

ReEnergy Group plc

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 5281827)

Annual Report & Accounts 2005



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Chairman's Statement

ReEnergy Group plc

I am pleased to present ReEnergy's first set of results since the Group's creation in November 2004 and its admission to AIM on 30 December 2005.

The principal purpose of our Initial Public Offering (IPO) was to provide the necessary funds to complete two major transactions, the acquisition of Estech Europe Ltd and to secure the Pirelli licence. In addition funds raised provided working capital for these businesses, for Oases, our water desalination business acquired in September 2005, and TRU, our thermal recovery business.

The IPO raised £6.5m by way of equity subscription and a further £6.25m to be provided by Boston Equities International (BEI), who made an irrevocable commitment to subscribe £1.25m for shares at the IPO price of 75p by 31 March 2006 and also to put in place a working capital facility of £5m.

It became clear in March of this year that BEI was not going to honour either of its commitments. BEI's default made it necessary to go back to our shareholders and raise further funds. This successful refinancing took place between 11 April 2006 and 24 April 2006. We suspended trading in our shares during the refinancing. Our refinancing raised £12.75m at 30p per share. I was very pleased and encouraged by the support that we received from our institutional shareholders. Our shares were readmitted to trading on 25 April 2006.

We have given all our shareholders the opportunity to subscribe for shares on the same terms where we are permitted so to do by the relevant security regulations. We will be contacting those who express an interest in acquiring more shares.

Brian Harcourt, who is a significant shareholder in Boston Equities International, has resigned as Deputy Chairman and left the Board of Directors.

We are in the process of recruiting a Finance Director to further strengthen our executive management team and we expect an appointment to be made in the near future. Additionally we are in the process of recruiting further non-executive directors.

We have recently appointed Corporate Synergy as our broker and the Cardew Group as our public relations advisers.

Financial Overview

Notwithstanding the turbulence referred to above, expenditure is consistent with budgets. However the Group has a high level of expenditure as all its activities are in project and business development. However, management will continue to concentrate on increasing the efficiency of Group business processes in order to reduce this expenditure and accelerate project development.

Waste Management

Estech

We completed the acquisition of Estech in December 2005. Our immediate objectives are to secure the Hereford and Worcester Project and to reduce expenditure. Achieving these objectives should position the company to win other major waste management contracts.

Chairman's Statement

(continued)

ReEnergy Group plc

The Hereford and Worcester Project is a complex matrix of contracts involving a number of parties. We have been progressing this against a clear and achievable programme of events. The Council(s) remain(s) firmly committed to the Project and we have made significant steps in refining the project documentation with the target of commercial close by the end of July.

Also we have pre-qualified for a major waste contract with Wakefield District Council. Estech is part of a consortium including Vosper Thorneycroft and is one of three parties moving forward to the next stage of negotiation. The project will involve two Estech Fibrecycle facilities, a 50,000 tonne Anaerobic Digestion Facility and several other process elements on a nine hectare site in South Kirby. The project also involves the operation of three separate Household Recycling Centres in the Wakefield area and a Transfer Loading station.

Since the acquisition of Estech, we have been reviewing the resources available to negotiate, develop and deliver projects. We are introducing greater rigour into the project management process to improve efficiency and reduce costs.

Pirelli Ambiente

The Pirelli Licence agreement was concluded on the completion of the IPO in December 2005. Since that time we have been working with Pirelli to develop an information strategy directed at the EU Waste Framework Directive development programme in the context of Refuse Derived Fuel (RDF). This is being actively promoted in the European Commission by a number of member states and is targeted at RDF being categorised as a product (i.e. a fuel) and not a waste. This categorisation would remove the obligation for any process burning RDF to comply with the Waste Incineration Directive (WID). Pirelli already produce RDF in Italy which is used in combustion processes outside of the WID as Italy has granted exemption by Green Certificate. A similar and parallel initiative is being undertaken by ReEnergy to achieve this in the UK and this involves support from Pirelli. The potential for high grade RDF as a valuable renewable energy source is a matter of discussion between the waste sector and government. ReEnergy is actively involved in that debate with the objective of the early application of the technology to local authority waste management contracts arising from the Landfill Directive diversion targets.

Thermal Recovery Unit (TRU)

The licensor and developer of the TRU process has completed a 150kw test unit which is available for witness testing at the Milpitas landfill site at San Jose in California. This has been accomplished more slowly than we expected. Following testing we will need to expedite the delivery of our machine for Iberdrola's Carballo site in Spain. This machine will use a different specification heat transfer medium but this should not pose any major issues. The TRU market is a serious opportunity for the Group and the developer's delays are unhelpful to our exploitation of this potential. Now that the developer has produced a unit in client application form ReEnergy has initiated discussions about how we can assume certain of the engineering and supervision of sub contractor manufacturing activities that will accelerate the delivery process and claw back some of the delay.

Water Desalination (Oases)

Since our acquisition of Oases in October 2005, the business has made good progress to achieve the targets that have been set in the Purchase agreement. The first performance milestone has been achieved in establishing four fully formed Joint Ventures with developed business plans within 90 days of the ReEnergy IPO.

Five joint ventures have commenced operation since the year end. These are Magh Oases (Morocco), Oaseslat (Mexico and Latin America excluding Peru and Chile), Oaseslat Peru, (Peru and Chile) Oases Florida (Florida) and Oases Australia (Australia). Two further joint ventures have been formed and the business plans for these are being developed for approval.

The focus is now on the joint ventures delivering revenue generating projects. The four leading developments are Marcona, Peru, (16,000cmd), Diamante Del Mar, Mexico, (8,000 to 16,000cmd, Cabo San Lucas, Mexico (10,000cmd.) and Baha Mar, Bahamas, (9,000cmd). (cmd = cubic metres per day). Numerous other project opportunities are also being evaluated.

A new company, Oases Federal Systems (OFS) has been formed as a wholly owned subsidiary of Oases Global Systems to accommodate the receipt of a Cooperative Research and Development Agreement (CRADA) with the U.S. Departments of Energy (DoE) and Defence (DoD). The objective of the CRADA is to commercialise the Oases Plasma Chemical Reactor (PCR) Technology. It is believed that the use of the PCR for the pre-treatment of seawater prior to desalination will give Oases a significant competitive advantage in developing its desalination systems.

PowerBuoy Project, Eureka California

This project to develop a 20MW PowerBuoy generating project at Eureka is progressing to programme. A bond of \$60,000 has been lodged as security for the negotiations for a power purchase agreement which should be concluded in July, following which the 12 month permitting process should begin. Installation is programmed for completion in 2009.

ITI Gasifier

The Memorandum of Understanding between ReEnergy and ITI in relation to a licence agreement or joint venture agreement lapsed. The two companies are now discussing working together on individual projects where ITI Gasifier technology would be employed with the Estech Fibrecycle® process. Successful performance tests have been carried out on this.

Outlook

Following our successful refinancing we are well equipped to deliver the business plan set out in our admission document.

Board of Directors and Advisers

ReEnergy Group plc

Directors

Michael Roger Hewitt
Paul Craven
Howard Flight (Independent non-executive)
Steven Mueller (non-executive)

Secretary

Max Herbert

Registered Office

211 Piccadilly
London
W1J 9HF

Company number

Registered number 5281827

Nominated Adviser

Strand Partners Limited
26 Mount Row

London W1K 3SQ

Broker

Corporate Synergy plc
30 Old Broad Street
London EC2N 1HT

(Appointed 12 May 2006)

Bankers

Bank of Scotland plc
PO Box 39900, Level 7
155 Bishopsgate
London EC2M 3YB

Audit Committee

Howard Flight (Chairman)
Steven Mueller

Remuneration Committee

Howard Flight (Chairman)
Steven Mueller

Appointments Committee

Michael Roger Hewitt
Paul Craven
Howard Flight

Auditors

Baker Tilly
2 Bloomsbury Street
London WC1B 3ST

Solicitors

Squire, Sanders & Dempsey
(previously as Haarmann Hemmelrath)
Tower 42, 28th Floor
25 Old Broad Street
London EC2N 1HQ

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

The Directors present their report and the Group's audited accounts for the period ended 31 December 2005, and the Company's accounts for the period from 9 November 2004 (date of incorporation) to 31 December 2005.

ReEnergy Group plc acquired the whole of the issued share capital of Renergy Pacific Corporation on 13 December 2004 by way of a share for share exchange. As explained in the accounting policies (under basis of consolidation) this combination has been accounted for under the merger accounting convention and accordingly the results of the Group are presented as if Renergy Pacific Corporation had always been part of ReEnergy Group plc, even though the latter company was only incorporated in November 2004.

Principal Activities

ReEnergy Group plc is a Renewable Energy company and this involves:

- Processing municipal solid waste using Fibrecycle® technology to recover recyclable materials and produce re-usable organic fibre (Estech),
- Production of high grade combustible fuel from solid waste which is used as a substitute for coal at power stations and cement kilns (Pirelli),
- Power generation from waste heat involving the recovery of low grade waste heat from industrial processes and converting it into electricity (TRU), and
- Water Treatment involving seawater desalination for niche applications (Oases).

Business review

A review of the development of the business during the period and the prospects for the Group is given in the Chairman's report. (See page 3.)

Share Capital

The Company was incorporated on 9 November 2004 at which date the Company had an authorised share capital of £1,400,000 divided into 1,400,000 Ordinary shares of £1 each.

By an Ordinary resolution dated 17 March 2005, the authorised share capital of the Company was subdivided into 28,000,000 ordinary shares of 5 pence each and by a special resolution of the same date the articles of the company were amended accordingly.

By an Ordinary resolution passed at an Extraordinary General Meeting of the Company held on 13 December 2005, the authorised share capital of the Company was increased from £1,400,000 to £5,400,000 by the creation of an additional 80,000,000 ordinary shares of 5 pence each, each share ranking pari passu in all respects.

By a special resolution passed at an Extraordinary General Meeting on 13 December 2005 the articles of association were amended and the statutory pre-emption rights were disapplied.

The changes in capital structure were made to facilitate the group flotation.

On 24 March 2006 272,791 new ordinary shares of 5p were issued to Strand Partners Limited in consideration for financial advisory services, valued at £204,593 and 272,791 to Cenkos Limited in consideration for broking services valued at £163,593.

On 25 April 2006 the Company announced that it had raised £12.75m and issued 42,500,000 ordinary 5p shares as fully paid to a number of institutional investors.

On 19 May 2006 the Company issued 833,333 ordinary 5p shares in the Company to Strand Partners Limited in consideration of corporate advisory services to the company valued at £250,000.

Options to subscribe for ordinary shares

On 18 December 2004 Roger Hewitt was granted 500,000 share options in the Company, which are exercisable at 5 pence from 18 December 2005 until 17 December 2007.

On 18 December 2004 Paul Craven was granted 500,000 share options in the Company, which are exercisable at 5 pence from 18 December 2005 until 17 December 2007.

Warrants

On 20 October 2005 Boston Equities International was granted 400,000 warrants to subscribe for ordinary shares at a price of 37.5 pence per ordinary share exercisable until 19 October 2008.

On 9 August 2005 as part of the terms of their agreement to act for ReEnergy, Strand Partners Limited was granted a warrant on the following terms:

- (i) Strand Partners Limited will be entitled to subscribe for Ordinary Shares in the Company at any time during the three years following the date of such issue of such warrant; the number of shares to be issued pursuant to the warrant is 2 per cent of the lesser of: the Ordinary Shares in issue at the time the warrant is exercised; or 150% of the number of Ordinary Shares in issue on completion of the Placing; and
- (ii) The exercise price of the warrant will be the same price per share as the placing price (75p).

On 12 May 2006, as part of the consideration for them acting as brokers to the Company, Corporate Synergy Ltd were granted an option to subscribe for 300,000 Ordinary shares at a price per share of 30 pence for a period of 3 years from the date of grant.

Results

The results for the group are set out in the Consolidated Profit and Loss Account on page 22 and commented upon in The Chairman's statement on page 3.

Dividends

The Directors do not recommend paying a dividend. In any case they are precluded from doing so in respect of the period under review as there are no retained earnings.

Substantial shareholders

At 24 May the directors had been notified of the following interests which amounted to 3% or more of the issued share capital of the company:

<i>Name</i>	<i>Number of shares</i>	<i>Percentage</i>
Roy Nominees	16,666,667	20.53%
RAB Capital plc	14,579,804	17.96%
NewSmith Global Opps Hedge Fund	8,666,667	10.68%
Goldman Sachs	6,666,666	8.21%
Boston Equities Corp.	5,164,217	6.36%
Deutsch London	4,284,000	5.28%
ODL Nominees Ltd	3,475,377	4.28%
Artemis Investment Management Ltd	3,000,000	3.7%

Political and Charitable donations

No political or charitable donations were made during the year.

Employees

The Group aims to be an equal opportunities employer with a commitment to help people develop their potential.

Policy with regard to creditors

It is the Group's policy that payments to suppliers are made in accordance with the terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with. At 31 December 2005 the number of days of trade creditors for the Group, calculated by reference to the total amounts invoiced by suppliers was 110 days (2004: 36 days). The 2005 number is distorted by the inclusion of IPO costs as at 31 December 2005 which were settled in early January 2006 and as at 31 May 2006 the number of days is back to around 36 days.

Research and development

Following the acquisition of Oases and Estech Europe it is expected that the Group will invest in research and development where this will secure competitive advantage.

Goodwill

Goodwill arose on the acquisition of the following entities:

Oases UK Ltd.

The price paid for the assets exceeded their valuation by £3,708,000. This goodwill represents the value of the joint ventures that were under negotiation and the value attributed to the management team. Goodwill may become impaired if the joint ventures are not concluded or do not perform to current expectations.

Estech Europe Ltd

This Estech acquisition was made because of the outstanding opportunity it presented with the Fibrecycle technology to establish a substantial business in the waste management market. The estimated payment for this business exceeds the valuation of assets acquired by £22,386,000. This goodwill represents the potential value of the contracts under negotiation. The Goodwill could become impaired if the contracts envisaged are not concluded or are not replaced by similar contracts with other entities.

Financial risk management

Note 26 to the accounts describes the interest rate, liquidity and currency risks that the group is exposed to. At 31 December 2005 the board was of the opinion that the liquidity risk was of the utmost importance to the Group. As a result of the re-financing exercise completed on 25 April 2006 and described in the Chairman's report, the directors now consider that the Group has sufficient liquidity to enable it to operate for the foreseeable future. At this stage of its development the currency and interest rate risks to the Group are considered to be minimal. However, as the Group develops and major projects are implemented, appropriate strategies will be developed to ensure that the currency and interest rate risks to the Group are minimised.

Directors' Report

(continued)

ReEnergy Group plc

Directors

The Directors who served during the period with their interests in the ordinary shares of the Company at 31 December 2005 were as follows:

<i>Name</i>	<i>Date Appointed</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Ordinary Share Capital</i>	<i>Under Options</i>
Brian Harcourt *	09/11/2004	-	-	†
Steven Mueller	09/11/2004	♦ 2,226,110	5.96%	-
Michael Roger Hewitt	09/11/2004	‡ 1,087,500	2.91%	♠ 500,000
Paul Craven •	06/12/2004	364,000	0.97%	♠ 500,000
Howard Flight ♣	28/11/2005	25,000	0.07%	N/A

* Brian Harcourt was a director of ReEnergy Group plc during the period and is also a shareholder and director of Boston Equities. As at the date of Brian Harcourt's appointment Boston Equities held 1,000,000 Ordinary 5p shares and as at 31 December 2005 5,164,217 Ordinary 5p shares. Boston Equities and other companies Brian Harcourt was a shareholder in also held 4,705,439 Common stock of Renergy Pacific which subsequently merged with ReEnergy Group and for which the shareholders received 4,705,439 in ReEnergy Group plc in a share for share exchange.

† Brian Harcourt held no options but Boston Equities held 400,000 warrants exercisable from 20 October 2005 until 19 October 2008.

♦ As at appointment Steven Mueller held no shares in the company but held 2,926,110 shares in Renergy Pacific for which he received 2,926,110 shares in ReEnergy Group plc in a share for share exchange.

‡ This figure includes 1,037,500 shares held by Michael Roger Hewitt and 50,000 shares held by Rosemary Hewitt. Michael Roger Hewitt held 20 subscriber shares on appointment. As at appointment Michael Roger Hewitt held 20 shares, which were subscription shares.

♠ 500,000 granted 18 December 2004 which are exercisable from 18 December 2005 until 17 December 2007.

• Paul Craven held nil shares on appointment.

♣ These are held in the name of Giltspur Nominees. None were held at the date of Howard Flight's appointment to the board.

Directors Liability Insurance

Directors & Officers Liability Insurance has been provided by the Company.

Auditor

Baker Tilly were appointed Auditors during the period. A resolution proposing to re-appoint Baker Tilly as the Company's Auditor will be put to members at the Annual General Meeting.

Going Concern

In the refinancing that was completed in on 25 April 2006 the Company raised £12.75m and as at 31 May 2006 had a cash balance of £10.4m. The Directors are satisfied that this provides adequate resources to continue in operational existence for the foreseeable future. The necessary funds to meet the capital costs of a project such as Hereford and Worcester will be raised independently in their entirety at financial close. The Directors have satisfied themselves that they are in a sound financial position and that sufficient cash is available to meet the requirements of the business. The Going concern basis has therefore been adopted for the preparation of the accounts.

On behalf of the Board



Max Herbert
Secretary

Introduction

ReEnergy Group plc was listed on AIM in December 2005 and is committed to high standards of corporate governance. In March 2006 the Board adopted the guidance on corporate governance given by The Quoted Companies Alliance (2005) which we consider to be appropriate for our business.

The Board is accountable to the shareholders for good governance and the statement below is based on the review of corporate governance that was carried out by the Audit Committee and describes how the principles of good governance have been applied.

Constitution of the Board

Currently the Board consists of two executive directors and two non-executive directors, namely:

Michael Roger Hewitt	- Executive Chairman
Paul Craven	- Chief Operating Officer
Howard Flight	- Senior Independent Non-Executive Director
Steven Mueller	- Non-Executive Director

Brian Harcourt, the Executive Deputy Chairman, resigned on 21 April 2006.

The Board constitution gives rise to two areas of non-compliance that the Audit Committee have considered in their review.

The combination of the roles of Chairman and Chief Executive has the potential to give rise to an undesirable concentration of power in one individual. The Audit Committee has considered this matter and believes that this is in the best interests of the shareholders at this early stage of the Group's development. Roger Hewitt, the Chairman, has widely accepted major experience of the Waste Management business at senior executive level. In the period leading up to the IPO and the following refinancing of the Group, it was very much in the shareholders' interests for the Chairman to have executive control of the Group's activities as he was able both to negotiate external arrangements and lead the Group internally.

At an appropriate time in the future the roles will be split, but in the mean time in order to ensure proper governance;

- The role of Senior Independent Non-Executive Director will continue to require a greater degree of consultation and involvement on the main business issues.
- The Board has met much more regularly than the once a month set out in the approved annual cycle of meetings.
- It is recognised that going forward the Board should be strengthened with the addition of at least one more independent non-executive director.
- Additionally the Board is interviewing candidates for the role of Executive Finance Director to further strengthen the management team.

Non-Executive Directors

Although we have two non-executive directors only Howard Flight passes the strict tests of independence. Howard Flight is the Senior Independent Non-Executive Director and is Chairman of the Audit Committee and the Remuneration Committee. The need for further independent non-executive directors is recognised and the appointment of another non-executive director is currently under negotiation.

Both our Non-Executive Directors are put forward for re-election at the Group's Annual General Meeting. After formal performance reviews by the Chairman both are recommended for re-election. Howard Flight, Senior Independent Non-Executive Director, joined the Board at the end of November 2005. He has brought his considerable corporate experience and financial skills to the Company. Steve Mueller has been on the Board since the company was formed and has valuable working knowledge of the renewables industry and the technologies that we are using. The Chairman expresses his gratitude on behalf of shareholders for the exceptional amount of time and effort that both our Non-Executive Directors have put in to the Company's business during this period that has seen the formation of the Company, the IPO and the refinancing successfully completed.

Committees of the Board

The Board has three standing committees, each of which has terms of reference setting out their authority and duties including the following:

The *Audit Committee* comprises Howard Flight as Chairman and Steve Mueller. The Committee meets as required. It reviews the report and accounts and the preliminary and interim statements, including the Board's statement on Internal Financial Control in the Annual Report, prior to their submission to the board for approval. The Audit Committee also reviews Corporate Governance within the group and reports on this to the Board. In addition the Audit Committee assesses the overall performance of the external auditors including scope, cost effectiveness and objectivity.

The Committee is also charged with reviewing the independence of the external auditors and monitors the level of non-audit fees. These fees are disclosed in Note 2 to the accounts. In the opinion of the audit committee, who have reviewed these fees and the procedures that Baker Tilly have in place to ensure they retain their independence, the auditor's independence is not compromised.

The Committee can meet for private discussion with the external auditors, who attend its meetings, as required. The Company Secretary acts as secretary to the committee. The Committee did not meet during the period but met on one occasion subsequently when both Howard Flight and Steve Mueller were in attendance.

The *Remuneration Committee* comprises Howard Flight, Chairman, and Steve Mueller. The Company Secretary acts as secretary. The Remuneration Committee determines, on behalf of the Board, the Group's policy on executive remuneration and the remuneration packages for Executive Directors. It also approves and administers The Executive Share Option Scheme and the grant of options as part of the remuneration package. The Committee met once during the period and once more subsequently. On both occasions both Howard Flight and Steve Mueller were in attendance.

The *Appointments Committee* consists of the Chairman, Howard Flight and Paul Craven. In addition to its role of considering the appointment of directors and senior managers the committee is also charged with reporting to the Board on the effectiveness of the Board, its sub-committees and its directors and it should do this at the end the annual audit cycle. The committee has not yet met formally but will be doing so to consider the suitability of candidates for the roles of Finance Director and further non-executive directors. The Committee did not meet during the period. The appointment that was made of a non-executive director during this period involved all the executive directors and the Board took independent advice.

Attendance at Meetings

During the period the directors have attended the following meetings of the Board and its sub-committees. No Audit or Appointments Committee meetings were held during this period.

Roger Hewitt	- Board meetings attended 16 out of a possible 16 held during the period
Brian Harcourt	- Board meetings 14/16
Paul Craven	- Board meetings 16/16
Steve Mueller	- Board Meetings 12/16 Remuneration Committee 1/1
Howard Flight	- Board meetings 5/5 Remuneration Committee 4/4

Internal Control

The Board is responsible for reviewing and approving the adequacy and effectiveness of the Group's internal controls, which includes financial and operational control, risk management and compliance.

In order to establish effective procedures for internal control and communicate this throughout the Group, including its subsidiaries, the Board has issued two important documents to all staff. These are 'The Board Protocol' and 'The Manual of Internal Control'.

The key elements of the Group's internal control are set out in these documents. They contain:

- A clearly defined structure for the Group, its subsidiaries and management teams.
- The Board Protocol contains the powers that the Board has reserved to itself which include the approval of all business plans and budgets for the group and all its subsidiaries, the establishment of subsidiary companies and appointment of directors to them, the process for project approval and capital expenditure.
- The Board Protocol contains the terms of reference for the Audit and Remuneration Committees and defines the roles of its Directors.
- It also sets out how often the Board should meet (as a minimum) and adopts an annual cycle of meetings. This covers the process for the preparation of board agendas, board papers and their prior consideration by the management team at its weekly meetings.
- It also sets out how often the Board should meet (as a minimum) and adopts an annual cycle of meetings. This covers the process for the preparation of board agendas, board papers and their prior consideration by the management team at its weekly meetings.

- Detailed business plans and budgets are to be approved annually and performance monitored by the management team and the Board at its monthly meeting.
- In addition the Manual of Internal Control contains the procedures for the approval of expenditure, the levels of authority and the management controls.

The directors acknowledge their responsibility for the Group's system of internal financial control and risk management and place considerable importance on maintaining this. The Manual of Internal Control and the process for authorisation that it imposes together with the Board Protocol, which sets out the process for authorising business plans, budgets and projects, form an important part of the Group's risk management. Even so it should be noted that internal financial control can only provide reasonable and not absolute assurance against material errors, losses or fraud.

There is currently no internal audit function within the Group owing to the small size of the administrative function. However there is a high level of review by directors and the need for them to authorise transactions. The need for a separate internal audit function will be kept under review.

The Board Protocol and The Manual of Internal Control will continue to be updated and refined as operational experience is assessed. In the difficult period prior to our refinancing there was an understandable disruption to normal administration but greater emphasis needs to be placed on the discipline of a formal cycle of meetings and the timely production of documentation.

Going Concern

The Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. The Directors have satisfied themselves that they are in a sound financial position and that sufficient cash is available to meet the requirements of the business.

Relations with Shareholders

The company endeavours to maintain regular communications with shareholders through Regulatory announcements, via the Group's website and by direct contact with its major shareholders. The Board values the views of its shareholders and maintains a regular dialogue with investment and fund managers, other investors and equity analysts to ensure that the investing community receives a consistent view of the Group's progress.

Directors' Remuneration Report

ReEnergy Group plc

The Remuneration Committee ("The Committee") meets at least annually and comprises Howard Flight and Steve Mueller.

The Committee under the chairmanship of Howard Flight is responsible for the determination of the remuneration policy of the Group's executive directors and senior executives. The Committee is also responsible for the administration and operation of the employee share option schemes, making recommendations on this to the board.

Remuneration Policy

The policy of the Group on directors' remuneration is to provide competitive packages, which reward group and above average individual performance. Remuneration packages comprise a basic salary, annual performance-related bonus, pension and participation in the share option scheme together with medical health insurance. Salaries and bonuses are reviewed annually.

Employee Share Option Scheme

Options to subscribe for ordinary shares

On 18 December 2004 Roger Hewitt was granted 500,000 share options in the Company, which are exercisable at 5 pence and remain exercisable until 17 December 2007.

On 18 December 2004 Paul Craven was granted 500,000 share options in the Company, which are exercisable at 5 pence and remain exercisable until 17 December 2007.

Service Contracts

The executive directors have all signed service contracts with the Company. These contracts do not have fixed terms but are subject to 12 months notice on either side. The non-executive directors are appointed by a letter of appointment for a fixed term of two years. Contracts may be terminated by giving two months notice, without compensation for loss of office. All newly appointed directors are required to offer themselves for election at the next Annual General Meeting of the Company and their appointments are subject to them being so elected.

Directors' Remuneration Report

(continued)

ReEnergy Group plc

Directors' emoluments

The following emoluments were paid to the Directors during the period 9 November 2004 – 31 December 2005:

	Salary incl. fees & consultancy	Bonus	Benefits	Total excl. pension	Contributions to a money purchase pension scheme	Share based payments	Total
	£000	£000	£000	£000	£000	£000	£000
M.R. Hewitt	152	20	4	176	-	2	178
P. Craven	132	20	7	159	1	2	162
B.L. Harcourt	98	-	10	108	-	-	108
H. Flight	2	-	-	2	-	-	2
S. Mueller	38	-	-	38	-	-	38
Total	422	40	21	483	1	4	488

The emoluments of directors for the period 9 November 2004 – 31 December 2005 were as follows:-

	£000
Remuneration for management services	483
Payments to a defined contribution pension fund	1
Share based payments	4
Total directors' emoluments	488

Statement of Directors' Responsibilities

ReEnergy Group plc

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

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

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

Independent Auditors' Report

To the Members of

ReEnergy Group plc

We have audited the financial statements on pages 22 to 55.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

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

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

Basis of audit opinion

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

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

Independent Auditors' Report

(continued)

ReEnergy Group plc

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and parent company's affairs as at 31 December 2005 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BAKER TILLY
Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

27 June 2006

Consolidated Profit and Loss Account

For the year ended 31 December 2005

ReEnergy Group plc

	Notes	2005 £000	2004 £000
Administrative expenses	2	(2,795)	(705)
Operating Loss		(2,795)	(705)
Operating loss attributable to: Continuing operations			
Acquisitions in the year		(2,468)	(705)
		(327)	-
Interest income	4	28	-
Finance charges	5	(596)	(103)
Loss on ordinary activities before taxation		(3,363)	(808)
Taxation	6	-	-
Loss on ordinary activities after tax		(3,363)	(808)
Minority interest		30	-
Loss retained on ordinary activities after tax and minority interest	16	(3,333)	(808)
Loss per ordinary share	7	(17.9)p	(5.3)p
Loss per ordinary share (diluted)		(17.9)p	(5.3)p

The Operating Loss for the year arises from the Group's continuing operations

As explained in the accounting policies (basis of consolidation) the profit and loss account has been prepared using merger accounting principles and is presented as if the Group had been in existence throughout the current and prior periods.

The accompanying accounting policies and notes form an integral part of the financial statements.

Group Statement of Total Recognised Gains and Losses

for the period 9 November 2004 to 31 December 2005

	2005 £000	2004 £000
Loss for the year	(3,333)	(808)
Foreign exchange differences on retranslation of net assets of subsidiary undertakings	(26)	61
Total recognised gains and losses relating to the year	(3,359)	(747)

Consolidated Balance Sheet

At 31 December 2005

ReEnergy Group plc

	Notes	2005 £000	2004 £000
Fixed assets			
Intangible assets	9	28,570	123
Tangible assets	10	359	-
Investments	12	3	-
		28,932	123
Current assets			
Debtors due within one year	13	5,926	6
Cash at bank and in hand		2,083	252
		8,009	258
Creditors: amounts falling due within one year	14	(8,766)	(600)
Net current assets		(757)	(342)
Total assets less current liabilities		28,175	(219)
Creditors: amounts falling due after more than one year	14	(1,028)	-
Net assets		27,147	(219)
Capital and reserves:			
Called up share capital	15	1,867	726
Share premium account	16	10,051	-
Share option reserve	16	304	-
Shares to be issued	17	17,927	-
Merger reserve	16	209	209
Profit and loss account	16	(4,513)	(1,154)
Shareholders' funds		25,845	(219)
Minority interest	18	1,302	-
Total capital employed		27,147	(219)

The accompanying accounting policies and notes form an integral part of the financial statements.

Approved by the board and authorised for issue on 27 June 2006.

Michael Roger Hewitt
Executive Chairman

Paul Craven
Director

Company Balance Sheet

At 31 December 2005

ReEnergy Group plc

	Notes	2005 £000
Fixed assets		
Intangible assets	9	2,321
Tangible assets	10	6
Investments in subsidiary undertakings	12	14,535
		<u>16,862</u>
Current assets		
Debtors due within one year	13	8,284
Debtors due after more than one year	13	6,509
Cash at bank and in hand		1,940
		<u>16,733</u>
Creditors: amounts falling due within one year	14	(6,373)
		<u>10,360</u>
Net current assets		10,360
		<u>27,222</u>
Total assets less current liabilities		27,222
		<u>27,222</u>
Net assets		27,222
Capital and reserves:		
Called up share capital	15	1,867
Share premium account	16	10,051
Share option reserve	16	304
Shares to be issued	17	17,927
Profit and loss account	16	(2,927)
Shareholders' funds		27,222

The accompanying accounting policies and notes form an integral part of the financial statements.

Approved by the board and authorised for issue on 27 June 2006.

Michael Roger Hewitt
Executive Chairman

Paul Craven
Director

Consolidated Cash Flow Statement

For the year ended 31 December 2005

ReEnergy Group plc

	Notes	2005 £000	2004 £000
Net cash outflow from operating activities	23	(1,646)	(405)
Returns on investments and servicing of finance			
Interest received		28	-
Finance charges		(437)	(103)
Net cash outflow from returns on investments and servicing of finance		(409)	(103)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(39)	-
Payments to acquire intangible fixed assets		(147)	(130)
Loan made		(1,000)	-
Net cash outflow from capital expenditure and financial investment		(1,186)	(130)
Acquisitions & disposals			
Purchase of subsidiary undertakings		(899)	-
Net cash acquired with subsidiaries		119	-
Net cash outflow from acquisitions		(780)	-
Cash outflow before financing		(4,021)	(638)
Financing			
Net proceeds from issue of shares		2,354	566
Issue of convertible loan notes		3,926	-
Loans (repaid) / received		(389)	311
Net cash flow from financing		5,891	877
Increase in cash		1,870	239
Reconciliation of net cash flow to movement in net debt:			
Increase in cash in year		1,870	239
Cash inflow from increase in debt financing		(3,537)	(311)
Change in net debt resulting from cash flows		(1,667)	(72)
Loans and finance leases acquired with subsidiaries		(1,130)	-
Loans converted into shares		3,926	-
Translation difference		(39)	-
Movement in funds in year		1,090	(72)
Opening net debt		(137)	(65)
Closing net funds/ (debt)		953	(137)

1. Accounting policies

The principal accounting policies, which have been consistently applied in the Group's financial information throughout the period under review, are as follows:

Basis of accounting

The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom.

Basis of consolidation

The Group has been formed through the combination of nine entities:

- ReEnergy Group plc;
- Renergy Pacific Corporation;
- ReEnergy UK Ltd;
- Oases Global Systems, Inc;
- Oases UK Ltd;
- Estech Europe Ltd.
- Estech Operations Ltd;
- Tass Environmental Technology Ltd; and
- The Fibrecycle Company Ltd.

Under a share purchase agreement dated 13 December 2004 and 17 March 2005, ReEnergy acquired the entire issued share capital of Renergy Pacific Corp. by means of a share for share exchange. As this represented a group reconstruction, merger accounting has been used to recognise the consolidated results of these companies, presenting their financial performance and position as if they had always been merged. Therefore the whole of the results, assets, liabilities and shareholders' funds of the merged companies are consolidated, regardless of the actual merger date. Accordingly, the accounts for the year ended 31 December 2004 reflect the financial position and performance of ReEnergy Pacific Corp. and ReEnergy Group plc. However, ReEnergy Group plc was not incorporated until 9 November 2005 and so the results for this prior year primarily reflect those of ReEnergy Pacific Corp.

On 25 August 2005 the Group acquired Oases Global Systems and on 26 August 2005 it acquired the entire issued share capital of ReEnergy UK Ltd and Oases UK Ltd. On 30 December 2005 the Group acquired Estech Europe Ltd., Estech Operations Ltd., Tass Environmental Technology Ltd., and The Fibrecycle Company Ltd. Acquisition accounting was used in respect of all of these transactions.

Because ReEnergy Group plc was not incorporated until 9 November 2004 the accounts for the Company cover the period 9 November 2004 to 31 December 2005 and are the first accounts for the Company. No comparative prior period results are presented for the Company.

The consolidated results presented for the period reflect those of the Company and Renergy Pacific Corp. for the whole period. The results of Oases Global Systems Inc. have been included from 25 August 2005 with Oases UK Ltd and ReEnergy UK Ltd. being included from 26 August 2005. No results are included for Estech Europe Ltd., Estech Operations Ltd., Tass Environmental Technology Ltd. and The Fibrecycle Company Ltd as these companies were only acquired on 30 December 2005. Balance sheets only have been consolidated in the Group accounts as at the 31 December 2005 for these three companies.

Accounting Policies (continued)

Intangible fixed assets

Intangible fixed assets relate to the intellectual property acquired by the Group either through licence agreements or outright purchase. Intangible fixed assets are stated at historical cost.

Amortisation is provided at rates calculated to write down each asset from the date of its acquisition to its estimated residual value evenly over the term of the licence or its expected useful life, as follows:

Licences	term of the licence
Acquired intellectual property	20 years

Tangible fixed assets

Tangible fixed assets are stated at historical cost.

Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows:

Plant and machinery	4 years
---------------------	---------

Goodwill

Goodwill is stated at cost less accumulated amortisation and any impairment in value. Cost is the difference between the fair value of the consideration paid on acquisition and the fair value of the net assets acquired. Amortisation is calculated to write off the goodwill on a straight line basis over its estimated useful life. This is currently 20 years. Goodwill is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Investments

Investments in subsidiary companies are shown at cost less any provision for impairment.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial information that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial information.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into the profit and loss account for the year.

Accounting Policies (continued)

The financial statements of foreign enterprises are translated into sterling using the temporal method, whereby monetary assets and liabilities are translated at the closing exchange rate and non-monetary assets are translated at their historic rate. The resulting exchange difference is taken directly to the profit and loss reserve.

Share based payments

The Group has applied the requirements of FRS20 'Share-based Payment' in these financial statements.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The assumptions underlying the number of awards expected to vest are subsequently adjusted to reflect conditions prevailing at the balance sheet date. At the vesting date of an award, the cumulative expense is adjusted to take account of the awards that actually vest.

Equity-settled share-based transactions with parties other than employees and those providing similar services are measured at the fair value of goods or services provided, unless this cannot be reliably measured in which case the transaction is measured at the market value of the shares issued.

Leased assets and obligations

Where assets are financed by leasing agreements that give rights approximating to ownership ("finance leases"), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor.

Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss account in proportion to the remaining balance outstanding.

All other leases are "operating leases" and the annual rentals are charged to profit and loss on a straight line basis over the lease term.

Pension costs

The Group makes payments on behalf of certain employees to personal pension plans. The pension costs charged in the financial statements represent the contributions payable by the Group in the period.

Finance costs

Finance costs of debt are recognised in the profit and loss account over the term of the instrument at a constant rate on the carrying amount.

Research and development

It is the Group's policy to write off research and development expenditure in the period in which it is incurred.

Notes to the Financial Statements

(continued)

ReEnergy Group plc

2. Operating loss

Operating loss is stated after charging:

	2005 £000	2004 £000
Depreciation of tangible fixed assets – owned assets	14	-
Amortisation of goodwill	46	-
Amortisation of other intangible fixed assets (licences)	20	8
Auditors remuneration	84	25
Operating lease rentals – land & buildings	148	4
Share based payment expense - options	4	-
Share based payment expense - warrants	300	-
Exceptional legal and professional fees relating to the merger with Reenergy Pacific Corp.	45	-

Amounts payable to the auditors and their associates in respect of both audit and non audit services:

	2005 £000	2004 £000
Statutory audit	40	25
Statutory audit - subsidiaries	41	-
Advice in relation to VAT	3	-
Comprising:		
Company and UK subsidiaries	43	-
Other subsidiaries (associates of Group auditors)	41	-

A further amount of £173,000 was payable to the auditors in respect of professional services relating to the IPO. This has been written off against share premium.

3. Segmental analysis

All of the Group's operating activities relate to the development of its business as a waste management and renewable energy technology provider. Since all of the Group's projects are at a developmental phase with a similar risk and reward profile the directors do not believe it is meaningful to define reportable segments by nature of the renewable resource under development. Accordingly in this development phase, the directors consider there is only one reportable business segment. The operating losses and net liabilities in relation to the group's activities have been incurred primarily in Europe and the US as presented below:

Year ended 31 December 2005

	Operating Loss £000	Net Assets/ (Liabilities) £000
Europe	(2,245)	27,766
US	(550)	(619)
Total	<u>(2,795)</u>	<u>27,147</u>

Notes to the Financial Statements

(continued)

ReEnergy Group plc

Segmental analysis (continued)

Year ended 31 December 2004

	Operating Loss	Net (Liabilities)
	£000	£000
Europe	(176)	(176)
US	(529)	(43)
Total	<u>(705)</u>	<u>(219)</u>

4. Interest Receivable

	2005 £000	2004 £000
Bank interest receivable	<u>28</u>	<u>-</u>

5. Finance Charges

	2005 £000	2004 £000
Interest payable on convertible loan notes	30	-
Interest and finance charges payable on loans	261	103
Underwriting fee payable on acquisition of Pirelli licence	132	-
Fees payable in respect of extension of loans	137	-
Exchange loss	36	-
	<u>596</u>	<u>103</u>

6. Taxation

Factors affecting the tax charge for the year:-

	2005 £000	2004 £000
Loss on ordinary activities before tax	<u>(3,363)</u>	<u>(808)</u>
Loss on ordinary activities multiplied by standard UK tax rate of 30% (2004: 30%)	(1,009)	(242)
Expenses not deductible for tax purposes	132	-
Temporary differences	92	-
Difference between UK and foreign tax rates	(61)	(68)
Adjustments in respect of previous years	19	-
Tax losses carried forward	827	310
Tax (credit)/ charge for period	<u>-</u>	<u>-</u>

Unrecognised deferred tax asset:-

	2005 £000	2004 £000
Tax losses carried forward	3,356	529
Accelerated capital allowances	28	-
Other temporary differences	35	-
	<u>3,419</u>	<u>529</u>

No deferred tax asset has been recognised for tax losses carried forward on the basis that it is not sufficiently certain that circumstances will arise in which these amounts could be recovered.

Notes to the Financial Statements

(continued)

ReEnergy Group plc

7. Earnings per Ordinary Shares

Basic earnings per share are calculated by dividing the loss for the financial year of £3,333,000 (2004: £808,000) attributable to ordinary shareholders by the weighted average number of ordinary shares in issue of 18,659,949 (2004: 15,272,378). The potential ordinary shares at 31 December 2005 have no effect when calculating the diluted earning per share due to the loss for the year.

8. Employees

The average monthly number of persons (including directors) employed by the group was 13 (2004: 2). All staff are employed in administrative or managerial roles.

Staff costs for the above employees and directors

	2005 £000	2004 £000
Wages and salaries	1,016	198
Social security costs	96	10
Other pension costs	1	-
Share option charge	4	-
	<u>1,117</u>	<u>208</u>

Directors' emoluments

	2005 £000	2004 £000
Remuneration for management services	487	105
Company contributions to defined contribution scheme	1	-
	<u>488</u>	<u>105</u>

One (2004: No) director accrued benefits under a defined contribution scheme.

Amounts paid to highest paid director

	2005 £000	2004 £000
Remuneration for management services	<u>178</u>	<u>49</u>

No benefits accrued to the highest paid director in respect of defined contribution schemes.

Emoluments of the Directors are set out in the Remuneration Report on pages 17-18.

Notes to the Financial Statements

(continued)

ReEnergy Group plc

9. Intangible Fixed Assets – Group

Cost	Licences £000	Goodwill £000	Total £000
Brought forward at 1 January 2005	130	-	130
Additions	2,357	26,094	28,451
Acquisition of subsidiaries	47	-	47
Movement arising from retranslation of assets in overseas companies	16	-	16
At 31 December 2005	2,550	26,094	28,644
Amortisation			
Brought forward at 1 January 2005	7	-	7
Charge in year	20	46	66
Movement arising from retranslation of assets in overseas companies	1	-	1
At 31 December 2005	28	46	74
Net book value at 31 December 2005	2,522	26,048	28,570
Net book value at 31 December 2004	123	-	123

The Pirelli licence is included in additions at a cost of £2,321,000. There is a risk that the high-grade Refuse Derived Fuel (RDF) will not be reclassified or exempted to allow its use in coal-fired power stations in the UK. The Directors believe, however, that such a reclassification or exemption is probable in the near to medium term.

Licences represent the rights, for a specified period of time, to exploit certain technologies

Intangible Fixed Assets – Company

Cost	Licences £000	Total £000
Additions	2,321	2,321
At 31 December 2005	2,321	2,321
Net book value at 31 December 2005	2,321	2,321

No amortisation was incurred in the year as the technology could not be exploited until 2006.

Notes to the Financial Statements

(continued)

ReEnergy Group plc

10. Tangible Fixed Assets – Group

	Plant, machinery & equipment £000	Motor vehicles £000	Total £000
Cost			
Brought forward at 1 January 2005	-	-	-
Additions	40	-	40
Acquisition of subsidiaries	238	95	333
At 31 December 2005	278	95	373
Depreciation			
Brought forward at 1 January 2005	-	-	-
Charge in year	14	-	14
At 31 December 2005	14	-	14
Net book value at 31 December 2005	264	95	359
Net book value at 31 December 2004	-	-	-

Assets held under finance leases:-

	2005 £000	2004 £000
The net book value of assets held under finance leases was:-	107	-

Tangible Fixed Assets – Company

	Plant, machinery & equipment £000	Total £000
Cost		
Additions	9	9
At 31 December 2005	9	9
Amortisation		
Charge in year	3	3
At 31 December 2005	3	3
Net book value at 31 December 2005	6	6

No assets were held under finance leases.

11. Acquisitions

Estech Europe Ltd

On 30 December 2005 ReEnergy Group plc acquired an initial 51% of Estech Europe Ltd ("Estech") with the actual consideration payable to be determined with reference to the net present value of projects secured by Estech over a 36 month period.

Prior to the acquisition, ReEnergy made £1m of working capital available to Estech. The Acquisition agreement provided that ReEnergy would continue to provide Estech with sufficient working capital to enable Estech to continue its operations following its acquisition. The Acquisition agreement also provided that ReEnergy would procure that Estech would repay former shareholder loans to the extent of £2.35m in cash within 14 days of the Admission. Of the remaining loans outstanding to former Estech shareholders, £2.35m including accrued interest will be settled by the issue of ReEnergy shares at the price of 75p per share by 30 June 2007, with the final balance of £2.35m including accrued interest being settled by the issue of Re Energy shares at 75p per share by 30 June 2008. ReEnergy will issue further new Ordinary shares to the Estech Europe selling shareholders in the next 36 months pursuant to the agreement, subject to the performance of Estech Europe in that time.

The acquisition agreement also involves the grant to ReEnergy of an option to acquire, via the issue of new ordinary shares:

- (i) a further 24% of Estech's issued share capital in the fourth year following completion of the Estech acquisition on the basis of a valuation of Estech of £20.4m; and
- (ii) the outstanding 25% of Estech's issued share capital in the fifth year following completion of the Estech Acquisition at market value, to be determined pursuant to an agreed mechanism.

The maximum consideration payable to the selling shareholders of Estech in respect of the initial 51% of the capital of the Company being acquired is £15.4m.

In order to achieve the full consideration available under the terms of the agreement Estech will need to generate revenues attributable to the Group of at least £69.3m per annum. The consideration is payable in shares of ReEnergy Group plc at 75p per share for contracts executed on or before 31 December 2007 and at a market price for contracts executed between 31 December 2007 and 30 December 2008.

This Estech acquisition was made because of the outstanding opportunity it presented for the Fibrecycle technology to establish a substantial business in the waste management market. The expected payment that is due for this business exceeds the valuation of the assets by £22,386,000. This goodwill represents the potential value of the contracts under negotiation. The goodwill may become impaired if the contracts envisaged are not concluded.

The board is of the opinion that the book values of the assets and liabilities of the Estech group of companies at the acquisition date represented their fair values.

Notes to the Financial Statements

(continued)

ReEnergy Group plc

Acquisitions (continued)

The acquired assets and liabilities of Estech Europe Ltd. and its subsidiaries were:

	Book & Fair Value
	£000
Tangible fixed assets	151
Intangible fixed assets	47
Debtors	186
Cash at bank and in hand	119
Creditors	(1,377)
Finance leases due after more than one year	(177)
Amounts payable to the Company	(7,516)
Net liabilities acquired	(8,567)
Goodwill	22,386
Consideration	13,819
Satisfied by:	
Shares to be issued	13,400
Acquisition costs	419
Consideration	13,819

The amounts payable to the company include loans from former shareholders that have been assumed by the company at acquisition.

Prior to acquisition the financial year of Estech Europe Ltd ran from 1 July 2004 to 30 June 2005. Since acquisition the accounting reference date has been changed to 31 December. The results of Estech Europe Ltd. in periods prior to the acquisition were as follows:-

	Six months to 31 Dec 2005	Year ended 30 June 2005
	£000	£000
Turnover	7	-
Net operating expenditure	(1,664)	(3,075)
Operating loss	(1,657)	(3,075)
Interest receivable	1	2
Interest payable	(265)	(341)
Loss on ordinary activities before taxation	(1,921)	(3,414)
Taxation	(117)	117
Loss on ordinary activities after taxation	(2,038)	(3,297)

Acquisitions (continued)

Oases UK Ltd

On 30 September 2005 the group completed the acquisition of Oases UK Ltd.

Under the terms of The Asset Purchase Agreement Oases UK Ltd, a subsidiary of ReEnergy UK Ltd which is in turn a subsidiary of ReEnergy Group plc acquired all of the assets of the seller, Oases BVI. The significant assets were intellectual property rights, employment agreements and the interests in the joint ventures. In consideration for the purchase of the assets Oases UK Ltd issued 4,400,000 Ordinary 'C' class shares of 1p nominal value, equal to 44% of its equity shares, to Oases BVI and its designees.

Oases UK Ltd is capitalised with 10 million shares of equity securities divided into three classes. Initially 5,600,000 Class 'B' shares were issued to ReEnergy Group UK Ltd and are convertible to Class 'A' shares on upon ReEnergy meeting its funding commitment at the rate \$0.50 per share. 4,400,000 Class 'C' shares were issued to Oases BVI and its designees and are subject to a vesting schedule whereby a proportion of the 'C' shares are converted to 'A' shares on the achievement of certain milestones in the establishment of the business.

At the 31 December 2005 ReEnergy had provided funds of \$1,045,852 and held 2,091,705 Class 'A' shares. As at 26 May 2006 ReEnergy held 5,270,000 Class 'A' ordinary shares having provided funds to the value of \$2,635,000.

Oases BVI have reported that they have achieved their first milestone and a report is being submitted to the board of Oases Global Systems and then the board of Oases UK Ltd which will mean that 880,000 'C' Class shares will be converted into Class 'A' shares.

ReEnergy has a "call" option and Oases BVI will have a "put" option for each share of Series C Ordinary Shares and each of the shares of Series A Ordinary Shares into which Series C Ordinary Shares is converted (the "Option Shares"). For six months following Admission, ReEnergy has a right to call Option Shares equal to 19 per cent of the outstanding shares of Ordinary Shares of Oases UK Ltd at \$1.00 per share. For a period of time extending to the third anniversary of the closing of the Asset Purchase Agreement to the fifth anniversary of that closing, ReEnergy can "call" the remaining Option Shares at a price per share equal to 100 per cent of an "agreed upon value". During that period each Oases BVI holder of Option Shares shall have a "put" option to sell, all or any portion of the Option Shares held by them to ReEnergy at a price per share equal to 90 per cent of the "agreed upon value". The "agreed upon value" per share has been defined in the Operating and Shareholder Agreement as (i) the aggregate market capitalization of ReEnergy (calculated on the basis of (a) the variable weighted average trading price of its stock for the ten trading days immediately prior to the date of an "analyst report" multiplied by (b) the number of shares of ReEnergy outstanding), (ii) multiplied by the percentage of the market price of ReEnergy stock attributable to the Oases segment of the business (as determined by the "analyst report"), and (iii) divided by the number of shares of Oases UK Ltd outstanding at the time of the calculation.

Ultimately if all the criteria are met then the Oases BVI and its designees will own 4,400,000 "A" shares in Oases UK Ltd which under the terms of the asset purchase agreement can be converted to shares in ReEnergy Group plc.

Notes to the Financial Statements

(continued)

ReEnergy Group plc

Acquisitions (continued)

The board reviewed the fair value of the assets acquired and restated the tangible fixed assets to reflect the fair value of the vapour compression unit. Following this revaluation the price paid for the assets exceeded the fair value of the net assets by £3,708,000. This represents the value of the joint ventures that were under negotiation and the value attributed to the management team. Goodwill may become impaired if the joint ventures are not concluded or do not perform to current expectations.

	Book Value	Adjustment	Fair Value
	£000	£000	£000
Tangible fixed assets	-	182	182
Debtors	46	-	46
Investment in Joint Venture	3	-	3
Creditors	(1,276)	-	(1,276)
Long term loan	(851)	-	(851)
Net liabilities acquired	(2,078)	182	(1,896)
Goodwill			3,708
Consideration			1,812
Satisfied by:			
4,400,000 1p shares in Oases UK Ltd.			1,332
Acquisition costs			480
Consideration			1,812

Oases UK Ltd. did not trade in the period prior to its acquisition.

Renergy Pacific Corp.

On 13 December 2004 and 17 March 2005 ReEnergy Group plc acquired the entire issued share capital of Renergy Pacific Corp. in a share for share exchange. This has been accounted for by the merger method of accounting.

In accordance with sections 131 and 133 of the Companies Act 1985, the Company has taken no account of any premium on the shares issued and has recorded the cost of the investment at the nominal value of the shares issued plus the fair value of any other consideration. The resulting difference arising on consolidation has been credited to the merger reserve.

The nominal value of the shares issued in respect of this amounted to £713,619. Upon acquisition Renergy Pacific Corp. had net liabilities of approximately £(43,000).

Prior to the date of the merger (13 December 2004), the operating losses of ReEnergy Group plc and Renergy Pacific Corp. were £(176,000) and £(529,000) respectively. The operating losses of these companies after the date of the merger and before 31 December 2004 were both £nil.

The net liabilities of ReEnergy Group plc and Renergy Pacific Corp. as at the date of the merger were £(176,000) and £(43,000) respectively.

Notes to the Financial Statements

(continued)

ReEnergy Group plc

12. Investments

Group

On 30 September 2005, as a result of the acquisition of Oases UK Ltd, the Group acquired a 49% share in Magh Oases, a company incorporated in Morocco, value £3,177 (2004: Nil). The investment is valued at cost. This company was formed to own and operate water desalination projects, but has not yet traded.

Company

Shares in Group undertakings:

Additions

£000

14,535

At 31 December 2005

14,535

The Company directly holds investments in the following subsidiaries:-

Name of Company	Principal activity	Country of registration	% of issued shares held and voting rights
Reenergy Pacific Corporation	Holding company	State of Nevada, USA	100%
Estech Europe Ltd.	Waste management	England and Wales	51%
ReEnergy UK Ltd.	Holding company	England and Wales	100%

The Company indirectly holds investments in the following subsidiaries:-

Name of Company	Principal activity	Country of registration	% of issued shares held and voting rights
Oases UK Ltd.	Holding company	England and Wales	100%
TASS Environmental Technology Ltd	Waste management	England and Wales	51%
Estech Operations Ltd.	Dormant	England and Wales	100%
The Fibrecycle Co. Ltd.	Dormant	England and Wales	100%
Oases Global Systems Inc.	Desalination	State of Delaware, USA	100%

Notes to the Financial Statements

(continued)

ReEnergy Group plc

13. Debtors

Group

Amounts falling due within one year:	2005 £000	2004 £000
Unpaid share capital	5,356	-
Other debtors	408	6
Prepayments and accrued income	162	-
	5,926	6

The unpaid share capital represents funds outstanding from the initial public offering.

Company

Amounts falling due within one year:	2005 £000
Unpaid share capital	5,356
Other debtors	286
Amounts receivable from other group companies	2,553
Prepayments and accrued income	89
	8,284

The unpaid share capital represents funds outstanding from the initial public offering.

Amounts falling due after more than one year:

	2005 £000
Amounts receivable from other group companies	6,509

14. Creditors:

Group

Amounts falling due within one year:

	2005 £000	2004 £000
Trade creditors	2,764	110
Obligations under finance leases	102	-
Promissory notes	-	389
Other taxation and social security costs	81	4
Other creditors	4,821	-
Accruals and deferred income	998	97
	8,766	600

The other creditors mainly represent £2,350,000 due to former shareholders in Estech Europe Ltd. and £2,000,000 due to Pirelli & C Ambiente S.p.A. in relation to a licence fee.

The terms of the promissory notes outstanding at 31 December 2004 were as follows:

- principal and interest were due for repayment on 11 February 2005;
- interest was charged at 12 % per annum; and
- charges of \$775 per day were due for late payment.

Notes to the Financial Statements

(continued)

ReEnergy Group plc

Creditors (continued)

Amounts falling due after one year:

	2005	2004
	£000	£000
Obligations under finance leases	177	-
Loans from former shareholders in Oases UK Ltd.	851	-
	<u>1,028</u>	<u>-</u>

Obligations under finance leases and hire purchase contracts:

	2005	2004
	£000	£000
One to two years	100	-
Within two to five years	77	-
After five years	-	-
	<u>177</u>	<u>-</u>

Apart from the finance leases which are secured on the related assets, no security over the Group's assets has been given to any other creditor.

Terms of repayment for loans from former shareholders:

The loan from former shareholders of Oases UK Ltd. is payable in tranches, twice annually on or before 20 July and 20 January. The amount payable is variable based on the post tax income of Oases UK Ltd.

Company

Amounts falling due within one year:

	2005
	£000
Trade creditors	1,423
Other taxation and social security costs	44
Other creditors	4,350
Accruals and deferred income	556
	<u>6,373</u>

The other creditors represent £2,350,000 due to former shareholders in Estech Europe Ltd. and £2,000,000 due to Pirelli & C Ambiente S.p.A in relation to a licence fee.

Notes to the Financial Statements

(continued)

ReEnergy Group plc

15. Share Capital

	31 December 2005 £000	31 December 2004 £000
Authorised		
1,400,000 ordinary shares of £1 each	-	1,400
108,000,000 Ordinary 5p Shares	5,400	-
	<u>5,400</u>	<u>1,400</u>
Issued and fully paid:		
37,342,651 Ordinary 5p Shares (2004 :14,522,378)	1,867	726

Share Issues:

The Company was incorporated on 9 November 2004 with an issued share capital of 50,000 shares of £1 each which were one quarter called up. The authorised share capital was 1,400,000 ordinary shares of £1 each.

On 17 March 2005 the 50,000 issued shares were 100 per cent called up and the Company's issued and unissued share capital was subdivided into twenty 5p shares so that the authorised share capital became £1,400,000 divided into 28,000,000 Ordinary Shares. On the same date 14,272,378 Ordinary Shares were issued to the shareholders of Reenergy Pacific, in a share for share exchange in relation to the share purchase agreement dated 13 December 2004. Also on 17 March 2005 478,450 Ordinary Shares were issued to Libertas Capital Ventures Ltd at 5p per share in settlement for services provided in the amount of £24,000.

On 22 March 2005, 400,000 shares were issued to Michael Roger Hewitt at 5p per share, in settlement for the provision of consultancy services for the period from 9 November 2004 to 16 March 2005 in the sum of £20,000.

On 15 April 2005 the company issued 3,493,011 Ordinary 5p Shares at a price of 50p each to raise £1,747,000 for working capital.

On 1 October 2005, 75,000 Ordinary 5p Shares were allotted to two shareholders; John Ventimiglia and James Morley under the terms of a loan extension agreement, at a price of 50p each totalling £37,500.

On 19 October 2005, 200,000 Ordinary 5p Shares were allotted to Ron & Christine Smith as directed by Boston Equities as part of the consideration paid to them for having made funds of \$500,000 available to Boston Equities in order that Boston Equities could then loan \$500,000 to the Company. The shares were issued at a price of 50p each, totalling £100,000.

On 20 November 2005, 372,237 Ordinary 5p Shares were allotted to Libertas Capital Limited for its work on the Pirelli Ambiente transaction. The shares were issued at a price of 50p each, totalling £186,119.

On 6 December 2005 Howard Flight subscribed for and was allotted 25,000 Ordinary 5p Shares at 80p per share. Total consideration amounted to £20,000.

Share Capital (continued)

On 30 December 2005 6,191,606 Ordinary 5p Shares were issued to the holders of a series of £3,000,000 convertible unsecured loan notes, 1,305,372 Ordinary 5p Shares to the holders of £625,000 convertible unsecured loan notes and 804,598 Ordinary 5p Shares to Ron & Christine Smith pursuant to a loan for \$500,000 arranged by Boston Equities to the Company subsequent to the conversion of these loans.

On 30 December 2005 8,724,999 Ordinary 5p Shares were placed at 75p per share (total consideration £6,543,749) and the entire issued share capital of the Company of 37,342,651 Ordinary Shares was admitted to trading on AIM.

The share capital as at 31 December 2004 reflects the 14,272,378 Ordinary Shares of 5 pence each in ReEnergy issued to the shareholders of Reenergy Pacific, plus the 1,000,000 one-quarter called up Ordinary Shares (formerly the 50,000 one-quarter called up shares of £1 each).

Options to subscribe for ordinary shares

1. On 18 December 2004 Roger Hewitt was granted 500,000 share options in the Company, which are exercisable at 5 pence and remain valid from 18 December 2005 until 17 December 2007.
2. On 18 December 2004 Paul Craven was granted 500,000 share options in the Company, which are exercisable at 5 pence and remain valid from 18 December 2005 until 17 December 2007.

Warrants

3. On 20 October 2005, as part of the consideration for raising finance, Boston Equities were granted 400,000 warrants to subscribe for Ordinary Shares at a price of 37.5 pence per ordinary share exercisable until 19 October 2008.
4. Further to their letter of engagement dated 9 August 2005 to provide financial advice leading to a successful IPO, Strand Partners Limited were granted a warrant on the following terms;
 - i) Strand Partners will be entitled to subscribe for Ordinary Shares in the Company at any time during the three years following the date of issue of such warrant; the number of shares to be issued pursuant to the warrant is 2 per cent. of the lesser of: the Ordinary Shares in issue at the time the warrant is exercised; or an uplift of 50 per cent. on the number of Ordinary Shares in issue on completion of the Placing; and
 - ii) the exercise price of the warrant will be the same price per share as the placing price.
5. On 12 May 2006, as part of the consideration for them acting as brokers to the Company, Corporate Synergy Ltd. were granted an option to subscribe for 300,000 Ordinary Shares at a price per share of 30 pence for a period of 3 years from the date of grant.

Notes to the Financial Statements

(continued)

ReEnergy Group plc

16. Reconciliation of Shareholders' Funds and Movements on Reserves

Group

Reconciliation of movements in shareholders' funds:	2005	2004
	£000	£000
Loss for the financial year	(3,333)	(808)
New share capital subscribed (net of expenses)	11,192	176
Increase in shares to be issued	17,927	-
Share options reserve	304	-
Currency translation differences	(26)	61
Issue of shares by Reenergy Pacific Corp.	-	390
Net addition to shareholders' funds	26,064	(181)
Opening shareholders' funds	(219)	(38)
Closing shareholders' funds	25,845	(219)

Movements on Reserves

	Retained earnings	Merger Reserve	Share option reserve	Share Premium	Total
	£000	£000	£000	£000	£000
As at 1 January 2004	(407)	209	-	-	(198)
Retained earnings in 2004	(808)	-	-	-	(808)
Exchange gain on non-monetary assets denominated in foreign currencies	61	-	-	-	61
As at 31 December 2004	(1,154)	209	-	-	(945)
Retained earnings in 2005	(3,333)	-	-	-	(3,333)
Premium on issue of shares	-	-	-	11,530	11,530
Expenses charged to Share Premium account	-	-	-	(1,479)	(1,479)
Employee share option charge	-	-	4	-	4
Warrants issued for services provided	-	-	300	-	300
Movement on re-translation of assets held by overseas subsidiaries	(26)	-	-	-	(26)
As at 31 December 2005	(4,513)	209	304	10,051	6,051

Notes to the Financial Statements

(continued)

ReEnergy Group plc

Reconciliation of Shareholders' Funds and Movements on Reserves (continued)

Merger Reserve:

The merger reserve reflects the difference between the net assets acquired through the acquisition of Reenergy Pacific Corp. and the nominal value of ordinary shares issued.

Company (period from 9 November 2004 to 31 December 2005)

Reconciliation of movements in shareholders' funds:	2005
	£000
Loss for the financial year	(2,927)
New share capital subscribed (net of expenses)	11,918
Increase in shares to be issued	17,927
Share options reserve	304
Closing shareholders' funds	<u>27,222</u>

Movements on Reserves

	Retained earnings	Share Premium	Share options reserve	Total
	£000	£000	£000	£000
Retained earnings in current year	(2,927)	-	-	(2,623)
Premium on issue of shares	-	11,530	-	11,530
Expenses charged to Share Premium account	-	(1,479)	-	(1,479)
Employee share option charge	-	-	4	4
Warrants issued for services provided	-	-	300	300
Reserves carried forward	<u>(2,927)</u>	<u>10,051</u>	<u>304</u>	<u>7,428</u>

17. Shares to be Issued

As at 31 December 2005 the Company owed an amount of £368,000 for commission on funds raised both at IPO and pre IPO. This amount was agreed to be settled by the issue of shares at 75p each.

Additionally, in respect of the deferred consideration on the purchase of 51% of Estech Europe Limited it is estimated that £17,559,000 will be paid in shares. It is expected that most of this consideration will be payable in shares at 75p each. This amount comprises £4,159,000 payable in respect of shareholder loans and an estimate of £13,400,000 payable following the securing of waste management contracts.

18. Movements on Minority Interest

Minority interest calculated on acquisition of Oases UK Ltd.	1,332
Share of loss incurred by Oases UK Ltd. attributable to minority interest	(30)
	<u>1,302</u>

Notes to the Financial Statements

(continued)

ReEnergy Group plc

19. Company profit and loss

As permitted by S230 of the Companies Act 1985, the company has not presented its own profit and loss account. The company's loss for the period 9 November 2004 to 31 December 2005 was £2,623,000.

20. Share-based payments

The following share-based payments were entered into in the year:

On 17 March 2005 478,450 Ordinary 5p Shares were issued to Libertas Capital Ventures Ltd at nominal value in settlement for broking services provided in the amount of £24,000.

On 22 March 2005 400,000 Ordinary 5p Shares were issued to Michael Roger Hewitt at nominal value, in settlement for consultancy services for the period from 9 November 2004 to 16 March 2005 in settlement for the sum of £20,000.

On 1 October 2005, 75,000 Ordinary 5p Shares were issued to John Ventimiglia and James Morley under the terms of a loan extension agreement in the amount of £37,500.

On 19 October 2005, 200,000 Ordinary 5p Shares were issued to Ron & Christine Smith as an additional fee for a \$500,000 loan facility arranged from Boston Equities Corporation.

On 20 November 2005, 372,237 Ordinary 5p Shares were issued to Libertas Capital Limited in connection with its work on the Pirelli Ambiente transaction in the amount of £186,000.

These transactions have resulted in a charge to the profit and loss account for the period of £181,000 and to license costs capitalised of £186,000.

FRS 20

A charge is made to the profit and loss account based on the fair value of equity settled grants and warrants in accordance with FRS 20. Fair values have been calculated using the Black Scholes model.

The weighted average contractual life relating to equity settled instruments outstanding at the year end was 2½ years.

	2005		2004	
	Instruments No.	Weighted average exercise price	Instruments No.	Weighted average exercise price
Outstanding as at 1 January	1,000,000	5.0p		
Granted during year:				
Employee options			1,000,000	5p
Warrants issued in respect of services provided	1,520,280	47.3p		
Outstanding as at 31 December	2,520,280	30.6p	1,000,000	5p
Exercisable as at 31 December	2,520,280	30.6p	1,000,000	5p

Notes to the Financial Statements

(continued)

ReEnergy Group plc

Share-based payments (continued)

The inputs into the Black-Scholes model were:

	2005	2004
Weighted average fair value at date of grant	65.1p	5p
Weighted average exercise price at date of grant	47.3p	5p

Expected volatility was estimated to be 29.2% based on taking an average for a peer group of similar companies over a three year period. This was thought more instructive than basing the estimate on the limited history or trading in the company's shares.

The risk free rate was 4.9% for both years.

The company has made no dividend payments to date and there is no expectation of making payments in the immediate future, this variable has been set to zero for all grants.

Equity settled instruments outstanding at the end of the year have the following expiry dates and exercise prices.

Expiry date	Exercise price	2005 Options No.	2004 Options No.
17/12/2007	5.0p	1,000,000	1,000,000
06/09/2008	37.5p	400,000	-
29/12/2008	75.0p	1,120,280	-

21. Operating leases

Group

At 31 December 2005 (2004) the group was committed to making the following payments during the next year under non-cancellable operating leases as follows:-

	Land and buildings	Land and Buildings
	£000	£000
Expiring between 2 and 5 years	91	11
Expiring in 5 years or more	55	-
	<u>146</u>	<u>11</u>

Company

The company has no commitments under operating leases.

22. Pension commitments

The Group pays pension contributions to personal pension plans for certain employees, the assets of which are held separately for each employee in independently administered funds. The pension cost charge represents contributions payable by the Group for the period and amounted to £1,458 (2004 Nil). £1,458 of contributions remained payable at the year end and are included in accruals.

Notes to the Financial Statements

(continued)

ReEnergy Group plc

23. Reconciliation of Operating Loss to Net Cash Inflow/ (Outflow) from Operating Activities

	2005 £000	2004 £000
Operating loss	(2,795)	(705)
Depreciation of tangible assets	14	-
Amortisation of goodwill	46	-
Amortisation of other intangible assets	20	8
Write-off of intangibles	-	38
Employee share option charge	4	-
Warrants issued for financial services	300	-
Translation differences	-	61
(Increase) in debtors	(330)	(1)
Increase in creditors	1,095	194
Net cash outflow from operating activities	<u>(1,646)</u>	<u>(405)</u>

Analysis of change of net debt in year:

	At 1 January 2005 £000	Cashflow £000	Acquisition £000	Other non cash charges £000	Exchange movement £000	At 31 December 2005 £000
Cash in hand and at bank	252	1,870	-	-	(39)	2,083
Debt due within one year	(389)	(3,537)	-	3,926	-	-
Debt due after one year	-	-	(851)	-	-	(851)
Finance leases	-	-	(279)	-	-	(279)
	<u>(137)</u>	<u>(1,667)</u>	<u>(1,130)</u>	<u>3,926</u>	<u>(39)</u>	<u>953</u>

During the course of the year the Company issued ordinary shares to various creditors in lieu of cash payment. These are fully described in Note 20 but the major transactions are summarised as follows:-

Individual or company:	Service provided	Value of service rendered £000
Michael Roger Hewitt	Consultancy	20
Libertas Capital Ventures Ltd.	Broking	27
Libertas Capital Ventures Ltd.	Work on Pirelli Ambiente transaction	186
John Ventimiglia and James Morley	Loan extension agreement	37
Ron and Christine Smith	Loan extension agreement	100

In addition, during the year the company made acquisitions which were funded by deferred share consideration. Details of these transactions are explained in Note 11.

24. Contingencies

The group has a contingent liability to pay a director and former shareholder of Estech Europe Ltd. the sum of £113,000 in respect of deferred salary in the event that Estech Europe Ltd. achieves a profit of £300,000.

Under the terms of a licence agreement entered into on 7 June, 2004 the Group has a potential liability of \$700,000 due to Kirell Energy Systems, Inc. This liability will not crystallise until further performance criteria have been achieved.

25. Commitments

There was no capital expenditure contracted for but not provided for at 31 December 2005 for the Group or the Company.

Estech Europe has secured an option to purchase industrial land at the Hartlebury Industrial Estate, in association with the development of a waste processing plant. The site at Hartlebury will cost Estech Europe £4,005,000 and it is proposed that the acquisition will happen at the same time as financial closure of the Herefordshire and Worcestershire opportunity. The option will expire on 31 July 2006.

A further option to acquire land at the Madley site near Hereford for £934,500 also exists. This option is valid until 2 July 2006.

26. Financial Instruments

The Group uses financial instruments comprising borrowings, cash, liquid resources and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group financial instruments are interest rate risk, currency exchange risk and liquidity risk. The policies for managing these risks are reviewed and agreed by the Board as indicated in the financial risk management note in the directors' report.

Short term debtors and creditors have been excluded from the following disclosures, other than currency risk disclosures.

Interest rate risk

The Group finances its operations through share capital and through some borrowings as set out below.

Notes to the Financial Statements

(continued)

ReEnergy Group plc

Financial Instruments (continued)

The interest rate exposure to the financial assets and liabilities of the group was:-

	Fixed interest rate £000	Floating interest rate £000	Non interest bearing £000	At December 2005 £000
Balances at 31 December 2005				
Assets				
Cash at bank and in hand				
Amounts held in £ stg	-	1,940	119	2,059
Amounts held in US\$	-	-	24	24
Interest rate exposure on assets	-	1,940	143	2,083
Liabilities				
Amounts payable within one year denominated in sterling:				
Finance leases (amounts due within one year)	(102)	-	-	(102)
Loans from former shareholders in Estech payable by cash	-	(2,350)	-	(2,350)
Other creditors	-	-	(2,471)	(2,471)
Amounts payable after one year denominated in sterling:				
Finance leases (amounts due after one year)	(177)	-	-	(177)
Amounts payable after one year denominated in US\$				
Loans due to former shareholders in Oases UK Ltd	(851)	-	-	(851)
Interest rate exposure on liabilities	(1,130)	(2,350)	(2,471)	(5,951)
Interest rate exposure on net liabilities	(1,130)	(410)	(2,328)	(3,868)
Balances at 31 December 2004				
Assets				
Cash at bank and in hand				
Amounts held in £ stg	-	243	-	243
Amounts held in US\$	-	-	9	9
Interest rate exposure on assets	-	243	9	252
Liabilities				
Amounts payable within one year:				
Promissory notes denominated in US\$	(389)	-	-	(389)
Interest rate exposure on liabilities	(389)	-	-	(389)
Interest rate exposure on net assets/(liabilities)	(389)	243	9	(137)

Notes to the Financial Statements

(continued)

ReEnergy Group plc

Financial Instruments (continued)

The terms of repayment of the loans due to former shareholders in Oases UK Ltd are described in the Creditors Note 14.

The Group had no material undrawn committed borrowing facilities at 31 December 2005 (2004: £nil).

The directors consider that the fair value of the Group's financial assets and liabilities is not materially different from their carrying value.

The weighted average interest rate exposures going forward are as follows:

- The floating interest rate receivable on cash balances in £sterling is 0.25% below UK base rate (2004: 0.25% below UK base rate). At 31 December 2005 the interest rate receivable on cash balances was 4.25%.
- The average interest rate payable on liabilities with fixed rates of interest is 8.0% (2004: 12.2%).
- The average interest rate payable on liabilities with floating interest rates was 2% above UK base rate (2004: Nil).
- The average period until maturity of liabilities with no interest is less than 1 year.

Liquidity risk

The Group seeks to manage this risk by ensuring that sufficient financial liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. It was in order to ensure the provision of liquid fund for the future development of the Group that the initial public offering was undertaken on 30 December 2005.

Currency exchange risk

The Group has subsidiaries in the USA and is subject to currency exposures on both its balance sheet and transactions undertaken during the year. The Group has not made use of any currency options.

The group had the following monetary assets and liabilities denominated in US\$ at 31 December 2005

		2005	2004
Net monetary (liabilities) denominated in US\$	In US\$000s	(1,548)	(1,071)
Net monetary (liabilities) denominated in US\$	In £000s	(900)	(555)
Net monetary assets/ (liabilities) denominated in £ sterling	In £000s	(886)	207

Financial Instruments (continued)

Borrowings

The Group has purchased some fixed assets during the year that are financed on finance leases at fixed interest rates. These leases were outstanding at the year end.

In the course of the year the Group made use of the following borrowing facilities all of which were repaid before the year end:

£3,625,000 Convertible Loan Notes	- interest payable at 7% per annum
\$500,000 Promissory Notes	- interest payable at 1.5% per month
\$750,000 Promissory Notes	- interest payable at 12.2% per annum

Financial assets

At 31 December 2005 £1.9m was on deposit with the Bank of Scotland paying 4.25% interest per annum.

27. Related party transactions – ReEnergy Group plc

The following definitions apply to entities referred to in the related party transactions note.

(a) Brian Harcourt was a related party of the Group by reason of having been a director. He is also a director and shareholder in Boston Equities, and a shareholder and holder of options in the Company. Boston Equities are also shareholders in Ocean Power Technologies Inc. (OPT) from whom the Group has a technology licence for the development of its 'PowerBuoy' technology at Eureka City in California, US.

During the 2 years ended 31 December 2005 the following transactions occurred between the Group and Boston Equities:

Boston Equities charged the Group a monthly fee of £7,500 in respect of services rendered by Brian Harcourt. The total charge in the 13 months ended 31 December 2004 was £97,500 which is reported within Directors Emoluments. In addition, Boston Equities charged a further £10,000 in respect of the services of Ross Lyndon James, who provided consultancy services to the Group during 2005.

On 26 May 2005 the Group engaged Boston Equities as its exclusive representative to advise on the acquisition of various targets, including Oases BVI and Oases Corp. This agreement is for 36 months, with fees to Boston Equities either being calculated at 5% of the aggregate total consideration or group business valuation, whichever is greater, or, in respect of Oases BVI and Oases Corp, 7.5% of the value ascribed to Oases UK Ltd on admission to AIM. At 31 December 2005 an amount of £345,000 was due to Boston Equities in settlement of the liability in respect of the agreed valuation of Oases UK Ltd. This liability was paid in January 2006.

On 19 May 2005 a commitment was entered into between the parties whereby Boston Equities would underwrite, for a period of six months, a capital commitment by the Group of £4.8 million. This capital commitment was required to progress the Group's ongoing negotiations with Pirelli Ambiente for the future establishment of a joint venture between them. The terms of this commitment were that it attracted a funding fee of 5 %, a commitment fee of 1.5 %, and interest at 250 basis points over LIBOR. Boston Equities received payments totalling £72,000 in respect of this commitment.

Related party transactions – ReEnergy Group plc (continued)

A further arrangement was also entered into on 12 August 2005 between the parties whereby Boston Equities would receive a success fee of 4.5 % in respect of any financing raised by it on behalf of the Group. Payment of £5,037 was made in respect of this.

On 16 November 2005 a similar commitment was entered into between the parties whereby Boston Equities would underwrite for a two month period a capital commitment by the Group of £2.0m. Boston Equities received £60,000 in respect of this commitment.

On 7 September 2005 the Group received a loan from Boston Equities for \$500,000, repayable on 6 January 2006. The terms of this loan were that the Group would pay an interest charge of 1.5% per month from 7 September 2005 until such time that the loan was repaid. The Group would also pay a loan establishment fee of 8% (\$40,000), allot 200,000 ordinary shares to Boston Equities (or its nominees), grant 400,000 warrants to Boston Equities or its nominee, exercisable from Admission at a price of 37.5pence per Ordinary Share and allow any outstanding balance on the loan to be converted to shares in the Group at a 50% discount to the price at admission. (The warrants remain exercisable for three years.) The balance of the loan was converted into 804,598 ordinary shares on 30 December 2005.

200,000 Ordinary Shares which were allotted to Ron and Christine Smith, being the nominees of Boston Equities, at a market price of 50p per Ordinary Share. An amount of £23,193 (\$40,000) was paid in settlement of the establishment fee.

On 22 December 2005 Boston Equities International agreed to provide a working capital facility of £5m to fund a portion of the working capital requirement and on the same date subscribed irrevocably for 1,666,667 Ordinary Shares at the placing price of 75p per share on or before 31 March 2006. As explained in note 28b, Boston Equities International defaulted on this commitment.

(b) Strand Partners is a related party by reason of having rights to future Ordinary Shares in the Company. See below and Post Balance Sheet Events Note 28a.

On 9 August 2005 an agreement was made between the Group, Strand Partners and Boston Equities whereby Strand Partners and Boston Equities would co-manage the raising of £4 million on behalf of the Group, with a fee of 7 % being paid to whichever co-manager was responsible for the funds raised. Strand Partners have been paid £91,000 in settlement of this commitment. Boston Equities were paid £162,750 in respect of their commission on funds raised.

As part of their terms of engagement dated 9 August 2005, Strand Partners are also entitled to a warrant issued immediately on Admission on terms as follows: (i) Strand Partners will be entitled to subscribe for Ordinary Shares in the Company at any time during the three years following the date of issue of such warrant; (ii) the number of shares to be issued pursuant to the warrant is 2% of the lesser of: the Ordinary Shares in issue at the time the warrant is exercised; or an uplift of 50 % on the number of Ordinary Shares in issue on completion of the Placing; and (iii) the exercise price of the warrant will be the same price per share as the Placing Price.

Strand Partners have been paid shares in the company valued at £204,594 (272,791 shares valued at 75p each) in settlement of their commission on placing funds. In addition Strand Partners were due cash of £307,362 in respect of corporate finance fees for advising on the AIM listing, Both these amounts were outstanding payable at 31 December 2005.

Related party transactions – ReEnergy Group plc (continued)

(c) J. Ventimiglia and J. Morley are related parties of the Group by reason of being Shareholders.

On 1 December 2004 J. Ventimiglia and J. Morley loaned \$750,000 to the Group. This loan was supported by a personal guarantee from Brian Harcourt and Ross Lyndon James. Ross Lyndon James is also a director of Boston Equities.

The terms of this loan were as follows:

- principal and interest were due for repayment on 11 February 2005;
- interest was charged at 12 % per annum; and
- charges of \$775 per day were due for late payment.

On 1 February 2005 this was replaced by a loan for \$785,000. The terms of this loan were as follows:

- principal and interest were due for repayment on 16 June 2005;
- interest was charged at 12 % per annum; and
- charges of \$225 per day were due for late payment.

This loan was then further renewed on 21 June 2005 and increased to \$825,000, with the terms being amended to:

- principal and interest were due for repayment on 15 October 2005;
- the parties were each allotted 37,500 shares in the Company which at a share price of 50p per Ordinary Share gave a cost charged in the year of £37,500;
- interest was charged at 12 % per annum; and
- charges of \$1,000 per day were due for late payment

This loan was repaid on 6 December 2005 and therefore the balance outstanding at 31 December 2005 was nil. Total interest and charges relating to this loan amounted to £222,423.

Related party transactions - Renergy Pacific

Renergy Pacific's initial investor and stockholder was Boston Equities. Boston Equities is also a shareholder of OPT, with whom Renergy Pacific has entered into a licence agreement to sell and distribute its energy products. Boston Equities also provided consulting services to the company and received company stock for services and guarantees during its development stage period.

Renergy Pacific paid a fee of \$75,000 to OPT in respect of a licence to use its technology.

Another of the founders of Renergy Pacific, Steve Mueller, is a stockholder of TurbineCo LLC and DG Energy Solutions LLC. TurbineCo LLC has provided consulting services to Renergy Pacific, and has also paid certain expenses on behalf of Renergy Pacific, which have since been reimbursed. Renergy Pacific leases office space from DG Energy Solutions. These related-party transactions, including amounts, are outlined below:

In September 2004, 500,000 warrants held by Boston Equities were exercised at \$0.25 per share for \$125,000.

Notes to the Financial Statements

(continued)

ReEnergy Group plc

Related party transactions – Renergy Pacific (continued)

In the same month Renergy Pacific converted a \$280,000 convertible note into 350,000 shares of common stock at \$0.80 per share. It also cancelled 1,125,000 stock warrants held by officers, directors and/or related entities and issued 500,000 shares of common stock at \$0.15 per share.

Renergy Pacific then issued 333,333 shares of common stock at \$0.15 per share to a director, Steve Mueller, and 500,000 shares of common stock at \$0.15 per share to Boston Equities in settlement of monies due in respect of services rendered.

In November 2004 it issued a further 100,000 shares of common stock at \$0.15 per share to Boston Equities in settlement of monies due in respect of services rendered.

In December 2004 Renergy Pacific converted a short-term loan of \$25,691 from Boston Equities into 28,545 shares of common stock at \$0.90 per share.

Renergy Pacific subleases its facilities from DG Energy Solutions, and paid a rent of \$39,002 during the period ended 31 December 2005

During the year ended 31 December 2004 Renergy Pacific received short-term loans from Boston Equities.

Renergy Pacific has paid the following consulting fees to TurbineCo LLC for the services of its former Chief Operating Officer (Steve Mueller - Director), related parties to Renergy Pacific.

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
	\$	\$
Turbine Co LLC	60,000	10,000

During the year ended 31 December 2004 Renergy Pacific accrued interest on notes payable to Boston Equities of \$19,998. Renergy Pacific also accrued interest expense in the same years to a stockholder, John Ventimiglia, in respect of a short-term loan of \$13,075.

Related Party Transactions - Estech Europe

On 19 November 2005 in support of the conditional sale & purchase agreement between the Group and Estech Europe, Boston Equities and the Estech Europe shareholders have agreed a put and call option in respect of the first option payment for the 24 % second tranche of Estech Europe shares, whereby the Estech Europe shareholders, for a period of 24 months after issue, can put the second tranche ReEnergy shares to Boston Equities at market price or Boston Equities can call the shares from the Estech Europe shareholders, for a period of 24 months following issue at market price.

28. Post balance sheet events

- a. On 24 March 2006 the Company issued 491,006 new ordinary shares in the Company of 5p each, 218,125 of these shares were issued to Cenkos Securities Limited in consideration of broking services to the Company valued at £163,594 and 272,791 of these shares were issued to Strand Partners Limited in consideration for the provision of corporate advisory services to the Company valued at £204,594. The services were in connection with the Company's placement of its shares.
- b. The Company's ordinary shares were admitted to trading on AIM on 30 December 2005 pursuant to a placing conducted in reliance upon an Admission Document dated 22 December 2005, (the 'Admission Document') . Contained within the Admission Document were certain commitments made by Boston Equities International ("BEI"), a Maltese Company, relating to the future funding of the Company required by the Company's working capital projections. As a result of the default by BEI to meet its commitment to subscribe for £1.25m of equity at 75p per share on 31 March 2006 and the doubt which this cast over their further commitment to provide a working capital facility of £5m, the Company requested that on 11 April 2006 trading in its ordinary shares be suspended. The company then approached its major shareholders to raise funds to replace these commitments. On 25 April 2006 the Company announced that it had raised £12.75m and issued 42,500,000 ordinary 5p shares as fully paid. The shares were restored to trading on 25 April 2006.
- c. On 20 April 2006 Brian Harcourt, Deputy Chairman resigned from the Company as an Executive Director and as an employee.
- d. In order to fund the Company's cash flow in the period up until the 24 April 2006 Strand Partners Limited loaned the company £850,000. £500,000 was secured on the Company's assets. In the event of a deficit in the realisation of the security and Strand Partners outstanding loans, Roger Hewitt, the Company's Chairman, guaranteed up to £350,000 against his personal assets. These loans were repaid from the proceeds of the placement on 28 April 2006.
- e. On 12 May the Company appointed Corporate Synergy as brokers to replace Cenkos. Corporate Synergy was granted an option over 300,000 Ordinary 5p Shares in the Company exercisable at 30p per share for a period of 3 years from the date of the appointment.
- f. On 15 May 2006 the Company appointed Cardew Group as its Public Relations advisers.

Notice of Annual General Meeting

ReEnergy Group plc

Company Number: 5281827

NOTICE is hereby given that the adjourned annual general meeting of the Company will be held at **Tower 42, 25 Old Broad Street, London, EC2N 1HQ on Thursday 27 July 2006 at 11.00am** for the purpose of considering and, if thought fit, passing the following resolutions, of which resolutions 1 to 9 will be proposed as ordinary resolutions and resolution 10 will be proposed as a special resolution:

ORDINARY RESOLUTIONS

1. To receive and adopt the accounts for the year ended 31 December 2005, together with the Reports of the Directors and the Auditors thereon
2. To re-elect Michael Roger Hewitt as a director of the Company
3. To re-elect Howard Flight as a director of the Company
4. To re-elect Paul Craven as a director of the Company
5. To re-elect Steven Jay Mueller as a director of the Company
6. To appoint Baker Tilly as auditors of the Company until the conclusion of the next annual general meeting of the Company and authorise the directors to fix their remuneration
7. THAT the director(s) be generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 (the "**Act**") to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80) this authority to expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on the date falling 15 months after the date on which this resolution is passed, whichever is the earlier, except that the Company may before the expiry of such period make an offer or agreement which would or might require relevant securities to be allotted after the expiry of the said period and the director(s) may allot relevant securities in pursuance of any such offer or agreement as if the authority given by this resolution had not expired, such that the authorised share capital of the Company be increased from £5,400,000 to £10,000,000, by the creation of an additional 92,000,000 ordinary shares of 5 pence each ranking pari passu in all respects with the existing ordinary shares as approved by way of a written resolution of the members 13 December 2005.
8. That the Company's memorandum of association be amended to reflect the provision of resolution 7 above.
9. To approve the enterprise management incentive share option scheme in the form attached to this notice.

Notice of Annual General Meeting

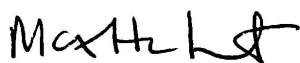
(continued)

ReEnergy Group plc

SPECIAL RESOLUTION

10. THAT, subject to the passing of resolution 7 above, the directors be empowered pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94) for cash pursuant to the authority conferred on them by resolution 7, as if Section 89(1) of the Act did not apply to any such allotment and to expire at the end of the next annual general meeting of the Company or, if earlier, on the date falling 15 months after the date on which this resolution is passed, but to extend to the making, before such expiry, of an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the authority conferred had not expired, such authority to be over the whole of the authorised but unissued share capital of the Company.

By Order of the Board



.....
Max Herbert
Secretary

Registered Office:

211 Piccadilly
London, W1J 9HF

Dated: 27 June 2006

Notes:

- (i) *Members who hold ordinary shares in the Company in uncertificated form must have been entered on the Company's register of members by 5pm on 27 June 2006 in order to be entitled to attend and vote at the meeting. Such members may only vote at the meeting in respect of ordinary shares registered in their names at that time.*
- (ii) *Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on the member's behalf. A proxy need not be a member of the Company.*
- (iii) *A form of proxy is enclosed with this notice and instructions for its use are shown on the form. To be valid, completed forms should be sent (together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority) to the Company Secretary, ReEnergy Group plc at 211 Piccadilly, London, W1J 9HF so as to be received not later than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting or, in the case of a poll taken subsequently to the date of the meeting or adjourned meeting, so as to be received not later than 24 hours before the time appointed for the taking of the poll. Completion and return of a form of proxy does not preclude members from attending and voting at the meeting in person if they so wish.*
- (iv) *The register of directors' interests will be available for inspection at the Annual General Meeting in accordance with the requirements of the Companies Act 1985.*
- (v) *Copies of all the directors' service contracts will be available for inspection at the registered office address, 211 Piccadilly, London, W1J 9HF during usual business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice until the date of the Annual General Meeting and will be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting.*

