consistency for all periods presented, the cash flows for the year ended 31 December 2010 have been restated from those disclosed in the Listing Document. The restatement of the cash outflow relating to the loan of US\$461,213 was reclassified from 'cash used in operations' to 'cash used in investing activities' and has also been included in the line item called 'Reverse acquisition'.

#### Fair values attributable to PowerHouse Energy Group plc's assets and liabilities acquired (\$):

Property, plant and equipment	3,453
Trade and other payables	(880,628)
Trade and other receivables	102,589
Loan payable to PowerHouse, Inc.	(1,411,465)
Cash and cash equivalents	170,431
	<hr/>
Net liabilities acquired	(2,015,620)
Fair value of equity issued for reverse acquisition	2,019,736
	<hr/>
Goodwill recognised	4,035,356



### Pyromex acquisition

In August 2010, PowerHouse Energy, Inc. acquired a 30 per cent shareholding in Pyromex Holding AG ("Pyromex"). In January 2011, PowerHouse Energy, Inc. purchased a call option for US\$50,000 to acquire up to an additional 21 per cent of Pyromex's shareholding (the Initial Option"). The Initial Option was exercisable in two tranches; the first tranche of 1.8 per cent shareholding was exercisable before 30 June 2011 (subsequently extended to 31 August 2011) and the second tranche, which was conditional upon the exercise of the first tranche, was exercisable on or before 30 June 2012. The Initial Option was conditional upon the successful completion of the reverse acquisition and listing on the AIM market.

On 3 August 2011, the Initial Option was cancelled and replaced with the New Option to acquire the remaining 70 per cent interest in Pyromex for payment of £2.5 million (US\$4.0 million) in cash over the 18 months following completion and a maximum potential further payment of £30.5 million (US\$48.8 million) dependent on the achievement of certain market capitalisation or profit targets of the Group. The New Option was exercisable before 31 December 2011 (subsequently extended monthly thereafter until it expired on 7 May 2012).

Management have assessed the above options and the potential voting rights attributable to the additional shareholding in Pyromex it could have acquired and have determined control existed from the date of the AIM listing, 29 June 2011.

The Pyromex acquisition has been achieved in stages, (30 per cent voting rights acquired in August 2010 and the additional potential voting rights acquired on 29 June 2011) the Group re-measured its previously held equity interest in Pyromex at its fair value and recognised the resulting gain of US\$6,209,876 in comprehensive income for the period.

### Fair values attributable to Pyromex Holding AG's assets and liabilities acquired (\$):

Intangible assets	30,389,655
Property, plant and equipment	7,883,306
Inventory	719,278
Trade and other payables	(952,601)
Deferred taxation	(3,822,980)
Net assets acquired	<u>34,216,658</u>
Attributable to:	
- Non-controlling interests	23,951,661
- Owners of the Company	10,264,997
Carrying value of investment - 31 December 2010	4,005,121
Purchase of call option	50,000
Fair value gain recognised	6,209,876
	<u>10,264,997</u>

### 1.3. Judgements and estimates

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial statements. The areas involving a higher degree of judgements or complexity, or areas where assumptions or estimates are significant to the financial statements such as the impairment of assets and going concern are disclosed with the notes



#### **1.4. Foreign currency translation**

The financial information is presented in US dollars which is the Group's functional currency.

##### **1.4.1. Transactions and balances in foreign currency**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are revalued to the exchange at date of settlement or at reporting dates (as appropriate). Exchange gains and losses resulting from such revaluations are recognised in the Statement of Comprehensive Income.

Foreign exchange gains and losses are presented in the income statement within 'administration expenses'.

##### **1.4.2. Consolidation**

The results and financial position of Group entities with a different functional currency to the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate of 31 December 2011;
- Income and expenses for each income statement are translated at average exchange rates over the period of consolidation; and
- the resulting exchange differences are recognised in other comprehensive income.

The principal rates used for translation are:

	<b>2011 Closing</b>	<b>2011 Average</b>
British Pounds	1.545	1.592
Swiss Franc	1.064	1.150
Euro	1.439	1.403

#### **1.5. Going concern**

The Directors have considered all available information about the future events when considering going concern. The Directors have reviewed cash flow forecasts for twelve months following the date of these accounts. The cash flow forecasts assume no further funding of PowerHouse Energy, Inc. and Pyromex by the Company. The £380,000 convertible loan obtained from Hill Grove Investments Limited, secured prior to these accounts being signed, together with the \$250,000 convertible loan advanced by Linc Energy Limited on 19 June 2012 is considered sufficient to settle outstanding creditors of the Company and maintain the Company's reduced overhead and other limited unforeseen events for at least the next twelve months. In addition, the company is in receipt of a letter of intention of financial support from Hill Grove Investments Pty Limited to ensure the company continues to meet its obligations as they fall due and to ensure it operates as a going concern for a period of at least 12 months. Based on this, the Directors continue to adopt the going concern basis of accounting for the preparation of the annual financial statements.

#### **1.6. Revenue**

Revenue represents the amounts (excluding sales tax) derived from sales of power generation and gasification equipment, plus associated services.

Revenue from the sale of goods is recognised when the risk and rewards associated with the goods has been transferred to the purchaser. Revenue from services is recognised over the period of performance of the services.

#### **1.7. Employee costs**

The Group only has defined contribution plans and the Group pays contributions to separately administered pension or healthcare insurance entity on a contractual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

### **1.8. Operating Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease rentals are charged to the income statement on a straight line basis over the period of the lease. The Group has no finance leases.

### **1.9. Finance income and expenses**

Finance income and expenses are recognised as they are incurred or as a result of financial assets or liabilities being measured at amortised cost using the effective interest method. No finance expenses were incurred in the production of a qualifying asset.

### **1.10. Income tax expense**

The tax expense for the period comprises current and deferred tax.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operates. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements.

### **1.11. Goodwill**

Goodwill arose on the Reverse listing and the acquisition of Pyromex and represents the excess of the consideration transferred over the in net fair value of the net identifiable assets, liabilities and contingent liabilities acquired. Goodwill is stated at cost less any impairment losses recognised.

### **1.12. Intangible assets**

Intangible assets arose on the acquisition of Pyromex and include trademarks and intellectual property related to the Pyromex technology. These were recognised at fair value at the acquisition date and are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the fair value of the intangible assets over their estimated useful lives of 3 years.

No intangible assets were derecognised during the year.

### **1.13. Plant, property and equipment**

Plant, property and equipment are stated at cost less accumulated depreciation. Cost represents the cost of acquisition or construction, including the direct cost of financing the acquisition or construction until the asset comes into use.

Depreciation on plant, property and equipment is provided to allocate the cost less the residual value by equal instalments over their estimated useful economic lives of 3 to 7 years.

An item of plant, property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss is included in the Statement of Comprehensive Income.

### **1.14. Other non-current assets**

Non-current represented the initial investment cost of Pyromex prior to its inclusion in these financial accounts. No impairment losses were recognised on this investment.

### **1.15. Inventories**

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads. It excludes borrowing costs.

### **1.16. Trade and other receivables**

Trade receivables are recognised at fair value. Subsequently they are carried at their initial recognition value less any impairment losses.



### **1.17. Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits.

### **1.18. Deferred taxation**

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date except as otherwise required by IAS 12.

A deferred tax asset is recognised where, having regard to all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements.

Deferred tax assets or liabilities are not recognised if they arise from the initial recognition of goodwill or from initial recognition of an asset or liability that at the time of the transaction affects neither accounting nor taxable profit nor loss. Except, however, where an asset or a liability is initially recognised from a business combination a deferred tax asset or liability is recognised as appropriate.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

### **1.19. Loans**

Loans are financial obligations arising from funding received from financiers and the founding stockholders. These were recognised at fair value, net of any transaction costs incurred. Loans are subsequently carried at amortised cost using the effective interest method.

### **1.20. Trade and other payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### **1.21. Common stock, share capital and share premium**

Proceeds from the issue of common stock or ordinary and deferred shares have been classified as equity. Costs directly attributable to the issue of these equity instruments are shown as a deduction, net of tax, from the proceeds.

### **1.22. Share based payments**

The Group has used share-based compensation, whereby the Group receives services from employees or service providers in exchange for consideration for options in the share capital or shares of the Group. The fair value of the services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the services received, unless that fair value cannot be reliably measured, in which case the fair value of the stock and shares issued is used.

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.



### 1.23. Adoption of new and revised standards

There have been no standards or interpretations that have been adopted that have affected the amounts reported in these financial statements. As at the date of approval of the financial information, the following standards and interpretations were in issue but not yet effective:

IFRS 1 (amended)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
IFRS 7 (amended)	Disclosures – Transfers of Financial Assets
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 1 (amended)	Presentation of Items of Other Comprehensive Income
IAS 12 (amended)	Deferred Tax: Recovery of Underlying Assets
IAS 19 (revised)	Employee Benefits
IAS 27 (revised)	Separate Financial Statements
IAS 28 (revised)	Investments in Associates and Joint Ventures
IAS 32 (amended)	Offsetting Financial Assets and Financial Liabilities

In addition, there are certain requirements of Improvements to IFRSs which are not yet effective.

The Directors do not anticipate that the adoption of these standards and interpretations in future reporting periods will have a material impact on the Group's results.

### 2. Administrative expenses

	2011 US\$	2010 US\$
Employee expenses	1,429,608	957,450
Depreciation and amortisation	1,824,241	51,956
Professional fees	174,853	150,844

### 3. Employee benefits

	2011 US\$	2010 US\$
Wages and salaries	1,078,322	902,192
Employer's taxes and social security costs	264,054	55,258
Pension costs	11,153	-
Healthcare and other	76,079	53,436
Total employee benefits	1,429,608	1,010,886

### 4. Finance expenses

	2011 US\$	2010 US\$
Credal Trust Management	242,275	91,651
Preference stock dividends	41,250	24,750
Citi bank business loan	4,140	5,687
Management loans	14,541	15,940
Other	8,025	-
Total finance expenses	310,231	138,028

## 5. Income tax credit

	2011 US\$	2010 US\$
Current taxation	(800)	-
Deferred taxation	3,029,683	-
Total taxation credit	<u>3,028,883</u>	-

## 6. Loss per share

	2011	2010
Loss after taxation—attributable to owners of the Company (US\$)	(12,581,950)	(2,384,162)
Weighted average number of shares	6.1 245,331,092	117,474,385
Loss per share (US\$)	(0.05)	(0.02)

### 6.1. Weighted Average number of shares

The reverse acquisition has had the effect of converting 7,869,114 common stock and 45,298 preferred stock instruments in PowerHouse Energy, Inc. into 273,766,453 ordinary shares in PowerHouse Energy plc. This has, effectively, resulted in the increasing the number of equity instruments held by the existing stockholders of PowerHouse Energy, Inc. for no additional consideration. Therefore, the weighted average number of shares before the reverse acquisition has been adjusted proportionately to reflect the number of ordinary shares that would have been outstanding if the reverse acquisition had occurred on 1 January 2010.

## 7. Intangible assets

	Goodwill	Pyromex technology	Licence agreements	Total
At 1 January 2010				
Cost	-	-	500,000	<b>500,000</b>
Accumulated amortisation	-	-	(20,833)	<b>(20,833)</b>
Opening carrying value	-	-	479,167	<b>(479,167)</b>
Amortisation	-	-	(25,000)	<b>(25,000)</b>
Closing carrying value	-	-	454,167	<b>454,167</b>
At 31 December 2010				
Cost	-	-	500,000	<b>500,000</b>
Accumulated amortisation	-	-	(45,833)	<b>(45,833)</b>
Opening carrying value	-	-	454,167	<b>454,167</b>
Pyromex acquisition	-	30,389,655	-	<b>30,389,655</b>
Reverse acquisition	4,035,356	-	-	<b>4,035,356</b>
Purchases	-	1,961	490,840	<b>492,801</b>
Amortisation	-	(1,448,642)	(344,652)	<b>(1,793,294)</b>
Impairments	(4,035,356)	(23,537,175)	(600,355)	<b>(28,172,886)</b>
Foreign exchange fluctuations	-	(3,342,961)	-	<b>(3,342,961)</b>
Closing carrying value	-	2,062,838	-	<b>2,062,838</b>
At 31 December 2011				
Cost	4,035,356	27,931,414	990,840	<b>32,957,610</b>
Accumulated amortisation and impairment	(4,035,356)	(25,868,576)	(990,840)	<b>(30,894,772)</b>
Net carrying value	-	2,062,838	-	<b>2,062,838</b>

Goodwill was recognised as the excess of the fair value of the consideration determined in accordance with IFRS 3 accounting for reverse acquisitions over the fair value of the net liabilities acquired.

The initial recognition of the Pyromex technology asset was determined taking into account information available around the time of including the Pyromex results in the consolidated results. The value of the intangible asset was determined by discounting net future cash flows of customers who had expressed an interest in acquiring the Pyromex technology. Cash flows were adjusted for probabilities of their ultimate outcome. In addition to the probabilities associated with each customer, estimates were made for the ultimate selling price, costs associated with each sale and the timescales to produce and install the systems.

Licence agreements represent the capitalised licence fees paid by PowerHouse Energy, Inc. to Pyromex and RenewMe for rights associated with the Pyromex technology.

Following the results of the trials from the plant in Munich, the judgements, estimates and assumptions were re-examined resulting in reducing the expected cash flows associated with the technology. This has resulted in impairments being recognised to the Pyromex technology asset and the related licence agreements assets.

Due to the impairment of the Group's primary intangible asset, the Pyromex technology, the entire amount of goodwill recognised from the reverse acquisition has been impaired.



## 8. Property, plant and equipment

	Pyromex equipment	Energy service equipment	Office equipment	Motor vehicles	Total
At 1 January 2010					
Cost	-	531,257	2,721	13,146	<b>547,124</b>
Accumulated amortisation	-	(463,586)	(683)	(13,146)	<b>(477,415)</b>
Opening carrying value	-	67,671	2,038	-	<b>69,709</b>
Depreciation	-	(26,412)	(544)	-	<b>26,956</b>
Closing carrying value	-	41,259	1,494	-	<b>42,753</b>
At 31 December 2010					
Cost	-	531,257	2,721	-	<b>533,979</b>
Accumulated amortisation	-	(489,998)	(1,227)	-	<b>(491,225)</b>
Opening carrying value	-	41,259	1,494	-	<b>42,753</b>
Pyromex acquisition	7,840,150	-	43,156	-	<b>7,883,306</b>
Reverse acquisition	-	-	3,453	-	<b>3,453</b>
Purchases	-	-	1,629	-	<b>1,629</b>
Disposals	-	(19,249)	-	-	<b>(19,249)</b>
Depreciation	-	(22,010)	(8,937)	-	<b>(30,947)</b>
Impairments	(5,160,586)	-	-	-	<b>(5,160,586)</b>
Foreign exchange fluctuations	(890,288)	-	(4,435)	-	<b>(894,723)</b>
Closing carrying value	1,789,276	-	36,360	-	<b>1,825,636</b>
At 31 December 2011					
Cost	6,949,862	-	45,926	-	<b>6,995,803</b>
Accumulated amortisation	(5,160,586)	-	(9,564)	-	<b>(5,170,167)</b>
Net carrying value	1,789,276	-	36,362	-	<b>1,825,636</b>

Pyromex equipment consists of the plant in Munch and other laboratory test units. The fair values of these assets was determined based on estimated selling prices and/or discounted future cash flows expected to be generated from operation of the equipment. As described in note 7 – Intangible assets, expectations have been revised resulting in impairment losses being recognised.

Energy service equipment included cogeneration units installed at customer's sites. Due to the ongoing costs associated with maintaining the units and the delinquency of customers paying for the power generated from the units, PowerHouse Energy, Inc. abandoned the assets, resulting in their derecognition.

## 9. Inventories

Inventories consist solely of work in progress. No expense for the cost of inventories sold has been recognised (2010: nil). There were no write downs or reversal of write downs in the current or prior period.

## 10. Trade and other receivables

	Notes	2011 US\$	2010 US\$
Other receivables		69,235	6,653
Prepayments		54,693	-
VAT receivable		154,456	-
PowerHouse Energy Group plc		-	461,213
Total trade and other receivables		<b>278,384</b>	467,866

## 11. Cash and cash equivalents

Cash and cash equivalents consist solely of cash balances in bank accounts.

## 12. Deferred taxation

	2011 US\$
At 31 December 2010	-
Pyromex acquisition	3,822,980
Credit to Statement of Comprehensive Income	(3,029,683)
Foreign exchange fluctuations	(421,020)
At 31 December 2011	<b>372,277</b>

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets in respect of losses.

## 13. Loans

	Notes	2011 US\$	2010 US\$
Preferred stock	13.1	-	275,000
Accrued dividends on preferred stock	13.1	33,000	24,750
EnviroEnergy Resources Limited	13.2	-	526,216
Credal Trust Management	13.3	-	1,793,166
Management loans	13.4	349,885	284,215
Citibank business loan	13.5	52,084	77,085
Total loans		<b>434,969</b>	2,980,432
Classified as:			
- Current		57,996	2,980,432
- Non-current		376,973	-

### 13.1. Preferred stock

On 31 March 2010, an outstanding convertible loan of US\$275,000 was converted into 45,298 Series A preferred stock ("Series A"). Each stock of Series A was convertible into one common stock. Series A was to be automatically converted to common stock upon the earlier of:

- the holder of Series A receiving total dividends equal to the amount invested; or
- a public listing.

Series A was entitled to certain preferences including a right to receive a minimum annual dividend of US\$3,000 for each US\$25,000 invested. On 27 June 2011, the Series A holders exchanged their stock holding in PowerHouse Energy, Inc. for shares in PowerHouse Energy Group plc.

The accrued dividends on the preferred stock became due on 31 March 2012.

### 13.2. EnviroEnergy Resources Limited

The balance due to EnviroEnergy Resources Limited at 30 June 2010 of US\$3,930,682 had been advanced under an agreement to purchase common stock in the PowerHouse Energy, Inc. As all amounts due under the agreement had not been received by 30 June 2010 PowerHouse Energy, Inc. was not required to issue the stock, and as such the balance was recorded as a loan liability.

Subsequently, the required payments were received from EnviroEnergy Resources Limited and PowerHouse Energy, Inc. issued 2,593,841 common stock valued at US\$3,995,020.

EnviroEnergy Resources Limited also loaned a total US\$526,216 during 2010 to PowerHouse Energy, Inc. for the purpose of raising funds and business development activity. In addition, EnviroEnergy Resources Limited incurred expenses on behalf of the Company amounting to \$1,409,798. The loan together with the reimbursement of these costs was settled by 31 March 2011 by the issue of common stock in PowerHouse Energy, Inc. and cash payments of \$1,150,000.

### 13.3. Credal Trust Management

On 29 July 2010 PowerHouse Energy, Inc. entered into a loan agreement with Credal Trust Management for US\$1,700,000 originally repayable on 30 November 2010. The loan was secured against PowerHouse Energy, Inc.'s shareholding in Pyromex Holding AG and bore interest at a rate of 10% per annum. The loan was repaid on 15 March 2011 along with interest and penalties. The total amount repaid amounted to US\$2,035,892 and the security over the shareholding in Pyromex AG was released.

### 13.4. Management loans

Loans from management incur interest at 5% per annum. The loans are repayable as PowerHouse Energy, Inc. generates gross profits or, if earlier, within 30 days of termination of management's employment contract. Subsequent to balance sheet date these loans have been settled through a Mutual release agreement.

### 13.5. Citibank business loan

Loan from Citibank incurs interest at the prime rate as published by The Wall Street Journal plus 3% and is repayable in equal monthly installments on \$2,083.

## 14. Trade and other payables

	2011 US\$	2010 US\$
Trade creditors	856,924	99,069
Salary and wage accruals	1,445,926	799,397
RenewMe	1,036,000	-
Customer deposits	939,236	100,000
Other accruals	257,770	486,482
Total trade and other payables	4,535,856	1,484,948
Classified as:		
- Current	3,758,856	1,484,948
- Non-current	777,000	-



#### **14.1. Salary and wage accruals**

The difference between salaries and wages paid and the amounts due under service agreements has been accrued. Post balance sheet date, \$89,404 of accrued salaries was waived by UK employees. Certain of the US employees filed a lawsuit in the US District Court (Nevada) against PowerHouse Energy, Inc. and PowerHouse Energy Group plc for accrued salaries and amounts due to the end of their service contracts to the value of \$1,961,938, plus interest, damages and legal costs. After the lawsuit was filed an agreement was reached with the employees whereby in exchange for a cash settlement of \$25,000, 520,000 shares in the Company and settlement of their legal fees incurred (approximately \$12,000) the case would be withdrawn and the Company and its subsidiary released from all obligations to the employees. The case was withdrawn on 1 October 2012.

#### **14.2. RenewMe**

RenewMe Limited had been granted exclusive rights by Pyromex to use, own, assemble and install and operate Pyromex systems in territories also Licenced to PowerHouse Energy, Inc. The Group entered into a settlement agreement with RenewMe whereby the parties agreed to change the respective exclusive rights pertaining to the Pyromex technology. Under the settlement agreement the Group has the obligation to pay five instalments of Euro 200,000 annually beginning 30 June 2011. All amounts due under the contract have been recognised as a liability on the balance sheet for 31 December 2011. The Directors are currently in productive negotiations with RenewMe regarding the existing licensing agreement.

#### **15. Seasonality**

The Group's business is not subject to any consistent seasonal fluctuations.

#### **16. Post balance sheet events and contingent liabilities**

##### **16.1. Warrant holders**

Since 31 December 2011, 243,229 were exercised and converted into ordinary shares at an exercise price of 18p per share.

##### **16.2. Share suspension**

On 12 April 2012 the Company's shares were suspended from trading on the AIM market. The Directors intend to seek the lifting of the suspension of trading in the Company's shares as soon as possible following the publication of these accounts and the announcement of the interim results for the six months ended 30 June 2012.

##### **16.3. Legal action**

On 7 May 2012 certain former employees of the Company's subsidiary, PowerHouse Energy, Inc. filed a lawsuit in the US District Court (Nevada) against PowerHouse Energy, Inc. and PowerHouse Energy Group plc for accrued salaries and amounts due to the end of their service contracts to the value of \$1,961,938, plus interest, damages and legal costs. On 1 October 2012 a conditional settlement agreement was reached with the claimants whereby in exchange for a cash settlement of \$37,000 and the issue of 520,000 shares in the Company the case was withdrawn and the Company and its subsidiary released from obligations to the claimants. The case was withdrawn on 1 October 2012. The settlement agreement was conditional, amongst other things, on the suspension of the trading in the Company's shares on the AIM market being lifted.

##### **16.4. Lapse of Pyromex option**

On 7 May 2012 the Group's option to acquire 70% of Pyromex Holdings AG, expired. The Group still holds 30% of Pyromex Holdings AG.

##### **16.5. Aspermont loan**

Aspermont Ltd, Dilato Holdings Pty Ltd and Tesla Nominees Pty Ltd collectively provided a facility £100,000 to the Group repayable on demand, which incurs interest at 1 per cent. per month. The Group has fully utilised the facility and is currently in productive negotiations to revise the terms of the loan.

#### **16.6. Hill Grove Loan**

On 19 June 2012 the Group entered into a convertible loan agreement with Linc Energy Limited under which Linc agreed to advance \$250,000 to the Group. The loan is unsecured, repayable on 18 June 2014 and carries interest of 15 per cent. per annum. Linc has the option at any time to convert the loan in part or whole at a conversion price of 1p per share. On 8 October 2012, the Group was advised that all rights under this agreement have been assigned to Hill Grove Investments Limited.

On 8 October 2012, the Group entered into a further convertible loan agreement with Hill Grove Investments Limited under which Hill Grove has agreed to advance £380,000 to the Group. The loan is unsecured, repayable on 5 October 2014 and carries interest of 15 per cent. per annum. Hill Grove has the option at any time to convert the loan in part or whole at a conversion price of 1p per share.



# NOTICE TO THE ANNUAL GENERAL MEETING

Notice is given that the annual general meeting of the members of the Company will be held at 10.00 a.m. on 8 November 2012 at the offices of Merchant Securities Limited at 51 Gresham Street, London, EC2V 7HQ. The meeting will consider and, if thought fit, pass the following resolutions:

## Ordinary business

The following resolutions will be proposed as **ordinary resolutions**:

1. That the Accounts and the Reports of the Directors and of the Auditors for the year ended 31 December 2011 be received.
2. That James Greenstreet, who is retiring by rotation, be reappointed as a Director.
3. That Keith Allaun, who was appointed as a director of the Company since the last Annual General Meeting and being eligible, is reappointed as a Director.
4. That Deloitte LLP be appointed as auditor of the Company from the conclusion of this meeting until the conclusion of the next Annual General Meeting at which accounts are laid and that the Board of Directors be authorised to set the level of their remuneration for the ensuing year.

## Special business

The following resolution will be proposed as an **ordinary resolution**:

5. That, in accordance with section 551 CA 2006, the Directors are generally and unconditionally authorised, and in substitution for any previous authority, to allot the equity securities, as defined in section 560 CA 2006, up to an aggregate nominal amount of £600,000, such authority, unless previously revoked or varied by the Company in general meeting, to expire on 8 November 2013 or, if earlier, the date of the Company's next annual general meeting, except that the Directors may allot relevant securities pursuant to an offer or agreement made before the expiry of the authority.

The following resolution will be proposed as a **special resolution**:

6. That, subject to the passing of Resolution 5, under section 570 CA 2006, the Directors are authorised, in substitution for any previous authority, to allot equity securities, as defined in section 560 CA 2006, wholly for cash for the period commencing on the date of this resolution and expiring on 8 November 2013 or, if earlier, the date of the Company's next annual general meeting, as if section 561 CA 2006 did not apply to such allotment, except that the Directors may allot relevant securities following an offer or agreement made before the expiry of the authority and provided that the authority is limited to:
  - a. the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where their holdings are proportionate, as nearly as possible, to the respective number of ordinary shares held, or deemed to be held, by them, but subject to any exclusions or arrangements the Directors think necessary or expedient for the purpose of dealing with fractional entitlements or legal or practical problems under the laws of any territory or the requirements of any recognised regulatory body or stock exchange in any territory; and
  - b. the allotment of equity securities, otherwise than in accordance with paragraph 6(a), up to a maximum nominal value of £600,000.

## Serious loss of capital

To consider whether any, and if so what, steps should be taken to address the serious loss of capital within the Company, pursuant to section 656(1) of the Companies Act 2006.

## By order of the Board



Keith Allaun

## Registered Office:

16 Great Queen Street  
London  
WC2B 5DG

## PowerHouse Energy Group plc

Registered in England and Wales No. 3934451



## Notes to the notice of AGM

### *Appointment of proxies*

1. As a member of the Company, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
2. A proxy does not need to be a member of the Company but must attend the meeting to represent you. Details of how to appoint the chairman of the meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the meeting you must appoint your own choice of proxy (not the chairman) and give your instructions directly to the relevant person.
3. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, you must complete a separate proxy form for each proxy and specify against the proxy's name the number of shares over which the proxy has rights. If you are in any doubt as to the procedure to be followed for the purpose of appointing more than one proxy you must contact the Company's registrars, Neville Registrars Limited at Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3DA.
4. If you do not indicate to your proxy how to vote on any resolution, your proxy will vote or abstain from voting at his discretion. Your proxy will vote (or abstain from voting) as he thinks fit in relation to any other matter which is put before the meeting.

### *Appointment of proxy using the hard copy proxy form*

5. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold his vote.

To appoint a proxy using the proxy form, it must be:

- a. completed and signed;
  - b. sent or delivered to the Company's registrars, Neville Registrars Limited at Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3DA; and
  - c. received by the Company's registrars no later than 10.00 am on 8 November 2012.
6. In the case of a member which is a Company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the Company or an attorney for the Company.
  7. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.
  8. The Company, pursuant to regulation 41 of The Uncertificated Securities Regulations 2001, specifies that only those ordinary shareholders registered in the register of members of the Company 48 hours before the meeting shall be entitled to attend or vote at the meeting in respect of the number of Ordinary shares registered in their name at that time. Changes to entries on the relevant register of securities after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.

### *Appointment of proxies through CREST*

9. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
10. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID: 7RA11) by 10.00 am on 8 November 2012. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.



11. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as are necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

12. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

#### *Appointment of proxy by joint members*

13. In the case of joint holders of shares, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder (being the first named holder in respect of the shares in the Company's register of members) will be accepted.

#### *Changing proxy instructions*

14. To change your proxy instructions simply submit a new proxy appointment using the method set out in paragraph 6 above. Note that the cut off time for receipt of proxy appointments specified in that paragraph also applies in relation to amended instructions. Any amended proxy appointment received after the specified cut off time will be disregarded.

15. Where you have appointed a proxy using the hard copy proxy form and would like to change the instructions using another hard copy proxy form, please contact the Company's registrar as indicated in paragraph 3 above.

16. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

#### *Termination of proxy appointments*

17. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to the Company's registrar as indicated in paragraph 3 above. In the case of a member which is a Company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the Company or an attorney for the Company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

18. The revocation notice must be received by the Company no later than noon on 8 November 2012.

19. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to paragraph 21 below, your proxy appointment will remain valid.

20. Appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.

#### *Nominated persons*

21. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (Nominated Person) may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

22. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.

#### *Total voting rights*

23. As at noon on today's date, the Company's issued share capital comprised 284,514,426 ordinary shares of 1p each, 17,373,523 deferred shares of 4.5p each and 9,737,353 deferred shares of 4p each. Each

ordinary share carries the right to one vote at a general meeting of the Company and the deferred shares carry no voting rights. Therefore, the total number of voting rights in the Company as at noon on today's date is 284,514,426.

*Communication*

24. Except as provided above, members who have general queries about voting by proxy should contact the Company's registrar, Neville Registrars Limited at Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3DA.