



POWERHOUSE ENERGY GROUP PLC

COMPANY NUMBER 03934451

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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COMPANY INFORMATION

| | |
|------------------------------|--|
| Directors | Robert Keith Allaun (Executive Chairman) Nigel Brent Fitzpatrick (Non-executive director) James John Pryn Greenstreet (Non-executive director) |
| Company secretary | Nigel Brent Fitzpatrick |
| Company number | 03934451 |
| Registered office | 16 Great Queen Street London WC2B 5DG, United Kingdom |
| Website | www.powerhouseenergy.net |
| Bankers | HSBC 79 Piccadilly London W1J 8EU, United Kingdom |
| Nominated Adviser and Broker | Sanlam Securities UK Limited 10 King William Street London EC4N 7TW, United Kingdom |
| Registrar | Neville Registrars Limited Neville House, 18 Laurel Lane Halesowen B63 3DA, United Kingdom |
| Auditor | Deloitte LLP 1 City Square Leeds LS1 2AL, United Kingdom |

CHAIRMAN'S REPORT

2012 has been a challenging and difficult year for the Group, for the directors and for the shareholders of PowerHouse Energy Group plc ("PowerHouse"). However, as we close the books on the 2012 financial year we also can see several positive outcomes and encouraging signs emerging.

On 10 October 2012 AIM agreed to a lifting of the suspension in the trading of the Company's shares. Re-establishing ourselves as a viably listed company on the AIM was a significant accomplishment. However, it was only a single step toward our longer-term goals. Our intention is to establish PowerHouse as a pre-eminent provider of commercial, community-scale, Waste to Energy solutions globally.

A rapidly growing market opportunity exists to recover energy, in a fully sustainable manner, from the existing commercial and residential waste stream. Projects are continuing to be developed, worldwide, on a massive scale to leverage this renewable source of energy. We have committed ourselves to the development of a best-of-breed commercial platform on which to base projects of both small and large magnitude.

To that end, working in conjunction with industry experts, we have engaged in a broad evaluation of both existing and emerging technologies and products that would serve as the cornerstone to a commercial platform. We have evaluated and conducted due diligence on a number of companies. While we have decided against pursuing relationships with most of our targets, our explorations have underscored that there is still potential value in our 30% ownership stake in Pyromex Holdings, A.G. ("Pyromex") and that its patented Ultra-High Temperature (UHT) gasification process may hold a unique opportunity for us to work in parallel with their efforts and develop a fully executed, and commercially viable, suite of offerings. PowerHouse has a license in place with Pyromex and has the rights to manufacture the UHT reactor and integrate it into our commercial offerings. Having recently worked very closely with the Pyromex team, it has become clear where the stumbling blocks of the past lay, and we are now prepared to work around those.

Significant, recent, advances in engineering, by a number of resources, including the Powerhouse Energy team, have resulted in an extremely promising near-term prospect for a commercial system that can deliver syngas which can readily, efficiently, and economically be converted into electricity. We're confident that based upon the added process engineering, project management, and commercial expertise that we are building into Powerhouse, we finally will be able to drive forward and move the "science experiment" aggressively into the commercial realm. Renewable energy is the future. Even as additional stores of fossil fuels are discovered, the mandate of mankind is clear: Energy must become cleaner and it must be sustainable. The UHT reactor can become a key component in this process. Generating only Syngas and a minute amount of non-leachable, non-toxic "sand", the effectively emission free (no smoke, no NOx, no odour, no noxious waste at all) unit represents a key building-block to delivering low cost, clean electricity; ultra-pure synthetic fuels; pure hydrogen streams for the use in Hydrogen Fuel Cell applications. Syngas is created efficiently, in a cost-effective manner and in abundance- all from waste. By diverting and gasifying only 5% of the plastic material that goes to landfill after recycle sorting, thousands of homes can be provided with clean electricity. The opportunity is growing. Awareness is growing. The market is growing. And we, and our partners, are poised to take advantage of it

To get there still requires tremendous effort. However, measures have been taken to ensure that we are on our way.

During the latter half of the year we have managed to settle a number of outstanding liabilities that had previously put the Company at risk. We have subsequently progressed additional settlement negotiations and are confident in reaching reasonable outcomes for the Company and its shareholders - in fact turning once adversarial relationships into productive partnerships.

In line with our annual accounts of 2011, the annual accounts for the year ended 31 December 2012 show separate statements for both the Company and the Group. The Company financial statements have been presented prior to the Group financial statements as the Board of Directors believes the Company accounts more accurately represent the on-going position of the Group.

The Company accounts reflect a decrease in net liabilities of £625,579, mainly as a result of a waiver of the loan with its subsidiary to Enl. Administrative costs have been reduced from £2,045,178 in 2011 to £354,571 as a result of focused management and only incurring absolutely necessary costs. The Group accounts show the expiry of the Pyromex option (see 2012 interim Chairman report for further details) and the result of Pyromex no longer being consolidated. Additionally, the Group accounts show the settlement agreements with former employees.

The financial support received from Hillgrove Investments Pty Limited ("Hillgrove") has been a lifeline to the Company that has afforded us the opportunity to emerge from our trading suspension and allowed Powerhouse to continue to develop our business, which we have been doing pro-actively. Hillgrove continues to provide financial support for the Company under the terms of the Convertible Loan Agreement dated 8 October 2012. On 28 June 2013, Hillgrove agreed to amend the repayment date of the previous Convertible Loan note, provided to the Company on 19 June 2012, to 8 October 2014. Details of the loan are included in note 10 to the Company accounts. This additional support from Hillgrove is sufficient for the Company to meet its operational obligations for the next 12 months.

The most pressing challenges facing the Company include resolution to the existing licensing agreement with RenewMe (see note 9 of the Company accounts), resolution to the Aspermont loan (see note 10 of the Company accounts.) and final resolution to any issues outstanding regarding Powerhouse Energy, Inc. Active and productive negotiations are underway to resolve any issues these challenges may represent.

Having regard for the uncertainties to the above challenges, the Directors have a reasonable expectation that the Company and Group will have adequate resources to continue as a going concern for the foreseeable future (refer to note 1.3 in the Company accounts). Thus we continue to adopt the going concern basis of accounting for the preparation of the annual financial statements. However, there remain risks to which shareholders should be aware and we have highlighted them in note 13 of the Company accounts.

The outlook for the Waste to Energy industry is a glowing one. Seven European countries no longer allow landfill of municipal solid waste. In addition to the EU Landfill Directive requires an additional reduction of 35% of the current biodegradable municipal waste sent to landfill by 2016, 18 countries are implementing stringent landfill taxes immediately, driving tremendous demand for realistic, commercially viable solutions to recover the energy value represented in the waste stream. We believe that we are building one such solution.

As we continue to build our new team and our commercial platform continues to develop we are confident that PowerHouse Energy Group will turn the corner to replicable success. We appreciate that this has been a difficult year for all stakeholders of the Company and thank you for continuing to support the Company while it prepares for the next phase of its growth.



Keith Allaun
Chairman
28 June 2013

DIRECTORS' REPORT

The Directors present their report along with the Company's financial statements and the consolidated financial statements for the year ended 31 December 2012. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and will be laid before the shareholders of the Company at the Annual General Meeting to be held on 6 September 2013.

Principal activities

The principal activities of the Group will be to maintain minimal expenditure whilst it develops the Pyromex technology.

Review of developments and future prospects

A review of the development of the business together with an indication of future developments is included in the Chairman's Report set out on pages 4 to 5.

The Company financial statements for the year ended 31 December 2012 are set out on pages 11 to 20. The Company profit for the year after taxation amounted to £554,528 (2011: Loss of £49,853,783), after accounting for a credit for waiver of its £1,109,068 intercompany loan with its subsidiary, Powerhouse Energy, Inc. Included in last year's loss was the impairment of the interest in Powerhouse Energy Inc of £47,830,451. The Group financial statements are set out on pages 23 to 36. The Group loss for the year after taxation amounted to \$2,206,710 (2011: \$32,259,560). The net liabilities of the Company are £1,125,229 (2011: £1,750,808) with the movement in the year set out on page 11. The net liabilities of the Group are \$2,302,034 (2011: \$156,188) with the movement in the year set out on page 24.

The Directors do not recommend the payment of a dividend (2011: £nil)

Principal risks and uncertainties are discussed in note 13 to the Company financial statements.

Details of significant events since the balance sheet date are contained in note 16 to the Company financial statements.

Charitable and political donations

During the year, the Company and Group made no charitable or political donations (2011: £nil)

Research and development

During the year, no research and development expenditure was incurred by the Company. The Group incurred no research and development related costs during the year (2011: £177,237).

Substantial shareholdings

Shareholders holding in excess of 3 per cent of the issued share capital of the Company, which the Company was aware of as at 31 December 2012 were as follows:

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

Directors

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

| | |
|-----------------------------|--------------------|
| Robert Keith Allaun | Executive Chairman |
| Nigel Brent Fitzpatrick | Non-Executive |
| James John Pryn Greenstreet | Non-Executive |

Corporate Governance

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

Payment to suppliers

The Group does not have a standard or code which deals specifically with the payment of suppliers. Total creditor days for the Company the year ended 31 December 2012 were 131 days (2011. 38 days) and for the Group 189 days (2011 127 days).

Going concern basis

The Directors continue to adopt the going concern basis of accounting for the preparation of the annual financial statements, further explanation is available in to note 1.3 of the Company accounts

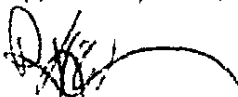
Auditor

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

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

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

Approved by the Board of Directors and signed on behalf of the Board on 28 June 2013.



Keith Allaun
Director

DIRECTORS' RESPONSIBILITIES STATEMENTS

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

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

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

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

BY ORDER OF THE BOARD



Keith Alloun

Director

28 June 2013

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

We have audited the parent Company financial statements of PowerHouse Energy Group plc for the year ended 31 December 2012 which comprise the Company Statement of Comprehensive Income, the Company Statement of Changes in Equity the Company Statement of Financial Position, the Company Statement of Cash Flows and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of Directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Other matters

We have reported separately on the Group financial statements of PowerHouse Energy Group plc for the year ended 31 December 2012. That report includes disclaimer of opinion in respect of the audit evidence available to us and, as a result of this, we have been unable to express an opinion on the Group financial statements



Simon Manning (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Leeds, United Kingdom
28 June 2013

COMPANY STATEMENT OF COMPREHENSIVE INCOME

| | Note | 31 December 2012 £ | 31 December 2011 £ |
|---|------|--------------------------|--------------------------|
| Revenue | | 45,000 | 25,000 |
| Administrative expenses | 2 | (354,571) | (2,045,178) |
| Operating loss | | (309,571) | (2,020,178) |
| Finance income | | 2 | 77 |
| Finance costs | 3 | (124,972) | (3,231) |
| Impairment of investment | 7 | (119,999) | (47,830,451) |
| Loan waivers | 10 | 1,109,068 | - |
| Profit/(loss) before taxation | | 554,528 | (49,853,783) |
| Income tax expense | 4 | - | - |
| Total comprehensive income/(expense) | | 554,528 | (49,853,783) |
| Earnings/(loss) per share (pence) | 5 | 0.19 | (33.39) |
| Diluted profit (loss) per share (pence) | 5 | <0.01 | (33.39) |

COMPANY STATEMENT OF CHANGES IN EQUITY

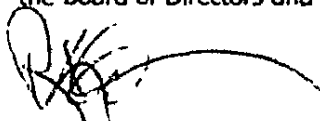
| | Share capital £ | Share premium £ | Deferred shares (4.0p) £ | Deferred shares (4.5p) £ | Retained earnings £ | Total £ |
|---|-----------------------|-----------------------|-----------------------------------|-----------------------------------|---------------------------|--------------------|
| Balance at 1 January 2011 | 486,868 | 714,948 | 781,808 | - | (1,892,636) | 90,988 |
| <i>Transactions with equity participants</i> | | | | | | |
| - Consolidation and subdivision | (389,494) | - | - | 389,494 | - | - |
| - Equity issued for acquisition | 2,737,665 | 45,171,464 | - | - | - | 47,909,129 |
| - Shares issued for services received | 1,666 | 28,333 | - | - | - | 29,999 |
| - Shares issue to settle subsidiary's liability | 6,000 | 66,737 | - | - | - | 72,737 |
| - Conversion of warrants | 7 | 115 | - | - | - | 122 |
| - Total comprehensive expense | - | - | - | - | (49,853,783) | (49,853,783) |
| Balance at 31 December 2011 | 2,842,712 | 45,981,597 | 781,808 | 389,494 | (51,746,419) | (1,750,808) |
| <i>Transactions with equity participants</i> | | | | | | |
| - Shares issued to settle liabilities | 20,200 | 7,070 | - | - | - | 27,270 |
| - Conversion of warrants | 2,432 | 41,349 | - | - | - | 43,781 |
| - Total comprehensive income | - | - | - | - | 554,528 | 554,528 |
| Balance at 31 December 2012 | 2,865,344 | 46,030,016 | 781,808 | 389,494 | (51,191,891) | (1,125,229) |

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

COMPANY STATEMENT OF FINANCIAL POSITION

| | Note | 2012 £ | 2011 £ |
|----------------------------------|------|--------------------|--------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 6 | 343 | 2,843 |
| Other non-current assets | 7 | 1 | 120,000 |
| Total non-current assets | | 344 | 122,843 |
| Current Assets | | | |
| Trade and other receivables | 8 | 2,310 | 116,820 |
| Cash and cash equivalents | | 7,125 | 74,522 |
| Total current assets | | 9,435 | 191,342 |
| Total assets | | 9,779 | 314,185 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Loans | | (194,308) | - |
| Current liabilities | | | |
| Trade and other payables | 9 | (728,978) | (202,510) |
| Loans | 10 | (211,722) | (1,862,483) |
| Total current liabilities | | (940,700) | (2,064,993) |
| Net liabilities | | (1,125,229) | (1,750,808) |
| EQUITY | | | |
| Share capital | 11 | 2,865,344 | 2,842,712 |
| Share premium | | 46,030,016 | 45,981,597 |
| Deferred shares | | 1,171,302 | 1,171,302 |
| Accumulated losses | | (51,191,891) | (51,746,419) |
| Total deficit | | (1,125,229) | (1,750,808) |

The financial statements of PowerHouse Energy Group Plc, Company number 03934451, were approved by the board of Directors and authorised for issue on 28 June 2013 and signed on its behalf by:



Keith Allaun
Director

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

COMPANY STATEMENT OF CASH FLOWS

| | 2012 £ | 2011 £ |
|---|------------------|-----------------|
| Cash flows from operating activities | | |
| Profit/(Loss) after taxation | 554,528 | (49,853,783) |
| Adjustments for: | | |
| - Shares issued for services | - | 29,999 |
| - Depreciation and amortisation | 729 | 359 |
| - Finance costs | 124,972 | (77) |
| - Finance income | (2) | 3,231 |
| - Waiver of loan by PowerHouse Energy, Inc. | (1,109,068) | - |
| - Impairment of non-current assets | 119,999 | 47,830,451 |
| Changes in working capital: | | |
| - Decrease in trade and other receivables | 114,510 | 191,530 |
| - (Decrease)/ increase in trade and other payables | (100,188) | 159,338 |
| - Movement in loans - intercompany | (99,519) | 1,598,936 |
| Net cash used in operations | (394,039) | (40,016) |
| Cash flows from investing activities | | |
| Disposal/ (purchase) of tangible assets | 1,771 | (3,202) |
| Net cash flows generated from/(used in) investing activities | 1,771 | (3,202) |
| Cash flows from financing activities | | |
| Share issue | 43,791 | 122 |
| Finance income | 2 | 77 |
| Finance costs | (124,972) | (3,231) |
| Loans | 406,030 | - |
| Net cash flows from/(used in) financing activities | 324,841 | (3,032) |
| Net decrease in cash and cash equivalents | (67,427) | (98,546) |
| Cash and cash equivalents at beginning of period | 74,552 | 120,772 |
| Cash and cash equivalents at end of period | 7,125 | 74,522 |

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

NOTES TO THE COMPANY ACCOUNTS

1. ACCOUNTING POLICIES

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

1.1. Basis of preparation

This financial information is for the year ended 31 December 2012 and has been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted for use by the European Union and the Companies Act 2006. These accounting policies and methods of computation are consistent with the prior year.

1.2. Judgements and estimates

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

1.3. Going concern

The Directors have considered all available information about the future events when considering going concern. The Directors have reviewed cash flow forecasts for twelve months following the date of these accounts. The cash flow forecast assumes no further funding of PowerHouse Energy, Inc. and Pyromex by the Company and a favourable settlement outcome to RenewMe liability (see note 9) and the Aspermont loan (see note 10).

The convertible loan obtained from Hillgrove Investments Pty Limited (see note 10) is considered sufficient to settle outstanding creditors, maintain the Company's reduced overhead and other planned events for at least the next 12 months. In addition, the Company is in receipt of a letter of intention of financial support from Hillgrove Investments Pty Limited to ensure the Company continues to meet its obligations as they fall due and to ensure it operates as a going concern for a period of at least 12 months. Based on this, the Directors continue to adopt the going concern basis of accounting for the preparation of the annual financial statements.

1.4. Foreign currency translation

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

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

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

1.5. Revenue

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

1.6. Employee costs

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

1.7. Operating Leases

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

1.8. Finance income and expenses

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

1.9. Income tax expense

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

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

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

1.10. Plant, property and equipment

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

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

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

1.11. Other non-current assets

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

During the year the Company's investment in PowerHouse Energy, Inc. was impaired to £1. The recoverable amount was determined by taking the fair value of its investment in Pyromex less the fair value of known liabilities and obligations of PowerHouse Energy, Inc. The fair value of Pyromex assumes no sales of the Pyromex gasification units and assumes the liabilities and obligations of Pyromex exceed the value of its assets

1.12. Trade and other receivables

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

1.13. Cash and cash equivalents

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

1.14. Trade and other payables

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

1.15. Loans

Loans are financial obligations arising from funding received and used to support the operational costs of the Company. These are initially recognised at fair value. Loans are subsequently carried at amortised cost using the effective interest method.

1.16. Adoption of new and revised standards

New and revised standards adopted during the year and those standards and interpretations in issue but not yet effective are shown in note 1.22 to the Group financial statements.

1.17. Impairment testing

Assets not subsequently carried at fair value are reviewed periodically for indications of impairment. On recognition of an impairment event, the book values of the assets are compared to their recoverable amount. In the event the recoverable amount is less than the book value, asset is reduced to the recoverable amount and the difference recognised as an expense. The investment in PowerHouse Energy, Inc. was reduced to £1 by recognising a further impairment in the current year.

2. Administrative expenses

Included in administrative expenses are.

| | 2012 £ | 2011 £ |
|---|-----------|-----------|
| Employee expenses and Directors' fees | 85,506 | 477,471 |
| Depreciation and amortisation | 729 | 359 |
| Operating leases | 27,200 | 44,973 |
| Net foreign exchange loss | 1,414 | 4,276 |
| Auditor's remuneration – Company's audit | 10,000 | 16,000 |
| Auditor's remuneration – taxation advisory services | - | 23,000 |

3. Finance costs

| | 2012 £ | 2011 £ |
|-----------------------------------|----------------|--------------|
| Aspermont loan | 118,442 | - |
| Hillgrove Investments Pty Limited | 6,530 | - |
| Other – Trade creditors | - | 3,231 |
| | <u>124,972</u> | <u>3,231</u> |

4. Income tax expense

As the Company incurred a loss, no current tax is payable (2011: £nil). In addition, there is no certainty about future profits from which accumulated tax losses could be utilised and accordingly no deferred tax asset has been recognised. Tax losses amount to £1,678,673 (2011: £2,939,787).

5. Earnings/(loss) per share

| | 2012 | 2011 |
|--|-------------|--------------|
| Total comprehensive profit/(loss) (£) | 554,528 | (49,853,783) |
| Weighted average number of shares | 285,085,115 | 149,285,334 |
| Weighted average number of dilutive shares | 139,500,000 | - |
| Earnings/(loss) per share (pence) | 0.19 | (33.39) |
| Diluted profit (loss) per share (pence) | <0.01 | (33.39) |

6. Property, plant and equipment

| | Office equipment £ |
|--------------------------|--------------------------|
| Opening carrying value | 2,843 |
| Disposals | (1,771) |
| Depreciation | (729) |
| Net carrying value | <u>343</u> |
| At 31 December 2012 | |
| Cost | 685 |
| Accumulated amortisation | (342) |
| Net carrying value | <u>343</u> |

7. Other non-current assets

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

| | 2012 £ | 2011 £ |
|------------------------|--------------|--------------|
| Investment - Cost | 47,909,129 | 47,909,129 |
| Accumulated impairment | (47,909,128) | (47,789,129) |
| | 1 | 120,000 |

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

The impairment of the subsidiary was determined by taking into account the fair value of all known assets (including a 30% investment in Pyromex Holdings AG ("Pyromex"), and liabilities of the subsidiary. The impairment test assumed no cash flows from the sale of the Pyromex systems by the subsidiary. An impairment of £119,999 was recognised during the year.

8. Trade and other receivables

| | 2012 £ | 2011 £ |
|-------------------|--------------|-----------|
| Other receivables | - | 122 |
| Prepayments | - | 16,745 |
| VAT receivable | 2,310 | 99,952 |
| Pyromex | - | 1 |
| | 2,310 | 116,820 |

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

9. Trade and other payables

| | 2012 £ | 2011 £ |
|--------------------------|----------------|-----------|
| Trade payables | 38,792 | 62,841 |
| Salary and wages accrual | - | 57,855 |
| RenewMe | 653,896 | - |
| Other accruals | 36,290 | 81,814 |
| | 728,978 | 202,510 |

RenewMe Limited had been granted exclusive rights by Pyromex to use, own, assemble and install and operate Pyromex systems in territories also licensed to the Company's subsidiary PowerHouse Energy, Inc. The Company entered into a settlement agreement with RenewMe whereby the parties agreed to change the respective exclusive rights pertaining to the Pyromex technology. Under the original settlement agreement Powerhouse Energy, Inc. had the obligation to pay five instalments of Euro 200,000 annually beginning 30 June 2011. The Company guaranteed the obligations under the agreement of PowerHouse Energy, Inc. As PowerHouse Energy, Inc is unable to meet its obligations, all remaining amounts (Euro 800,000) due under the original settlement agreement have been recognised as a liability. The Directors are currently in negotiations with RenewMe to enter into a new settlement agreement, which they anticipate will reduce the financial burden to the Company.

10. Loans

| | 2012 £ | 2011 £ |
|--|----------------|-----------|
| PowerHouse Energy, Inc. | - | 1,862,483 |
| Aspermont loan (Shown as current) | 211,722 | - |
| Hillgrove Investments Pty Limited (Shown as non-current) | 194,308 | - |
| | 406,030 | |

The loan from PowerHouse Energy, Inc. was extinguished by the Company recognising the RenewMe liability, settling the dispute with the US employees and other liabilities with the balance of £1,109,068 being waived.

The Aspermont loan consists of Aspermont Ltd, Dilato Holdings Pty Ltd and Tesla Nominees Pty Ltd. These parties collectively provided a facility of £100,000 to the Company repayable by 18 May 2012, which incurs interest at a default rate of 7 per cent. per month. The Company is currently in productive negotiations to revise the terms of the loan.

Hillgrove Investments Pty Limited ("Hillgrove") has provided the Company with a convertible loan agreement amounting to £465,000 – which can be increased at Hillgrove's option. The loan is unsecured, repayable on 8 October 2014 and carries interest of 15 per cent. per annum. Hillgrove has the option at any time to convert the loan in part or whole at a conversion price of 1p per share. Hillgrove have provided a letter of support indicating they are willing to increase the loan amount pending any unforeseeable or material changes to the Company's current circumstances.

11. Share capital

| | 0.5 p Ordinary shares | 1.0 p Ordinary shares | 4.5 p Deferred shares | 4.0 p Deferred shares |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| Balance at 1 January 2011 | 97,373,523 | - | 17,373,523 | - |
| Allotment of shares | 7 | - | - | - |
| Consolidation and subdivision of ten 0.5p ordinary shares into one 1.0p ordinary share and one 4p deferred share | (97,373,530) | 9,737,353 | - | 9,737,353 |
| Consideration shares to acquire 100% of PowerHouse Energy, Inc. | - | 273,766,453 | - | - |
| Issue of shares for services received | - | 166,667 | - | - |
| Issue of shares to settle Inc liability | - | 600,048 | - | - |
| Exercise of Warrants | - | 676 | - | - |
| Balance at 31 December 2011 | - | 284,271,197 | 17,373,523 | 9,737,353 |
| Issue of shares to settle liabilities | - | 2,020,000 | - | - |
| Exercise of Warrants | - | 243,229 | - | - |
| Balance at 31 December 2012 | - | 286,534,426 | 17,373,523 | 9,737,353 |

12. Convertible instruments

| | Notes | Average exercise price | Exercisable | | | Total |
|-----------------|-------|------------------------------|--------------------|------------------|------------------|--------------------|
| | | | Currently | Within 1 year | 1 to 5 years | |
| Warrant holders | 12.1 | £0.180 | 9,493,448 | - | - | 9,493,448 |
| Linc Energy | 12.2 | £0.008 | 465,000,000 | - | - | 465,000,000 |
| Hillgrove | 12.3 | £0.008 | 232,500,000 | - | - | 232,500,000 |
| Driftwood | 12.4 | £0.120 | - | 535,500 | 2,421,429 | 2,956,929 |
| Other | 12.5 | £0.186 | 2,499,999 | - | - | 2,499,999 |
| | | | 709,493,447 | 535,500 | 2,421,429 | 712,450,376 |

12.1. Warrants

Warrant holders hold 9,493,448 warrant instruments to subscribe ordinary shares at an exercise price of £0.180 per share convertible on or before 29 June 2013

12.2. Linc Energy

Linc Energy Limited holds options to acquire ordinary shares as follows up to a value of US\$6,000,000 (£3,882,741), exercisable at any time in the 30 month period following Admission (29 June 2011) at a price equal to a 20 per cent discount to the previous 60 day volume weighted price of an ordinary share.

12.3. Hillgrove

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

In addition, Hillgrove has the option at any time to convert its loan of £194,308 in part or whole at a conversion price of 1p per share.

12.4. Driftwood

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

- 535,500 after 1 October 2013 at an exercise price of US\$0.12 (£0.074) per share, and
- 2,421,429 after 1 April 2014 at an exercise price of US\$0.21 (£0.130) per share.

12.5. Other

Kailing Wang, John Carter Brookhart and Andrew Forbes each held 833,333 options over ordinary shares at an exercise price of US\$0.30 (£0.186) per share exercisable at any time up to 10 June 2013. These options have expired after balance sheet date.

13. Material risks

13.1. Requirement for further funds

In assessing the going concern, the Directors have reviewed cash flow forecasts for 12 months following the date of these accounts. The cash flow forecasts assumed no further funding of PowerHouse Energy, Inc. and Pyromex. The financial support provided by Hillgrove Investments Pty Limited is considered sufficient to maintain the Company's reduced overhead and other planned events. The Company is dependent on this continued support to maintain its minimal operational costs.

In the event the Company requires other equity financing, or the conversion option in the Hillgrove loan is exercised, remaining shareholders will be diluted.

13.2. Reliance on the Pyromex technology

As a result of technical issues identified since the Group's investment in Pyromex technology, there has been material reductions to the carrying values of assets previously recognised. This highlights the Company's dependency on its exploitation of the Pyromex technology. In the event the Pyromex technology continues to be unproven competing technologies may capture the market targeted by the Pyromex technology resulting in reduced returns for shareholders.

13.3. Resolution to Aspermont and RenewMe obligations

In assessing the going concern, the Directors have assumed that the obligation to Aspermont loan (see note 10) and the RenewMe settlement (see note 9) are resolved with minimal impact on cash flows. Discussions with these parties are on-going and the parties seem willing to support the Company. However, there is no absolute certainty that these liabilities will be settled as anticipated.

14. Directors' Remuneration

The Directors who held office at 31 December 2012 had the following interests, including any interests of a connected person in the ordinary shares of the Company:

| | Number of ordinary shares of 1.0p each | Percentage of voting rights |
|-------------------------|--|-----------------------------|
| Nigel Brent Fitzpatrick | 103,459 | >0.1 |

The Directors who held office at 31 December 2012 had the following options over ordinary shares, including those of a connected person

| | Number of instruments | Exercise price | Date exercisable | Expiry date |
|-------------------------|-----------------------|----------------|------------------|--------------|
| Nigel Brent Fitzpatrick | 103,459 | £0.18 | 29 June 2012 | 29 June 2013 |

The remuneration of the Directors of the Company paid for the year or since date of appointment, if later, to 31 December 2012 is:

| | 2012 £ Salary/Fee | 2012 £ Pension | 2012 £ Benefits | 2012 £ Total | 2011 £ Total |
|-----------------------------|-------------------------|----------------------|-----------------------|--------------------|--------------------|
| Nigel Brent Fitzpatrick | - | - | - | - | 12,167 |
| James John Pryn Greenstreet | - | - | - | - | 12,000 |
| Robert Keith Allaun | 64,409 | - | - | 64,409 | - |

Service contracts

Brent Fitzpatrick and James Greenstreet have service contracts which can be terminated by providing three months' written notice.

15. Post balance sheet events and contingent liabilities

On 28 June 2013 Hillgrove Investments Pty Limited, provided a letter of intent indicating that pursuant to the terms of the convertible loan agreement (see note 10) which allows for an increase of the amount loaned at Hillgrove's sole discretion, to continue to provide adequate financial support to the Company to ensure the Company may meet its obligations as they fall due and to ensure it operates as a going concern for a period of at least twelve months from the date of the letter pending any unforeseeable or material changes to the Company's current circumstances

Additionally, Hillgrove extended the repayment date of the note from it's originally scheduled repayment date of 17 June 2014 to 8 October 2014.

16. Related Parties

Hillgrove Investments Pty Limited is a related party.

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

We were engaged to audit the Group financial statements of PowerHouse Energy Group plc for the year ended 31 December 2012 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flow and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of Directors and auditor

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

Scope of the audit of the financial statements

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

Basis for disclaimer of opinion on financial statements

The audit evidence available to us was limited because we were unable to obtain accounting records in respect of PowerHouse Energy, Inc. and Pyromex Holding AG. As a result of this we have been unable to obtain sufficient appropriate audit evidence concerning the state of the Group's affairs as at 31 December 2012 and of its loss of the year then ended.

Disclaimer of opinion on financial statements

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

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

Arising from the limitation of our work referred to above:

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

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

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

Other matters

We have reported separately on the parent Company financial statements of PowerHouse Energy Group plc for the year ended 31 December 2012. The opinion in that report is unqualified.



Simon Manning (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Leeds, United Kingdom

28 June 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | Year ended 31 December 2012 US\$ | Year ended 31 December 2011 US\$ |
|---|------|---|---|
| Revenue | | 19,756 | 62,379 |
| Cost of sales | | - | (73,416) |
| Gross profit/(loss) | | 19,756 | (11,037) |
| Administrative expenses | 2 | (594,520) | (7,790,179) |
| Operating loss | | (574,764) | (7,801,216) |
| Finance income | | 4 | 848 |
| Loan waivers | | 352,322 | - |
| (Loss of control) / Fair value gain on step acquisition | 1.2 | (1,309,296) | 6,209,876 |
| Equity accounted loss | 1.2 | (475,646) | - |
| Finance expenses | 4 | (210,272) | (310,231) |
| Impairment of non-current assets | | - | (33,387,720) |
| Loss before taxation | | (2,217,652) | (35,288,443) |
| Income tax credit | 5 | 10,942 | 3,028,883 |
| Loss after taxation | | (2,206,710) | (32,259,560) |
| Foreign exchange arising on consolidation | | (36,462) | (3,621,791) |
| Foreign exchange included in profit and loss arising from loss of control | | 1,095,440 | - |
| Total comprehensive expense | | (1,147,732) | (35,881,351) |
| Total comprehensive expense attributable to: | | | |
| Owners of the Company | | (592,078) | (13,588,143) |
| Non-controlling interests | | (555,654) | (22,293,208) |
| Loss per share (US\$) | 6 | <(0.01) | (0.05) |

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

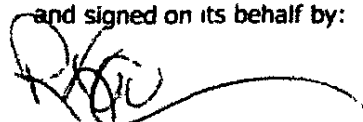
| | Shares and stock US\$ | Accumulated losses US\$ | Other reserves US\$ | Non-control- ling interests US\$ | Total US\$ |
|---|-----------------------------|-------------------------------|---------------------------|--|--------------------|
| Balance at 31 January 2011 | 6,218,365 | (5,516,668) | - | - | 701,697 |
| <i>Transactions with equity participants.</i> | | | | | |
| - Issue of common stock | 10,199,941 | - | - | - | 10,199,941 |
| - Costs related to issue of common stock | (1,521,802) | - | - | - | (1,521,802) |
| - Common stock issued for services received | 206,250 | - | - | - | 206,250 |
| - Equity issued for acquisition | - | - | 2,019,736 | - | 2,019,736 |
| - Equity reclassification arising from reverse takeover | 64,780,459 | - | (64,780,459) | - | - |
| - Shares issued for services received | 167,492 | - | - | - | 167,492 |
| - Acquisition of Pyromex | - | - | - | 23,951,661 | 23,951,661 |
| - Exercise of warrants | 188 | - | - | - | 188 |
| <i>Total comprehensive income:</i> | | | | | |
| - Loss after taxation | - | (12,574,238) | - | (19,685,322) | (32,259,560) |
| - Foreign exchange arising on consolidation | - | - | (1,020,946) | (2,600,845) | (3,621,791) |
| Balance at 31 December 2011 | 80,050,893 | (18,090,906) | (63,781,669) | 1,665,494 | (156,188) |
| <i>Transactions with equity participants.</i> | | | | | |
| - Shares issued to settle liabilities | 43,850 | - | - | - | 43,850 |
| - Exercise of warrants | 67,876 | - | - | - | 67,876 |
| - Pyromex, loss of control | - | - | - | (1,109,840) | (1,109,840) |
| <i>Total comprehensive income:</i> | | | | | |
| - Loss after taxation | - | (1,606,239) | - | (600,471) | (2,206,710) |
| - Foreign exchange included in profit and loss arising from loss of control | - | - | 1,095,440 | - | 1,095,440 |
| - Foreign exchange arising on consolidation | - | - | (81,279) | 44,817 | (36,462) |
| Balance at 31 December 2012 | 80,162,619 | (19,697,145) | (62,767,508) | - | (2,302,034) |

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | 31 December 2012 US\$ | 31 December 2011 US\$ |
|--------------------------------------|------|--------------------------------|--------------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | 7 | - | 2,062,838 |
| Property, plant and equipment | 8 | <u>957</u> | <u>1,825,636</u> |
| Total non-current assets | | 957 | 3,888,474 |
| Current Assets | | | |
| Inventories | 9 | - | 637,601 |
| Trade and other receivables | 10 | 3,790 | 278,384 |
| Cash and cash equivalents | 11 | <u>11,492</u> | <u>382,455</u> |
| Total current assets | | 15,282 | 1,298,440 |
| Total assets | | 16,239 | 5,186,914 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Deferred taxation | 12 | - | (372,277) |
| Loans | 13 | (313,399) | (376,973) |
| Trade and other payables | 14 | - | <u>(777,000)</u> |
| Total non-current liabilities | | (313,399) | (1,526,250) |
| Current liabilities | | | |
| Loans | 13 | (401,400) | (57,996) |
| Trade and other payables | 14 | <u>(1,603,474)</u> | <u>(3,758,856)</u> |
| Total current liabilities | | (2,004,874) | (3,816,852) |
| Total liabilities | | (2,318,273) | (5,343,102) |
| Net liabilities | | (2,302,034) | (156,188) |
| EQUITY | | | |
| Shares and stocks | | 80,162,619 | 80,050,893 |
| Other Reserves | | (62,767,508) | (63,781,669) |
| Accumulated losses | | (19,697,145) | (18,090,906) |
| Non-controlling interests | | - | 1,665,494 |
| Total deficit | | (2,302,034) | (156,188) |

The financial statements were approved by the board of Directors and authorised for issue on 28 June 2012 and signed on its behalf by:


 Keith Allaun
 Director

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

CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | Year ended 31 December 2012 US\$ | Year ended 31 December 2011 US\$ |
|---|------|---|---|
| Cash flows from operating activities | | | |
| Loss before taxation | | (2,217,652) | (35,288,443) |
| Adjustments for: | | | |
| - Finance income | | (4) | (11,761) |
| - Finance costs | | 210,272 | 138,028 |
| - (Loss of control) / Fair value gain on step acquisition | | 1,309,296 | (6,209,876) |
| - Equity accounted loss | | 475,646 | - |
| - Loan waivers | | (352,322) | - |
| - Impairment of non-current assets | | - | 33,387,720 |
| - Depreciation and amortisation | | 124,049 | 1,824,241 |
| - Common stock and shares issued for services | | - | 373,742 |
| - Foreign exchange revaluations | | (99,327) | 140,581 |
| Changes in working capital: | | | |
| - Decrease/ (Increase) in trade and other receivables | | 226,580 | (178,542) |
| - (Decrease)/ Increase in trade and other payables | | (569,617) | 1,588,261 |
| - Taxation paid | | (800) | (800) |
| Net cash used in operations | | (893,876) | (4,053,733) |
| Cash flows from investing activities | | | |
| Purchase of other non-current assets | | - | (85,000) |
| Disposal (purchase) of tangible and intangible assets | | 2,846 | (494,429) |
| Loss of control / reverse acquisition | 1.2 | (11,010) | (949,660) |
| Net cash flows used in investing activities | | (8,164) | (1,529,089) |
| Cash flows from financing activities | | | |
| Common stock issue (net of issue costs) | | 111,726 | 8,678,326 |
| Finance income | | 4 | 848 |
| Finance costs | | (210,272) | (310,231) |
| Loans received/(repaid) | | 627,197 | (2,596,592) |
| Net cash flows from financing activities | | 528,655 | 5,772,351 |
| Net (decrease)/increase in cash and cash equivalents | | (373,385) | 210,950 |
| Cash and cash equivalents at beginning of period | | 382,445 | 197,170 |
| Foreign exchange on cash balances | | 2,432 | (4,244) |
| Cash and cash equivalents at end of period | | 11,492 | 382,455 |

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

NOTES TO THE CONSOLIDATED ACCOUNTS

1. ACCOUNTING POLICIES

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

1.1. Basis of preparation

This consolidated financial information is for the year ended 31 December 2012 and has been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted for use by the European Union and the Companies Act 2006. These accounting policies and methods of computation are consistent with those used in prior years

1.2. Consolidation and goodwill

Reverse takeover

On 29 June 2012, PowerHouse Energy Group plc acquired 100 per cent of the common stock holding of PowerHouse Energy, Inc. by issuing 273,766,453 PowerHouse Energy Group plc shares to the common stockholders of PowerHouse Energy, Inc. ("the Reverse Takeover").

The Reverse Takeover has been treated as a reverse acquisition under IFRS3 (2008) "Business combinations" whereby PowerHouse Energy, Inc. has been treated as the acquirer PowerHouse Energy Group plc.

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

Pyromex loss of control

On 8 May 2012, the Company's option to acquire the remaining 70% interest in Pyromex lapsed. Due to the expiry of the option, Pyromex is no longer accounted for as a subsidiary of the Group. These results show the impact of the "loss of control" of Pyromex.

| | US\$ |
|--|------------------|
| Intangible assets | 2,005,446 |
| Property, plant and equipment | 1,869,044 |
| Inventory | 656,418 |
| Trade and other receivables | 55,642 |
| Cash | 11,010 |
| Trade and other payables | (2,424,114) |
| Intercompany payables | (216,524) |
| Deferred taxation | (371,437) |
| Net assets disposed | 1,585,485 |
| Attributable to: | |
| - Non-controlling interests – 70% | 1,109,839 |
| - Owners of the Company – 30%, recognised as investment in associate | 475,646 |
| Investment in associate consists of: | |
| - Initial amount recognised after loss of control | 475,646 |
| - Equity accounted losses | (475,646) |
| | - |

1.3. Judgements and estimates

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

1.4. Foreign currency translation

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

1.4.1. Transactions and balances in foreign currency

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

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

1.4.2. Consolidation

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

- Assets and liabilities are translated at the closing rate of 31 December 2012;
- Income and expenses for each income statement are translated at average exchange rates over the period of consolidation; and
- the resulting exchange differences are recognised in other comprehensive income.

The principal rates used for translation are:

| | 2012 Closing | 2012 Average |
|----------------|-------------------------|-------------------------|
| British Pounds | 1.613 | 1.585 |

1.5. Going concern

The Directors have considered all available information about the future events when considering going concern. The Directors have reviewed cash flow forecasts for twelve months following the date of these accounts. The cash flow forecast assumes no further funding of PowerHouse Energy, Inc. and Pyromex by the Company and a favourable settlement outcome to RenewMe liability (see note 9) and the Aspermont loan (see note 10).

The convertible loan obtained from Hillgrove Investments Pty Limited (see note 10) is considered sufficient to settle outstanding creditors, maintain the Company's reduced overhead and other planned events for at least the next 12 months. In addition, the Company is in receipt of a letter of intention of financial support from Hillgrove Investments Pty Limited to ensure the Company continues to meet its obligations as they fall due and to ensure it operates as a going concern for a period of at least 12 months. Based on this, the Directors continue to adopt the going concern basis of accounting for the preparation of the annual financial statements.

1.6. Revenue

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

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

1.7. Employee costs

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

1.8. Operating Leases

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

1.9. Finance income and expenses

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

1.10. Income tax expense

The tax expense for the period comprises current and deferred tax

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

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

1.11. Goodwill

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

1.12. Intangible assets

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

1.13. Plant, property and equipment

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

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

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

1.14. Inventories

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

1.15. Trade and other receivables

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

1.16. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

1.17. Deferred taxation

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

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

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

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

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

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

1.18. Loans

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

1.19. Trade and other payables

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

1.20. Common stock, share capital and share premium

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

1.21. Share based payments

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

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

1.22. Adoption of new and revised standards

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

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

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

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

2. Administrative expenses

| | 2012 US\$ | 2011 US\$ |
|-------------------------------|--------------|--------------|
| Employee expenses | (577,628) | 1,429,608 |
| Depreciation and amortisation | 124,049 | 1,824,241 |
| Professional fees | 169,375 | 174,853 |

Included in employee expenses are the release of the obligation to pay accrued wages as part of the agreements reached with various employees. At 31 December 2012, the Group had no employees.

3. Employee benefits

| | 2012 US\$ | 2011 US\$ |
|--|--------------|--------------|
| Wages and salaries | (598,462) | 1,078,322 |
| Employer's taxes and social security costs | 24,075 | 264,054 |
| Pension costs | 12,849 | 11,153 |
| Healthcare and other | 3,910 | 76,079 |
| Total employee benefits | (577,628) | 1,429,608 |

4. Finance expenses

| | 2012 US\$ | 2011 US\$ |
|-----------------------------------|----------------|--------------|
| Credal Trust Management | - | 242,275 |
| Preference stock dividends | - | 41,250 |
| Citi bank business loan | 2,476 | 4,140 |
| Management loans | 2,437 | 14,541 |
| Other | 3,841 | 8,025 |
| Hillgrove Investments Pty Limited | 10,482 | - |
| Aspermont | 191,036 | - |
| Total finance expenses | 210,272 | 310,231 |

5. Income tax credit

| | 2012 US\$ | 2011 US\$ |
|-----------------------|---------------|--------------|
| Current taxation | (800) | (800) |
| Deferred taxation | 11,742 | 3,029,683 |
| Total taxation credit | 10,942 | 3,028,883 |

6. Loss per share

| | 2012 | 2011 |
|--|--------------------|--------------|
| Loss after taxation—attributable to owners of the Company (US\$) | (592,078) | (12,581,950) |
| Weighted average number of shares | 285,085,135 | 245,331,092 |
| Loss per share (US\$) | <(0.01) | (0.05) |

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

7. Intangible assets

| | Goodwill | Pyromex technology | Licence agreements | Total |
|---|-------------|-----------------------|-----------------------|---------------------|
| At 1 January 2011 | | | | |
| Cost | - | - | 500,000 | 500,000 |
| Accumulated amortisation | - | - | (45,833) | (45,833) |
| Opening carrying value | - | - | 454,167 | 454,167 |
| Pyromex acquisition | - | 30,389,655 | - | 30,389,655 |
| Reverse acquisition | 4,035,356 | - | - | 4,035,356 |
| Purchases | - | 1,961 | 490,840 | 492,801 |
| Amortisation | - | (1,448,642) | (344,652) | (1,793,294) |
| Impairments | (4,035,356) | (23,537,175) | (600,355) | (28,172,886) |
| Foreign exchange fluctuations | - | (3,342,961) | - | (3,342,961) |
| Closing carrying value | - | 2,062,838 | - | 2,062,838 |
| At 31 December 2011 | | | | |
| Cost | 4,035,356 | 27,931,414 | 990,840 | 32,957,610 |
| Accumulated amortisation and impairment | (4,035,356) | (25,868,576) | (990,840) | (30,894,772) |
| Net carrying value | - | 2,062,838 | - | 2,062,838 |
| Amortisation | - | (117,421) | - | (117,421) |
| Pyromex loss of control | - | (2,005,446) | - | (2,005,446) |
| Foreign exchange fluctuations | - | 60,029 | - | 60,029 |
| Closing carrying value | - | - | - | - |
| At 31 December 2011 | | | | |
| Cost | 4,035,356 | - | 990,840 | 5,026,196 |
| Accumulated amortisation and impairment | (4,035,356) | - | (990,840) | (5,026,196) |
| | - | - | - | - |

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

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

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

8. Property, plant and equipment

| | Pyromex equipment | Energy service equipment | Office equipment | Total |
|-------------------------------|----------------------|-----------------------------|---------------------|--------------------|
| At 1 January 2011 | | | | |
| Cost | - | 531,257 | 2,721 | 533,979 |
| Accumulated amortisation | - | (489,998) | (1,227) | (491,225) |
| Opening carrying value | - | 41,259 | 1,494 | 42,753 |
| Pyromex acquisition | 7,840,150 | - | 43,156 | 7,883,306 |
| Reverse acquisition | - | - | 3,453 | 3,453 |
| Purchases | - | - | 1,629 | 1,629 |
| Disposals | - | (19,249) | - | (19,249) |
| Depreciation | - | (22,010) | (8,937) | (30,947) |
| Impairments | (5,160,586) | - | - | (5,160,586) |
| Foreign exchange fluctuations | (890,288) | - | (4,435) | (894,723) |
| Closing carrying value | 1,789,276 | - | 36,360 | 1,825,636 |
| At 31 December 2012 | | | | |
| Cost | 6,949,862 | - | 45,926 | 6,995,788 |
| Accumulated amortisation | (5,160,586) | - | (9,566) | (5,170,152) |
| Net carrying value | 1,789,276 | - | 36,360 | 1,825,636 |
| Depreciation | - | - | (6,628) | (6,628) |
| Pyromex loss of control | (1,842,079) | - | (26,965) | (1,869,044) |
| Disposals | - | - | (2,767) | (2,767) |
| Foreign exchange fluctuations | 52,803 | - | 957 | 53,761 |
| | - | - | 957 | 957 |

9. Inventories

Inventories consist solely of work in progress. No expense for the cost of inventories sold has been recognised (2011: nil). There were no write downs or reversal of write downs in the current or prior period.

10. Trade and other receivables

| | 2012 US\$ | 2011 US\$ |
|-----------------------------------|--------------|--------------|
| Other receivables | - | 69,235 |
| Prepayments | - | 54,693 |
| VAT receivable | 3,790 | 154,456 |
| Total trade and other receivables | 3,790 | 278,384 |

11. Cash and cash equivalents

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

12. Deferred taxation

| | US\$ |
|---|-------------|
| At 1 January 2011 | |
| Pyromex acquisition | 3,822,980 |
| Credit to Statement of Comprehensive Income | (3,029,683) |
| Foreign exchange fluctuations | (421,020) |
| | <hr/> |
| At 31 December 2011 | 372,277 |
| Credit to Statement of Comprehensive Income | (11,742) |
| Foreign exchange fluctuations | 10,902 |
| Pyromex loss of control | (371,437) |
| | <hr/> <hr/> |
| | - |

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

13. Loans

| | Notes | 2012 US\$ | 2011 US\$ |
|--------------------------------------|-------|--------------|--------------|
| Accrued dividends on preferred stock | 13.1 | 33,000 | 33,000 |
| Management loans | 13.2 | - | 349,885 |
| Citibank business loan | 13.3 | 26,913 | 52,084 |
| Aspermont loan | 13.4 | 341,487 | - |
| Hillgrove Investments Pty Limited | 13.5 | 313,399 | - |
| | | <hr/> | |
| Total loans | | 714,799 | 434,969 |
| | | <hr/> | |
| Classified as: | | | |
| - Current | | 401,400 | 57,996 |
| - Non-current | | 313,399 | 376,973 |

13.1. Preferred stock

The accrued dividends on the preferred stock became due on 31 March 2012. The preferred stock holders exchanged their stock holding in PowerHouse Energy, Inc. for shares in PowerHouse Energy Group plc.

13.2. Management loans

Loans from management were waived as part of the settlement agreement entered into with employees.

13.3. Citibank business loan

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

13.4. Aspermont loan

The Aspermont loans consist of Aspermont Ltd, Dilato Holdings Pty Ltd and Tesla Nominees Pty Ltd. These parties collectively provided a facility of £100,000 to the Group repayable by 18 May 2012, which incurs interest at a default rate of 7 per cent. per month. The Group is currently in productive negotiations to revise the terms of the loan.

13.5. Hillgrove Loan

Hillgrove Investments Pty Limited ("Hillgrove") has provided the PowerHouse Energy Group plc with a convertible loan agreement amounting to \$707,000 – which can be increased at Hillgrove's option. The loan is unsecured, repayable on 8 October 2014 and carries interest of 15 per cent. per annum. Hillgrove has the option at any time to convert the loan in part or whole at a conversion price of 1p per share. Hillgrove have provided a letter of support indicating they are willing to increase the loan amount pending any unforeseeable or material changes to the Group's current circumstances.

14. Trade and other payables

| | 2012 US\$ | 2011 US\$ |
|--------------------------------|------------------|--------------|
| Trade creditors | 227,104 | 856,924 |
| Salary and wage accruals | - | 1,445,926 |
| RenewMe | 1,036,000 | 1,036,000 |
| Customer deposits | 150,000 | 939,236 |
| Other accruals | 190,370 | 257,770 |
| Total trade and other payables | 1,603,474 | 4,535,856 |
| Classified as: | | |
| - Current | 1,603,474 | 3,758,856 |
| - Non-current | - | 777,000 |

14.1. RenewMe

RenewMe Limited had been granted exclusive rights by Pyromex to use, own, assemble and install and operate Pyromex systems in territories also licensed to the Company's subsidiary PowerHouse Energy, Inc. The Company entered into a settlement agreement with RenewMe whereby the parties agreed to change the respective exclusive rights pertaining to the Pyromex technology. Under the original settlement agreement Powerhouse Energy, Inc. had the obligation to pay five instalments of Euro 200,000 annually beginning 30 June 2011. The Company guaranteed the obligations under the agreement of PowerHouse Energy, Inc. As PowerHouse Energy, Inc is unable to meet its obligations, all remaining amounts (Euro 800,000) due under the original settlement agreement have been recognised as a liability. The Directors are currently in negotiations with RenewMe to enter into a new settlement agreement, which they anticipate will reduce the financial burden to the Company.

15. Seasonality

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

16. Post balance sheet events and contingent liabilities

On 28 June 2013 Hillgrove Investments Pty Limited, provided a letter of intent indicating that pursuant to the terms of the convertible loan agreement (see note 10) which allows for an increase of the amount loaned at Hillgrove's sole discretion, to continue to provide adequate financial support to the Company to ensure the Company may meet its obligations as they fall due and to ensure it operates as a going concern for a period of at least twelve months from the date of the letter pending any unforeseeable or material changes to the Company's current circumstances.

Additionally, Hillgrove extended the repayment date of the note from its originally scheduled repayment date of 17 June 2014 to 8 October 2014

NOTICE TO THE ANNUAL GENERAL MEETING

Notice is given that the annual general meeting of the members of the Company will be held at 10.00 a.m. on 6 September 2013 at the offices of Sanlam Securities UK Limited at 10 King William Street, London, EC4N 7TW. The meeting will consider and, if thought fit, pass the following resolutions:

Ordinary business

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

1. That the Accounts and the Reports of the Directors and of the Auditors for the year ended 31 December 2012 be received
2. That Brent Fitzpatrick, who is retiring by rotation, be reappointed as a Director.
3. That Deloitte LLP be appointed as auditor of the Company from the conclusion of this meeting until the conclusion of the next Annual General Meeting at which accounts are laid and that the Board of Directors be authorised to set the level of their remuneration for the ensuing year.

Special business

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

4. That, in accordance with section 551 CA 2006, the Directors are generally and unconditionally authorised, and in substitution for any previous authority, to allot the equity securities, as defined in section 560 CA 2006, up to an aggregate nominal amount of £450,000, such authority, unless previously revoked or varied by the Company in general meeting, to expire on 5 September 2014 or, if earlier, the date of the Company's next annual general meeting, except that the Directors may allot relevant securities pursuant to an offer or agreement made before the expiry of the authority

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

5. That, subject to the passing of Resolution 5, under section 570 CA 2006, the Directors are authorised, in substitution for any previous authority, to allot equity securities, as defined in section 560 CA 2006, wholly for cash for the period commencing on the date of this resolution and expiring on 5 September 2014 or, if earlier, the date of the Company's next annual general meeting, as if section 561 CA 2006 did not apply to such allotment, except that the Directors may allot relevant securities following an offer or agreement made before the expiry of the authority and provided that the authority is limited to:
 - a. the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where their holdings are proportionate, as nearly as possible, to the respective number of ordinary shares held, or deemed to be held, by them, but subject to any exclusions or arrangements the Directors think necessary or expedient for the purpose of dealing with fractional entitlements or legal or practical problems under the laws of any territory or the requirements of any recognised regulatory body or stock exchange in any territory; and
 - b. the allotment of equity securities, otherwise than in accordance with paragraph 6(a), up to a maximum nominal value of £450,000.

Serious loss of capital

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

By order of the Board



Keith Allaun

Registered Office:

16 Great Queen Street
London
WC2B 5DG

PowerHouse Energy Group plc

Registered in England and Wales No 3934451

Notes to the notice of AGM

Form of proxy

1. A form of proxy with proxy notes has been included with these accounts.

Total voting rights

2. As at noon on today's date, the Company's issued share capital comprised 286,534,426 ordinary shares of 1p each, 17,373,523 deferred shares of 4.5p each and 9,737,353 deferred shares of 4p each. Each ordinary share carries the right to one vote at a general meeting of the Company and the deferred shares carry no voting rights. Therefore, the total number of voting rights in the Company as at noon on today's date is 284,514,426.

Communication

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