

**ACTIVE ENERGY GROUP PLC**  
**ANNUAL REPORT**  
**FOR THE YEAR ENDED**  
**31 DECEMBER 2017**

Company Registration Number: 03148295

**ANNUAL REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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# ACTIVE ENERGY GROUP PLC

## COMPANY INFORMATION

<b>Country of Incorporation</b>	England and Wales
<b>Directors</b>	T M S Rowan R G Spinks S C Melling (appointed 16 March 2018) B Evans-Jones (resigned 5 February 2018)
<b>Secretary</b>	Cargil Management Services Ltd 27-28 Eastcastle Street London W1W 8DH
<b>Registered Office</b>	27-28 Eastcastle Street London W1W 8DH
<b>Corporate Head Office</b>	Mwldan Business Park Bath House Road Cardigan SA43 1JY
<b>Registered Number</b>	03148295
<b>Auditors</b>	Jeffreys Henry LLP Chartered Accountants and Registered Auditors London EC1V 9EE
<b>Bankers</b>	HSBC Bank Plc 69 Pall Mall London SW1Y 5EY
<b>Solicitors</b>	DWF LLP 20 Fenchurch Street London EC3M 3AG
<b>Nominated Adviser</b>	Northland Capital Partners Limited 40 Gracechurch Street London EC3V 0BT
<b>Broker</b>	Optiva Securities Ltd 49 Berkeley Square, London W1J 5AZ
<b>Financial Public Relations &amp; Investor Relations</b>	St Brides Partners 3 St Michael's Alley London EC3V 9DS

# ACTIVE ENERGY GROUP PLC

## CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

2017 saw the Group's CoalSwitch™ technology and PeatSwitch derivative emerge as the Group's primary value driver, with international utility companies (including domestic heating fuel distributors), government agencies and coal power plant operators beginning to recognise the revolutionary potential of our 'drop-in' biomass fuel. The Board's main focus during the year was to commercialise the CoalSwitch™ process, following the successful testing at the initial demonstration plant in Salt Lake City during 2016. I am delighted to report that this was achieved post year end, with the opening of our inaugural five-tonne-per-hour CoalSwitch™ plant in Utah, and significant progress has been made in relation to our roll out and expansion of commercial activities during H1 2018.

The Board believes that the commercial opportunities associated with the CoalSwitch™ product are significant, as the product has the potential to be a direct, lower cost, higher energy substitute to traditional pellets and all other tested alternatives available in the market today. Furthermore, the wood pellet market has been growing significantly since 2014, most notably in Europe, and the next stage of significant growth is expected to be in Asia, particularly Japan and South Korea. The Company has been active in discussions with prospective customers in Asia and the Board hopes to be in a position to update the market with further developments regarding expansion in due course.

The dominance of our CoalSwitch™ division during 2017 reflected the Company's strategy refocusing the business on higher margin, higher growth opportunities associated with CoalSwitch™, and the recently launched PeatSwitch product, whilst continuing to focus on developing a substantial forestry management business to guarantee long-term feedstock requirements to complement these activities. To this end, as first reported in May 2017, AEG reduced its exposure to its low margin and high risk Ukrainian wood fibre business throughout the second half of 2017.

In tandem with our increased focus on CoalSwitch™ during 2017, our activity levels in respect to our Timberlands forestry management business have also increased markedly, and this work has begun to come to fruition post period end. The important strategic focus on Timberlands is two-fold: firstly, by securing feedstock for our growing CoalSwitch™ business we are able to demonstrate the security of long-term supply and thus attract further interest from large utility companies and government agencies to the various benefits of CoalSwitch™. Secondly, we are able to monetise underutilised or undervalued existing forestry assets, generating a new revenue stream for the Group and in so doing, re-energising the forestry industry in rural jurisdictions. The Board is confident that our Timberlands proposition will become an increasingly important part of AEG's overall strategy moving forwards.

### **Financial Review:**

In March 2017 the Company raised US\$14.15 million (before expenses) through the issue of convertible loan notes, for the construction of the first CoalSwitch™ plant and progressing the Timberlands' growth strategy. The Group received support from new institutional investors as well as existing shareholders, reflecting their endorsement of our strategy.

In November 2017 AEG raised a further £1.75 million (before expenses) via an oversubscribed placing of new equity with new and existing investors. These funds have predominantly been used to accelerate the commercial roll out of CoalSwitch™ and also provided the Group with additional working capital.

The year ended 31 December 2017 was a period of restructuring and refocus of the business and accordingly the consolidated income statement reflects this:

- Research and development costs of US\$2,389,807 (2016: US\$nil) reflect AEG's investment in the development of CoalSwitch™ and PeatSwitch technologies.
- Administrative expenses were US\$2,870,721 (2016: US\$1,956,795) reflecting ongoing corporate costs and business development activity associated with CoalSwitch™ and PeatSwitch products.

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- Finance costs of US\$3,031,054(2016: US\$1,784,170), relate to debt servicing and foreign exchange losses.
- Loss on discontinued operations of US\$7,284,981(2016: Profit of US\$1,528,339), relates to the poor trading performance of the Ukrainian wood fibre business; losses on sale of certain fixed assets of this operation; impairment of assets associated with this business and the loss relating to the cessation of the Ukrainian operating company ("Nikwood") following the sale of certain assets.
- The tax credit of US\$355,491(2016: US\$8,985) reflects receipts associated with research and development tax credits.

Losses attributable to non-controlling interests combined with gains on assets results in a total comprehensive loss for the year attributable to owners of the parent of US\$14,783,962 (2016: US\$2,490,640).

It is important to note that the bare figures, need to be considered in the overall context of the development and reconfiguration of the business:

- During 2017, US\$5.8 million was spent on research and development, construction of the CoalSwitch™ plant in Utah and business development associated with our CoalSwitch™ and PeatSwitch technologies and relevant intellectual property development. Given the potential opportunities associated with these products, the Board regards this as capital effectively deployed.
- AEG continued to invest its time and efforts to secure the finalisation of the CTL and FMA in Newfoundland. Total expenditure on the development of these assets was US\$0.9 million during the year ended 31 December 2017, which was recorded as development costs under intangible fixed assets.
- The withdrawal from the Ukrainian business and the associated losses are, of course, unfortunate. However, the timely exit from this business has enabled AEG to limit its exposure to further liabilities, as well as recalibrating the risk profile of the Group.

### **Outlook:**

2017 was a pivotal year for AEG where the Board identified the key areas of opportunity and started to implement strategies to execute its commercialisation model and deliver shareholder value in 2018 and beyond.

During 2017 our board composition changed. In Q2 2017 Matteo Girlanda, our former Chief Operating Officer, who had been focussed primarily on our wood fibre business in Ukraine, stepped down from the Board. In Q1 2018, Brian Evans-Jones stepped down and shortly after, we welcomed Simon Melling as a Non-Executive Director. Simon brings with him over 30 years' experience of working in senior roles within the finance sector and was previously the CEO of AIM listed stockbroker Cenkos Securities Limited. We are already benefitting from his commercial and capital markets experience which will be invaluable as we build the profile of the Company and promote our unique products and investment proposition to the investment community.

The Group has now identified the regions which it wishes to operate in, primarily being USA, Canada and Europe. The aim is to secure the greatest market opportunities, including customers and strategic partnerships for CoalSwitch™ and develop derivative products such as PeatSwitch. To complement this, AEG continues to use its underlying knowledge and experience in forestry management to secure and monetise strategic timber licences; thereby generating additional revenue streams and underpinning long term contracts for CoalSwitch™ through visibility of these secured feedstock arrangements.

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In line with the focused corporate strategy and execution of the new opportunities in Canada and Europe, the Board and Richard Spinks have agreed that Richard should now focus his efforts on the development of CoalSwitch™, new business opportunities in Poland, and work with Antonio Esposito, a 20-year forestry professional, on the forestry management activities in North America. Richard has helped create these significant business opportunities and the Board acknowledges that these now require his undivided attention. Accordingly, he will step down from his role as Chief Executive Officer of the Group at the forthcoming Annual General Meeting ('AGM'), to maximise his time on these key projects. Richard will remain on the Board where his contribution will continue to be invaluable for both strategy and ensuring the future commercial success of AEG's portfolio. At the AGM, Michael Rowan will assume the responsibilities of Chief Executive Officer for the Group.

Furthermore, we remain active in identifying additional candidates to further bolster our Board and Senior Management team in the coming months as we enter the execution stage of our strategy and look to monetise our CoalSwitch™ and PeatSwitch products and bring into operation our significant forestry management opportunities, in existing and new markets.

2017 presented challenges, but with the continued dedication of our team, combined with the inherent value in our technology and business model, I am confident that we can reach our commercial and strategic goals, as we look to revolutionise the traditional coal fired-power and biomass industries, through the commercialisation of our second-generation biomass fuel and its derivative products.



**Michael Rowan**  
**Executive Chairman**  
**18 June 2018**

# ACTIVE ENERGY GROUP PLC

## OPERATIONS REVIEW

### FOR THE YEAR ENDED 31 DECEMBER 2017

The Group's primary activities are centred on the commercialisation of its CoalSwitch™ product and process, and the associated PeatSwitch product, together with its forestry management business, Timberlands. During 2017, the Group also conducted wood fibre and wood chip manufacturing operations in Ukraine, however these interests were formally wound up before the end of 2017.

#### **CoalSwitch™**

CoalSwitch™ uses patented technologies to create a new second generation biomass fuel which can be briquetted or pelleted as required by customers. CoalSwitch™ has a number of significant advantages compared with existing biomass fuels such as torrefied or white pellet alternatives, namely and among others:

- Lower unit costs reflecting lower feedstock costs. CoalSwitch™ technology can process lower quality fibre materials such as forestry residuals and waste wood including waste, bark, branches leaves, needles and salty hog thus reducing feedstock costs.
- CoalSwitch™ has a higher energy density than alternative biomass fuels.
- CoalSwitch™ has a higher bulk density than alternative biomass fuels.
- CoalSwitch™ when pelletised is hydrophobic meaning that the pellets do not degrade in water in the same way as traditional white or torrefied pellets. In addition, CoalSwitch™ pellets can be transported with minimal losses/degradation due to being almost dust-free in storage, handling or transport.
- CoalSwitch™ pellets can be used in coal fired power stations, without the need for significant capital expenditure for retrofitting and modifying existing coal burning facilities.

AEG first became involved in this ground-breaking technology in 2015. During 2016 work was primarily focused on research and development activities. 2017 was the pivotal year for commercialisation of CoalSwitch™ technology.

#### Commercial Activities in the USA

In September 2017, AEG announced that it was constructing a five-tonne-per-hour CoalSwitch™ plant at its premises in Utah, USA. In February 2018, AEG announced that this plant was officially open and operational. Since this announcement AEG has continued to operate the facility, albeit with the customary issues as one would expect when commissioning any new technology or equipment.

The Board regards the completion and initial operation of the plant as the major breakthrough in the development of the CoalSwitch™ business model, showing that positive laboratory results can be upscaled to industrial scale production facilities. The Company is now in discussions with global engineering procurement and construction contractors to ensure that future plants are constructed in an efficient and scalable manner.

#### Joint Venture in Poland and Test Results from the Polish Government

On 13 March 2018, AEG announced that it had signed a joint venture agreement with Cobant Sp. z o.o. ('Cobant'), a Polish research, development and environmental waste coal recovery company active in the land reclamation, environmental services and energy sectors. The aim of the joint venture is to explore additional opportunities to blend CoalSwitch™ with reclaimed coal from coal slurry dumps in Upper Silesia, Poland to produce a "SuperFuel" product with strong environmental credentials.

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On 13<sup>th</sup> June, AEG announced that the joint venture had received confirmation from the Polish Government Burn Test Laboratory that testing had been completed on a new 'SuperFuel' product that utilises a blend of CoalSwitch™ with cleaned coal fines from Poland's legacy coal waste dumps. The results demonstrate that the "SuperFuel" has a similar calorific value to coal with significantly lower sulphur content and low ash and SOx and NOx emissions. The testing satisfies all the requirements of the Polish Government and its AntiSmog legislation.

The Board regards this test result as an important landmark for the commercial development of CoalSwitch™ and "SuperFuel". The joint venture intends to proceed to production and revenues as quickly as possible and accordingly, the Board and Richard Spinks have agreed that Richard should dedicate his time to ensure the future commercial success of this opportunity for both the joint venture and AEG.

### Asian Activities

The group has been developing market interest and prospective customers in Japan and Northern Asia. In addition, Advanced Biomass Solutions ("ABS") was incorporated as an affiliate company to lead sales and project management activities in the region. Commercial enquiries have been increasing, notably from Thailand, Malaysia and Indonesia for the use of the CoalSwitch™ process in the utilisation of waste products from palm oil and other agricultural residues.

In December 2017, Brian Evans-Jones changed his role within the Group to focus on business development for ABS. In February 2018 Brian resigned from the Board of AEG plc and in June 2018 he resigned from his role within ABS.

In September 2017 ABS entered into an agreement with Lumino Capital LLC ("Lumino") regarding the financing, development and operation of eight CoalSwitch™ Plants across South East Asia. Given recent management changes at ABS and the new strategic focus of AEG toward the activities in North America and Europe, the Board will now reconsider the previous arrangements between ABS and Lumino and discuss the timing, construction and viability of future projects with Lumino. Progress on these projects has taken considerably longer than originally anticipated whilst other opportunities have accelerated in Canada and Europe and these now have taken priority for AEG. Nevertheless, Asia remains an important offtake market in the medium term.

### **PeatSwitch**

During the development of the CoalSwitch™ technology, AEG's scientists identified that the technology can also be reconfigured to produce an enhanced soil replacement product from waste fibre. This advanced substrate can be easily adjusted and tailored to meet the specific requirements of an individual agricultural customer and more importantly specific plant type or species. In addition, AEG quickly identified that the cost to produce PeatSwitch is much lower than CoalSwitch™ and the ratio of feedstock to final product is much higher, further increasing the economic attractiveness of this product.

On 28 February 2018, AEG announced that it had entered into an initial supply agreement with Young Living Farms ('YLF'). The terms of the agreement state that YLF may supply AEG with up to 6,500 tonnes of feedstock in the form of a waste by-product which would then be processed into PeatSwitch substrate at the plant in Utah. The resulting PeatSwitch could then be resold post-processing back to YLF. Deliveries under this arrangement commenced shortly after the announcement. Following successful demonstration of the process, discussions were commenced with YLF to provide them, on-site, at their Mona, Utah, facility with their own processing plant.

On 11 June 2018, the Group announced that it had entered into a Memorandum of Understanding with YLF, pursuant to which YLF would become the first buyer of a PeatSwitch plant with an initial order to deliver a three-tonne-per-hour plant to their farm and production facility in Mona, Utah for a total consideration of US\$3.4m. AEG and YLF have already commenced work to finalise and start construction. Contracts are being completed and the Group expects this initial plant to be completed and operational before the end of 2018. All parties expect this commercial relationship to continue to develop, with the sale of further plants at other YLF operations centres in the USA.



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## Timberlands

### Overview

The mission of the Timberlands business is to identify, develop and manage forestry projects. This business has multiple benefits and advantages to AEG and the forestry owners, including, among others:

- Security and traceability of feedstock for CoalSwitch™ and PeatSwitch production plants located at these sites.
- Using timber in CoalSwitch™ technology optimises output and value, as wood which is traditionally seen as waste, can be processed in CoalSwitch™ plants to produce value.
- Access to secure long-term timber proprietary tenures should allow AEG to enter into significant and long-term supply agreements for its products without risk of market fluctuations in the supply chain.
- The timber business and associated licences represent an asset against which debt can be secured, thereby facilitating lower cost group-wide financing for these projects and the associated plant.
- Focus on timber licences previously viewed as economically marginal, enables regeneration for rural communities who have traditionally relied on the forestry industry for their livelihoods.
- Control of the supply chain ensures co-ordinated environmental sustainability.

### Newfoundland

In Q2 2017, AEG announced that it had entered into an agreement in principle (“Agreement in Principle”) with the Canadian Province of Newfoundland and Labrador (“Province”). This arrangement envisaged the award of a Crown Timber Licence (“CTL”) and a forestry management agreement (“FMA”) with a renewable 20-year term, effectively becoming an ‘evergreen’ contract, relating to two Forest Management Districts, Districts 17 and 18 covering approximately 1.2 million hectares with 770,000 hectares being commercially viable mature, natural forestry, on the Great Northern Peninsular of Newfoundland.

The AIP permitted AEG the right to commercial cutting permits in Districts 17 and 18 in the Northern Peninsular. This was provided to AEG as a provision of conditional exclusivity over the area being negotiated and as a prelude to the award of the CTL and FMA in the Province as all parties completed the preparatory and regulatory work for the award of the FMA. The Province extended the AIP late in 2017 to further accommodate the regulatory preparations and process and to further demonstrate their commitment toward AEG.

On 12 October 2017, AEG submitted all final documents to the Ministry of Fisheries and Land Resources of the Crown Province of Newfoundland and Labrador associated with the CTL and FMA's. The submission included all requested documentation, including the proposed financial term sheets for the prospective FMAs.

During 2017 and H1 2018 AEG has continued to develop management and supplier capability as well as government relations, in order to ensure the future success of this business. Most notably this has involved:

- Outsourcing forestry management planning & operational supervision to Canadian forestry consultancy company, Zimmfor Management Services Ltd.
- Putting in place outsourcing agreements with existing companies engaged in forestry operations, logging & saw milling activities in the area.
- Collaborating closely with government departments such as the Ministry of Fisheries & Land Resources, the Ministry of Tourism, Culture, Innovation & Investment, the Ministry of Municipal Affairs & Environment, the Ministry of the Economy and the Justice Ministry of Newfoundland and Labrador.
- Developing and reinforcing links with municipalities and local stakeholders, including the Town of St. Anthony, the St. Anthony Port Authority, the Town of Roddickton Bide-Arm and the Municipal University of Newfoundland.

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During the second half of 2017 and into the first quarter of 2018, the Ministry of Fisheries and Land Resources, with input from AEG and their consultants, had been working hard to enable the creation of the legislative framework to allow the issuance of FMAs in the Province. As this FMA is to be the first ever issued in the Province, a condition precedent to allow this to occur was that appropriate legislation to allow for FMA structures to exist in the Province was required. This legislation came into effect at the end of March 2018.

All involved in the process, including government agencies working with AEG, believe that AEG is now in the final stages of receiving full and final approval. AEG understands that all parties at the relevant Ministries are proceeding and AEG would like to thank everyone in both St. John's and Corner Brook, NL, who have worked so diligently with AEG.

The Board anticipates that the award of these FMAs and CTL will have a significant positive impact for the Province, the local communities on the Great Northern Peninsular and AEG:

- It will allow Timberlands to harvest and utilise up to 140,000 solid cubic metres of wood per annum.
- It will be the catalyst for the upgrading and re-commissioning of an existing sawmill and provide a solid and reliable off take for the currently, significantly, under-employed local forestry operations on the Great Northern Peninsular.
- The Board intends to install a 5 tonne per hour CoalSwitch™ processing facility at Roddickton in the first instance, enabling transformation of waste wood, forestry residues and pulpwood, as well as the sawmill waste, to be converted into CoalSwitch™ pellets, thereby optimising value from the three complementary businesses.
- The geographical location of Newfoundland and Labrador and the forestry management tenures are ideally located, logistically, to take advantage of a number of significant market opportunities being developed by AEG in terms of creating and developing the European market for CoalSwitch™. The forestry and the nearby site of the proposed production facilities in Roddickton is proximate to ocean port facilities, located at St. Anthony, Newfoundland. Therefore, AEG will have direct access to the shortest shipping routes for biomass fuels to Europe from North America.

A number of parties have expressed interest in entering into offtake agreements for deliveries of CoalSwitch™ to customers in the European market once the CTL and FMA have been granted, and the Company intends to formalise these agreements as soon as practicable upon receipt of the CTL and FMA.

### Alberta

On 17 May 2018, AEG announced an MoU with Powerwood Canada ("Powerwood") which subject to formal contract and available funding, will allow AEG to assume a controlling interest in Powerwood. Powerwood already has a number of forestry assets granted by the Crown in the name of the Province of Alberta. However, the owners of Powerwood are focussing on the development of biomass power generation in the Province and not on forestry management operations.

The owners of Powerwood are keen that AEG utilises both its forestry expertise and CoalSwitch™ processes to increase the underlying value of the aspen stands, the dominant species in these forests. All parties are proceeding as quickly as possible to complete these contractual arrangements and commence commercial activities. AEG remains hopeful that these activities may complement AEG's previous efforts in the Province.

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With the strong support and encouragement of the Government of the Province of Alberta and the improved relationship between the Métis Settlements General Council under the stewardship of Metis Settlements General Council President Gerald Cunningham, AEG is increasingly confident that in future the Company's activities will likely involve the Métis Settlements, including their forestry assets and their local knowledge and experience.

### Ukraine

Whilst AEG has no companies or business activities in Ukraine at this time, the Group retains its supply contract granted by the Lyubomi Forestry, which is the administrator of the Lyubomi Forest in the Ukraine. Following the extension of the contract term during the 2014, The remaining useful life on contractual relationships is 46 years. AEG is reviewing options to utilise this asset to provide feedstock, and therefore security of supply, to future CoalSwitch™ operations in Eastern Europe, notably Poland.

### **Wood Fibre**

The Group suffered a significant downturn in the trading fortunes of its Ukrainian wood fibre business during H2 2016 and Q1 2017. This downturn was primarily driven by political events in Turkey specifically, the attempted coup d'état in July 2016, which had a negative impact on Turkish imports and thereby the export of our woodchip product to Turkey. In addition, three new competitors entered the Ukrainian woodchip production and export market, supplying what AEG believed to be an inferior quality product, at a time when the Turkish lira had been devalued. As a result of these factors gross margins deteriorated and the Board took the decision in April 2017 to suspend trading with a view to exiting the business as soon as practicable before it became untenable.

Following the announcement of our intention to reorganise AEG in May 2017, the Group's Directors began negotiations with its former Chief Operating Officer, Matteo Girlanda regarding a possible sale of the Group's Ukrainian assets. These negotiations did not come to fruition and it was therefore necessary to review further options. As a result various items of property, plant and equipment were sold to third parties, following which the operating company (Nikwood) was divested for a nominal amount in December 2017. As a result, the Group exited this business in accordance with its previously announced timeline, therefore reducing exposure to creditors and other ongoing liabilities. The Group retains ownership of certain equipment which it intends to either transfer to future European or North American CoalSwitch™ operations or realise on the open market.

The Board believes that exiting the Ukrainian wood fibre business has significantly reduced the Group's country, political and trading risk profiles, and has allowed the management team to focus the Company's resources on the development of the higher value CoalSwitch™, PeatSwitch and Timberlands business activities in North America and Europe.

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## STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors of Active Energy Group Plc present their Strategic Report for the year ended 31 December 2017.

### OPERATING REVIEW

The Chairman's report highlights the operational performance of the year under review and post balance sheet events.

#### Principal Activities

The Group's principal activities are the development and commercialisation of cutting edge renewable energy and soil replacement products; and the development of timber resources.

#### Organisation Overview

The Group's business is directed by the Board with executive management carried out through the Executive Chairman and Chief Executive Officer.

Following the resignation of Brian Evans-Jones on 5 February 2018, the Board of Directors comprises two Executive Directors (being the Chief Executive Officer and the Executive Chairman) and one Non-Executive Director.

The corporate structure of the Group reflects its two core business lines and the need, where appropriate, for operational, fiscal and other reasons, to have incorporated entities in particular territories.

Day-to-day activities are managed through offices in the United Kingdom and United States, supported by our multi-national network of professional advisors.

#### Aims, Strategy and Business Plan

The Group's aim is to develop a profitable international operation founded on Coalswitch™ and PeatSwitch technologies, underpinned by a forestry management business. The Group aims to generate significant shareholder value through the enactment of its strategy, at the same time as having a positive impact on the environment and local communities in the jurisdictions in which we operate.

The Group seeks to limit country and political risk by working within diversified, lower risk territories and jurisdictions; operating in an open and transparent manner throughout all its dealings; and maintaining a zero-tolerance policy towards corruption.

The Group's business model is to establish efficient, low cost synergistic operations across all of its activities and markets. The Board seeks to run the Group with a low cost base, consistent with the nature and level of activity being undertaken. The Group engages the services of a limited number of full-time employees alongside a portfolio of carefully selected professional consultants and contractors.

The Group is financed through periodic capital raises, loan notes and by short-and medium-term borrowings. As certain of the Group's new business ventures reach maturity the board is reviewing strategic opportunities to obtain specialist development funding from future customers, governments, international investors, strategic partners, royalty and/or other market arrangements.

#### Executive Management:

Following the resignation of Brian Evans-Jones on 5 February 2018, the Group's current executive team comprises:

Michael Rowan: Executive Chairman; with responsibility for oversight of all activities with specific focus on strategic, commercial and legal matters.

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Richard Spinks: Executive Director and CEO; with overall responsibility for all Group activities.

In addition, and in order to strengthen its operational capability and overall co-ordination the Group has recently established an operating committee. This committee comprises senior management (the Chief Operating Officer, Chief Financial Officer, Chief Technical Officer) as well as other members of the executive team.

### **Corporate Responsibility**

The Board takes regular account of the significance of social, environmental and ethical matters affecting the Group wherever it operates. It has developed a specific set of policies on corporate social responsibility, which seek to protect the interests of all of its stakeholders through ethical and transparent actions and include an anti-corruption policy and code of conduct.

### **Corporate Governance:**

The Group is committed to high standards of corporate governance and seeks to continually evaluate its policies, procedures and structures to ensure that they are fit for purpose.

In order to protect the interests of its shareholders and other stakeholders the Board has chosen to adopt the Quoted Companies Alliance (QCA) Corporate Governance Code for Small and mid-size Quoted Companies (the "QCA Code"), and the Directors are always prepared, where practicable, to enter into dialogue with all such parties to promote a mutual understanding of objectives.

The Company's AIM Rules Compliance Committee (see below) acknowledges the new AIM Rules regarding Corporate Governance which were announced in March 2018 and will ensure they are implemented on a timely basis before the 28 September 2018 deadline.

### **Composition of the Board of Directors**

The Board of Directors is currently comprised of the Executive Chairman (based in the UK), the Chief Executive Officer (based in Ukraine, Canada and the UK), and the Non-Executive Director (based in the UK). The Board considers that this structure is consistent with the nature and scope of the Group's business, operating in the sectors and regions that it does. The Board is aware of the need to refresh its membership from time to time and will consider appointing additional executive and independent non-executive directors in the future.

Specifically, the Company acknowledges that the guidance in the QCA Code is for a company to have at least two independent non-executive directors. However, the Directors are satisfied that at present the Company's board composition is appropriate given the Company's size and stage of development. The Directors shall keep the position under regular review and to the extent additional independence is felt to be required on the Board, it shall be sought.

### **Role of the Board:**

The role of the Board is to agree the Group's long-term strategy and direction and to monitor achievement of its business objectives. The Board meets several times per annum, either by teleconference or in person. Furthermore, it holds additional meetings as are necessary to transact ongoing business.

### **Board Committees:**

#### Remuneration Committee

The Remuneration Committee is made up of Simon Melling and Michael Rowan and is chaired by Michael Rowan. This committee is responsible for the scale and structure of the remuneration of the Chairman, the Chief Executive, the Executive Directors and reports to the Chief Executive. The recommendations of the committee must be approved by the Board of Directors. No director or manager shall be involved in decisions relating to his/her own remuneration.

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### AIM Rules Compliance Committee

The AIM Rules Compliance Committee is made up of Michael Rowan and Richard Spinks and is chaired by Michael Rowan. This committee is charged with ensuring that the Group has sufficient procedures, resources and controls in place to ensure compliance with the AIM rules for companies. Among other things, the committee shall ensure that an Executive Director is at all times able to respond to requests for information from the Nominated Adviser and that all Directors and employees are aware of their obligations with regards to the disclosure of any trading in the Group's shares.

### Audit Committee

The Audit Committee is made up of Simon Melling and Michael Rowan and is chaired by Simon Melling. This committee is required to monitor the integrity of the financial statements of the Group, including the interim and annual reports. The committee also reviews financial returns to regulators and any financial information contained in announcements of a price sensitive nature. The committee shall also consider and make recommendations to the Board regarding resolutions to be put to shareholders for approval at the Annual General Meeting, with respect to the appointment or re-appointment of the Group's external auditors. The audit committee, together with the external auditors, are responsible for determining the scope of the annual audit.

### Nomination Committee

The Company does not currently have a nomination committee as the Board does not consider it appropriate to establish such a committee at this stage of the Company's development. Decisions which would usually be taken by the nomination committee will be taken by the Board as a whole.

### **Environment**

The Board recognises that its principal activities have the potential to impact the environment and is committed to working with states and other bodies in all of the territories in which it operates to establish and follow international principles of environmental sustainability and renewability.

### **Employees**

The Group engages its employees in all aspects of the business and seeks to remunerate them fairly. The Group gives full and fair consideration to applications for employment regardless of age, gender, colour, ethnicity, disability, nationality, religious beliefs or sexual orientation. The Board takes employees' interest into account when making decisions. Any suggestions from employees aimed at improving the Group's performance are welcomed.

### **Suppliers and Contractors**

The Group recognises that the goodwill of its contractors, consultants and suppliers is crucial to the success of its business, and seeks to build and maintain this goodwill through fair and transparent business practices. The Group has a prompt payment policy and aims to settle genuine liabilities in accordance with contractual obligations.

### **Health and Safety**

The Board recognises that it has a responsibility to provide strategic leadership and direction in the development and maintenance of the Group's health and safety strategy, in order to protect all of its stakeholders.

### **Key Performance Indicators:**

The key performance indicators of the Group are set out below:

- Commercialise and develop the new CoalSwitch™ and PeatSwitch technology.
- Secure and develop selected timber licences.
- Conduct operations in a safe and environmentally responsible manner.
- Positively impact local communities in the jurisdictions in which we operate.

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- Optimise shareholder value through targeted investment and sound project and operational management.
- Maintain sufficient capital to meet the requirements of existing and future business.
- Identify and progress other new business initiatives and bring these to fruition.
- Optimise administration expenses and operating unit costs.

Performance against these measures is discussed elsewhere in the Strategic Report and Chairman's Statement. It is likely that other KPIs will be identified as the business develops. The Board believes that the detailed information published by the Group in its Regulatory News Service (RNS) announcements or in its published financial statements provide the best guide to its progress and performance.

### **Risk and Uncertainties:**

#### Operational Risk

Given the international nature of the Group's operations, it is inevitably subject to various operational and financial challenges.

The Directors are constantly vigilant of these challenges, and have undertaken the steps necessary to secure the Group's position.

#### Political Risk

Based upon experience of geo-political disruption to the Group's Ukrainian operations and its key market in Turkey, the Board has decided to focus future activities of the Group in low risk, politically stable jurisdictions.

#### Intellectual property

The Company has acquired significant intellectual property relating to its CoalSwitch™ and PeatSwitch technology. The board is actively working with its legal advisers in order to secure and defend its rights to this proprietary knowledge.

#### Financing Risk

The principal financial risks faced by the Group are discussed in the financial statements.

### **Internal Controls and Risk Management:**

The Directors are responsible for the Group's internal financial controls. Although no system of internal financial control can provide absolute assurance against material misstatement or loss, the Group's systems and processes are designed to provide reasonable assurance that issues are identified in a timely basis and dealt with appropriately.

The group is currently undertaking a review of its internal controls in order to optimise cost control and monitoring of on-going financial performance.

### **Forward Looking Statements:**

The Annual Report contains certain forward-looking statements that have been made by the Directors in good faith based upon the information at the time of the approval of the Report. By their nature, such forward-looking statements involve risks and uncertainties because they relate to events, and depend upon circumstances, that will or may occur in the future. Actual results may differ materially from those expressed in such statements.

This Strategic Report was approved by the Board of Directors on 18 June 2018 and signed on its behalf by:



**Michael Rowan**  
**Executive Chairman**

# ACTIVE ENERGY GROUP PLC

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2017

### The Report of Directors

The Directors present their report together with the audited financial statements of the Group for the year ended 31 December 2017.

In accordance with section 414C (11) of the Companies Act 2006, the Directors have chosen to include particulars of important events affecting the Group that have occurred since the end of 2017 and an indication of likely future developments in the Group's business in the Chairman's Report, the Operations Report and the Strategic Report (on pages 2 to 13).

### Dividends:

No dividend is proposed for the year ended 31 December 2017 (2016: £nil).

### Financial Instruments and Financial Risk Management:

Details of the use of financial instruments by the Group and its subsidiary undertakings, and related matters are contained in Note 27 of the financial statements.

### Going Concern:

The Directors consideration of going concern is set out in Note 1 to the financial statements.

### Directors:

The Directors during the year under review were:

T M S Rowan

R G Spinks

M Girlanda (resigned 8 May 2017)

B Evans-Jones (resigned 5 February 2018)

S C Melling was appointed to the Board on 16 March 2018.

### Remuneration:

Remuneration and benefits received during the year ended 31 December 2017 for Directors, together with interests in share options and warrants at the year end, were as follows:

	<b>2017</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>	<b>Options /</b>	<b>Exercise</b>
	<b>Gross</b>	<b>Share-</b>	<b>Gross</b>	<b>Share-</b>	<b>Warrants</b>	<b>Price</b>
	<b>Fees</b>	<b>based</b>	<b>Fees</b>	<b>based</b>	<b>No.</b>	<b>p</b>
	<b>and</b>	<b>Payments</b>	<b>and</b>	<b>Payments</b>		
	<b>Salary</b>		<b>Salary</b>			
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>		
T M Rowan	137,120	191,733	54,207	-	4,500,000	6.0
R G Spinks	255,879	-	201,785	(153,299)	-	
M Girlanda	107,759	-	231,608	565,848	-	
B Evans-Jones	218,535	56,776	162,620	143,160	12,000,000	5.0
F Lewis	-	-	33,881	-	-	
	<b>719,293</b>	<b>248,509</b>	<b>684,101</b>	<b>555,709</b>	<b>16,500,000</b>	



## ACTIVE ENERGY GROUP PLC

### Significant Shareholders:

The Directors are aware of the following significant shareholdings of 3 per cent or more of the current Issued Ordinary Share Capital of 1,032,704,504 shares and Total Voting Rights ("TVR") (excluding the 33,212,841 own shares held) of 999,491,663 shares on 7 June 2018:

	No.	ISC (%)	TVR (%)
Gravendonck Private Foundation	241,898,809	23.42	24.20
Ruffer LLP	56,171,946	5.44	5.62
R G Spinks	52,105,333	5.04	5.20
R M Derrickson	37,457,777	3.63	3.75

### Directors' Responsibilities:

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 have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company for that period and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with applicable IFRSs as adopted by the European Union, 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 Group will continue in business

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

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Group's website at [www.active-energy.com](http://www.active-energy.com) in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the on-going integrity of the financial statements contained therein.

The Directors consider that the annual report and the accounts, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and the Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Report of Directors confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities and financial position;
- the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Parent Company; and

## ACTIVE ENERGY GROUP PLC

- the Chairman's Statement includes a fair review of the development of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that it faces.

### Statement as to Disclosure of Information to Auditors:

Each Director has confirmed that:

- So far as the Directors are aware, there is no relevant audit information of which the Group's auditor is unaware; and
- They have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information

This confirmation is given in accordance with Section 418 of the Companies Act 2006.

### Auditors:

A resolution to re-appoint Jeffreys Henry LLP as auditor for the ensuing year will be proposed at the Annual General Meeting.

By order of the Board:



**Michael Rowan**  
**Executive Chairman**  
**Date: 18 June 2018**

Company Registration Number: 03148295

# ACTIVE ENERGY GROUP PLC

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

### Opinion

We have audited the financial statements of Active Energy Group (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the consolidated statement of income and other comprehensive income, the consolidated and parent company statement of financial position, the consolidated and parent company statement of cash flows, the consolidated and parent company statements of changes in equity and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRS's as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material uncertainty related to going concern

We draw attention to note 1 in the financial statements, which explains that the Group is dependent upon on further fund raising to commercialise or develop its core businesses. These events or conditions, along with the other matters as set forth in note 1, indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Our audit approach

#### Overview

#### *Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

- Carrying value of investments and intangible assets.
- Going concern issues.

## ACTIVE ENERGY GROUP PLC

- Company only loans.

These are explained in more detail below

### Audit scope

We conducted audits of the Group and Parent Company financial information of Active Energy Group Plc. We performed specified procedures over certain account balances and transaction classes at other Group companies.

Taken together, the Group companies over which we performed our audit procedures accounted for 100% of the absolute profit before tax (i.e. the sum of the numerical values without regard to whether they were profits or losses for the relevant reporting units) and 100% of revenue.

### Key audit matters

Key audit matter	How our audit addressed the key audit matter
<p><b>Carrying value of available for sale investment and intangible assets</b></p> <p>The Group had intangibles of US\$8,054,947 at the year ended 31 December 2017 (31 December 2016: US\$6,925,002).</p> <p>The Directors have confirmed all intangibles, were correctly recognised.</p> <p>IAS 36 Impairment of assets (“IAS 36”) states that assets must be assessed for indicators of impairment at each reporting period, for all cash-generating units (“CGUs”). Should such indicators exist the recoverable amount of the asset will be compared to the carrying value, and if the carrying value exceeds the recoverable amount, the difference is recorded as an impairment loss.</p> <p>The investment held in Alpha Prospects has been revalued in the year to US\$786,874. The revaluation has been assessed and the reasoning behind the revaluation has been corroborated with management.</p> <p>Refer to Note 1 and Note 15 to the Financial Statements for discussion of the related accounting policy.</p>	<p>Tested management’s assessment of indicators of impairment by considering various sources of internal and external information.</p> <p>Compared management’s recoverable amounts and valuation to third party valuation reports for Timberlands business.</p> <p>We considered whether the component of the Group was expected to be profit making and had an ability to trade successfully into the future.</p> <p>Confirmed whether all assets which remain capitalised are included in future budgets and, if they are not, understanding the basis by which management anticipate being able to recover the amounts that have been capitalised.</p> <p>Lyubomi Forestry CGU impairment review has been performed by management. The remaining useful life on contractual relationships is 46 years. Sensitivity analysis has been performed on the Lyubomi impairment.</p> <p>Management has prepared a financial model for CoalSwitch. This shows positive economics of the CoalSwitch technology going forward. The key model inputs have been assessed.</p> <p>We tested management’s assumption that no impairment existed by carrying out sensitivity analysis through changing the assumptions used and re-running the cash flow forecast.</p>
<p><b>Going concern assumption</b></p> <p>The Group is dependent upon its ability to generate sufficient cash flows to meet continued operational costs and hence continue trading.</p>	<p>Evaluated the suitability of management’s model for the forecast.</p>

## ACTIVE ENERGY GROUP PLC

<p>The Directors have considered the cash requirements of the business for the following 12 months. As part of this process, they have taken into account existing liabilities, along with detailed operating cashflow requirements. The projections prepared include ongoing running costs of the Group and committed expenditure at the date of approving the financial statements.</p> <p>The Group's primary revenue generating business segment, the Ukrainian wood fibre business, was discontinued during 2017. As a result this unit has not generated any revenues in 2018. Following the discontinuance of this operating segment, the group has focused its efforts on the CoalSwitch and Forestry and Natural Resources business segments. Neither of these business segments have generated material revenues at the date of signing these financial statements.</p> <p>The Directors have identified a variety of potential sources of funds including issue of additional equity and/or debt, shareholder loans, tax credits and sale of investments and/or plant. In addition, the Directors have identified additional cost reductions which may be implemented if necessary.</p>	<p>The forecast includes a number of assumptions related to future cash flows and associated risks. Our audit work has focused on evaluating and challenging the reasonableness of these assumptions and their impact on the forecast period.</p> <p>Specifically we obtained, challenged and assessed managements going concern forecast and performed procedures including:</p> <ul style="list-style-type: none"> <li>• Verifying the consistency of key inputs relating to future costs to other financial and operational information obtained during the audit;</li> <li>• Assessed the reasonableness of expenses and costs established;</li> <li>• Corroborated with management relating to future cash inflows.</li> <li>• We reviewed the latest management accounts to gauge the financial position.</li> </ul>
<p><b>Company loans to subsidiaries</b></p> <p>The Company has amounts due from group companies US\$13,629,890 (2016: US\$275,589).</p> <p>The directors have confirmed these loans are recoverable.</p> <p>Management have performed impairment reviews relating to the intangible assets.</p>	<p>We reviewed the carrying value of the investments and loans to fellow subsidiaries. The review considered the current position of the subsidiaries, the future outlook and forecasts prepared by management.</p> <p>We reviewed the subsidiary accounts and forecasts and have assessed the financial position of the subsidiaries.</p> <p>We have also discussed payments of the loans with the directors to confirm recoverability.</p> <p>We have also assessed the impairment reviews performed by management as set out under the impairment review work on intangibles noted above.</p>

### Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

## ACTIVE ENERGY GROUP PLC

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	US\$400,000 (31 December 2016: US\$190,000).	US\$290,000 (31 December 2016: US\$190,000).
How we determined it	Based on the average of 10% of loss before tax and 1% of gross assets.	Based on the average of 10% of loss before tax and 1% of gross assets.
Rationale for benchmark applied	We believe that loss before tax is a primary measure used by shareholders in assessing the performance of the Group whilst gross asset values and revenue are a representation of the size of the Group; both are generally accepted auditing benchmarks.	We believe that loss before tax is a primary measure used by shareholders in assessing the performance of the Company whilst gross asset values are a representation of the size of the Company; both are generally accepted auditing benchmarks.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components is ranged from US\$8,000 and US\$290,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above US\$20,000 (Group audit) (31 December 2016: US\$9,500) and US\$14,500 (Company audit) (31 December 2016: US\$9,500) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

### **An overview of the scope of our audit**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

#### *How we tailored the audit scope*

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group financial statements are a consolidation of 6 reporting units, comprising the Group's operating businesses and holding companies.

We performed audits of the complete financial information of the Group and Parent Company of Active Energy Group Plc reporting units, which were individually financially significant and accounted for 100% of the Group's revenue and 100% of the Group's absolute profit before tax (i.e. the sum of the numerical values without regard to whether they were profits or losses for the relevant reporting units). We also performed specified audit procedures over other intangible assets, as well as certain account balances and transaction classes that we regarded as material to the Group at the 6 reporting units.

The Group engagement team performed all audit procedures, with the exception of the audit of Nikwood which was performed by a component auditor in Ukraine.

# ACTIVE ENERGY GROUP PLC

## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

In the light of the knowledge and understanding of the group and parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

## ACTIVE ENERGY GROUP PLC

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

[www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Other matters which we are required to address**

We were appointed as auditors by the Company at the Annual General Meeting on 24 July 2017. Our total uninterrupted period of engagement is 2 years, covering the periods ending to 31 December 2017.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit. Our audit opinion is consistent with the additional report to the audit committee.

### **Use of this report**

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



Sanjay Parmar

**Senior Statutory Auditor**

For and on behalf of

**Jeffreys Henry LLP (Statutory Auditors)**

Finsgate

5-7 Cranwood Street

London EC1V 9EE

18 June 2018



# ACTIVE ENERGY GROUP PLC

## CONSOLIDATED STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 US\$	Excluding Discontinued operations 2016 US\$
<b>REVENUE</b>	3	-	-
Cost of sales		-	-
<b>GROSS PROFIT</b>		-	-
R&D expenditure		(2,389,807)	-
Administrative expenses		(2,870,721)	(1,956,795)
<b>OPERATING LOSS</b>	5	(5,260,528)	(1,956,795)
Finance income	6	-	18,152
Finance costs	6	(3,031,054)	(1,784,170)
Share of loss of associate	13	-	(305,151)
(Loss) from continuing operations		(8,291,582)	(4,027,964)
Income tax credit on continuing operations	8	355,491	8,985
(Loss)/profit from discontinued operations	7	(7,284,981)	1,528,339
<b>LOSS FOR THE PERIOD</b>		(15,221,072)	(2,490,640)
Loss attributable to Non-controlling Interest		437,110	-
<b>Loss attributable to the Parent Company</b>		(14,783,962)	(2,490,640)
<b>OTHER COMPREHENSIVE INCOME/(EXPENSE):</b>			
<b>Items that may be subsequently reclassified to profit or loss</b>			
Exchange differences on translation of foreign operations		137,734	(106,675)
Exchange differences on translation of associate		-	189,450
Revaluation of assets held for resale		331,585	-
Total other comprehensive income		469,319	82,775
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT</b>		(14,314,643)	(2,407,865)
(Loss) per share (US cent) – continuing operations		(0.90)	(0.61)
(Loss)/profit per share (US cent) – discontinued operations		(0.88)	0.23
Basic and Diluted (loss) per share (US cent)	9	(1.78)	(0.38)

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent Company income statement.

The notes on pages 28 to 67 form part of these financial statements.

# ACTIVE ENERGY GROUP PLC

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Note	Group 2017 US\$	Group 2016 US\$	Company 2017 US\$	Company 2016 US\$
<b>NON-CURRENT ASSETS</b>					
Intangible assets	10	8,054,947	6,925,002	-	2,746,396
Property, plant and equipment	11	3,791,611	2,562,145	-	262
Investment in subsidiaries	12	-	-	58,427	2,040,292
Investment in associate	13	-	1,282,627	-	2,333,177
Loan to joint venture partner	14	-	1,911,121	-	1,911,121
Available for sale financial assets	15	786,873	83,455	786,873	83,455
		<u>12,633,431</u>	<u>12,764,350</u>	<u>845,300</u>	<u>9,114,703</u>
<b>CURRENT ASSETS</b>					
Inventory	16	20,349	424,998	-	-
Trade and other receivables	17	517,902	2,650,332	13,772,668	324,102
Cash and cash equivalents	18	142,049	2,121,841	135,706	2,041,134
		<u>680,300</u>	<u>5,197,171</u>	<u>13,908,374</u>	<u>2,365,236</u>
<b>TOTAL ASSETS</b>		<u>13,313,731</u>	<u>17,961,521</u>	<u>14,753,674</u>	<u>11,479,939</u>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	19	1,944,676	3,021,152	1,122,458	1,408,036
Loans and borrowings	22	-	7,062,730	-	4,123,600
Finance leases falling due in less than one year	21	89,607	-	-	-
Income tax liabilities		-	2,488	-	-
		<u>2,034,283</u>	<u>10,086,370</u>	<u>1,122,458</u>	<u>5,531,636</u>
<b>NON-CURRENT LIABILITIES</b>					
Deferred income tax liabilities	20	384,169	393,137	-	-
Finance leases falling due in more than one year	21	205,993	-	-	-
Loans and borrowings	22	13,224,252	580,000	13,224,252	580,000
		<u>13,814,414</u>	<u>973,137</u>	<u>13,224,252</u>	<u>580,000</u>
<b>TOTAL LIABILITIES</b>		<u>15,848,697</u>	<u>11,059,507</u>	<u>14,346,710</u>	<u>6,111,636</u>
<b>NET ASSETS/(LIABILITIES)</b>		<u>(2,534,966)</u>	<u>6,902,014</u>	<u>406,964</u>	<u>5,368,303</u>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>					
Share capital	23	14,493,246	12,621,134	14,493,246	12,621,134
Share premium		14,740,478	13,469,916	14,740,478	13,469,916
Merger reserve		2,350,175	2,350,175	2,350,175	2,350,175
Foreign exchange reserve		108,080	(29,654)	(403,220)	(1,023,565)
Own shares held reserve		(779,222)	(779,222)	(779,222)	(779,222)
Convertible debt / warrant reserve		2,930,209	1,075,301	2,930,209	1,075,301
Retained (loss)		(35,950,264)	(21,805,636)	(32,924,702)	(22,345,436)
Non-controlling Interest		(427,668)	-	-	-
<b>TOTAL EQUITY</b>		<u>(2,534,966)</u>	<u>6,902,014</u>	<u>406,964</u>	<u>5,368,303</u>

The financial statements were approved and authorised for issue by the Directors on 18 June 2018 and were signed on their behalf by:



**Michael Rowan**  
**Executive Chairman**

Company Number 03148295

The notes on pages 28 to 67 form part of these financial statements.

# ACTIVE ENERGY GROUP PLC

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Group 2017 US\$	Group 2016 US\$	Company 2017 US\$	Company 2016 US\$
<b>Cash (outflow)/inflow from operations</b>	26	(5,821,095)	(982,318)	(13,717,090)	548,626
Income tax paid		<u>(6,684)</u>	<u>(285,563)</u>	<u>-</u>	<u>-</u>
<b>Net cash (outflow)/inflow from operating activities</b>		(5,827,779)	(1,267,881)	(13,717,090)	548,626
<b>Cash flows from investing activities</b>					
Purchase of intangible assets		(1,438,017)	(163,257)	-	(163,257)
Acquisition of investment		-	-	(58,427)	(581,801)
Contribution to associate		-	(255,714)	-	(255,714)
Loan to joint venture partner		-	(1,351,904)	-	(1,351,904)
Purchase of property, plant and equipment		(3,923,481)	(285,113)	-	-
Sale of property, plant and equipment		221,504	58,020	-	-
Finance income		<u>-</u>	<u>18,152</u>	<u>-</u>	<u>-</u>
<b>Net cash outflow from investing activities</b>		(5,139,994)	(1,979,816)	(58,427)	(2,352,676)
<b>Cash flows from financing activities</b>					
Issue of equity share capital, net of share issue costs		3,142,674	2,921,762	3,142,674	2,921,762
Loans raised		7,537,671	837,667	10,181,201	957,777
Finance expenses		<u>(1,693,031)</u>	<u>(97,095)</u>	<u>(1,454,191)</u>	<u>(100,389)</u>
<b>Net cash inflow from financing activities</b>		<u>8,987,314</u>	<u>3,662,334</u>	<u>11,869,684</u>	<u>3,779,150</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		(1,980,459)	414,637	(1,905,833)	1,975,100
<b>Cash and cash equivalents at beginning of the year</b>		2,121,841	1,643,855	2,041,134	43,335
Exchange (losses)/gains on cash and cash equivalents		<u>667</u>	<u>63,349</u>	<u>405</u>	<u>22,699</u>
<b>Cash and cash equivalents at end of the year</b>	18	<u><u>142,049</u></u>	<u><u>2,121,841</u></u>	<u><u>135,706</u></u>	<u><u>2,041,134</u></u>

The notes on pages 28 to 67 form part of these financial statements.

# ACTIVE ENERGY GROUP PLC

## GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital	Share premium	Merger reserve	Foreign exchange reserve	Own shares held reserve	Convertible debt and warrant reserve	Retained earnings	Non- controlling Interest	Total equity
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
<b>At 31 December 2015</b>	10,099,329	8,603,703	2,350,175	(112,429)	(1,229,630)	1,075,301	(19,946,461)	-	839,988
Loss for the year	-	-	-	-	-	-	(2,490,640)	-	(2,490,640)
Other comprehensive income	-	-	-	82,775	-	-	-	-	82,775
Issue of share capital	2,521,805	4,866,213	-	-	-	-	-	-	7,388,018
Own shares reserve	-	-	-	-	450,408	-	-	-	450,408
Share based payments	-	-	-	-	-	-	631,465	-	631,465
<b>At 31 December 2016</b>	12,621,134	13,469,916	2,350,175	(29,654)	(779,222)	1,075,301	(21,805,636)	-	6,902,014
Loss for the year	-	-	-	-	-	-	(15,221,072)	-	(15,221,072)
Other comprehensive income	-	-	-	137,734	-	-	331,585	-	469,319
Issue of share capital	1,872,112	1,270,562	-	-	-	-	-	-	3,142,674
Embedded derivative on issue of CLN	-	-	-	-	-	1,854,908	-	-	1,854,908
Share based payments	-	-	-	-	-	-	307,749	-	307,749
Minority Interest	-	-	-	-	-	-	437,110	(427,668)	9,442
<b>At 31 December 2017</b>	<b>14,493,246</b>	<b>14,740,478</b>	<b>2,350,175</b>	<b>108,080</b>	<b>(779,222)</b>	<b>2,930,209</b>	<b>(35,950,264)</b>	<b>(427,668)</b>	<b>(2,534,966)</b>

The purpose and nature of each of the above reserves is described in note 25.

The notes on pages 28 to 67 form part of these financial statements.

## ACTIVE ENERGY GROUP PLC

### COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital	Share premium	Merger reserve	Foreign exchange reserve	Own shares held reserve	Convertible debt and warrant reserve	Retained earnings	Total equity
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
<b>At 31 December 2015</b>	10,099,329	8,603,703	2,350,175	(399,473)	(1,229,630)	1,075,301	(15,683,653)	4,815,752
Loss for the year	-	-	-	-	-	-	(7,293,248)	(7,293,248)
Other comprehensive income	-	-	-	(624,092)	-	-	-	(624,092)
Issue of share capital	2,521,805	4,866,213	-	-	-	-	-	7,388,018
Own shares reserve	-	-	-	-	450,408	-	-	450,408
Share based payments	-	-	-	-	-	-	631,465	631,465
<b>At 31 December 2016</b>	12,621,134	13,469,916	2,350,175	(1,023,565)	(779,222)	1,075,301	(22,345,436)	5,368,303
Loss for the year	-	-	-	-	-	-	(11,218,600)	(11,218,600)
Other comprehensive income	-	-	-	620,345	-	-	331,585	951,930
Issue of share capital	1,872,112	1,270,562	-	-	-	-	-	3,142,674
Embedded derivative on issue of CLN	-	-	-	-	-	1,854,908	-	1,854,908
Share based payments	-	-	-	-	-	-	307,749	307,749
<b>At 31 December 2017</b>	<b>14,493,246</b>	<b>14,740,478</b>	<b>2,350,175</b>	<b>(403,220)</b>	<b>(779,222)</b>	<b>2,930,209</b>	<b>(32,924,702)</b>	<b>406,964</b>

The purpose and nature of each of the above reserves is described in note 25.

The notes on pages 28 to 67 form part of these financial statements.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 1. ACCOUNTING POLICIES

#### General information

Active Energy Group plc is a company incorporated in England and Wales and quoted on the AIM market of the London Stock Exchange. The address of the registered office is disclosed on page 1 of the annual report. The principal activity of the Group is described in the Strategic Report.

#### Basis of preparation

The principal accounting policies adopted in preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

Both the Company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards, International Accounting Standards and IFRIC interpretations (collectively IFRS) as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on the historical cost basis, as modified by the revaluation of property, plant and equipment, available for sale financial assets, and financial assets and liabilities, including derivative financial instruments, at fair value through profit or loss.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgment in the most appropriate application in applying the Group's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 29.

#### Going concern

The Group's primary revenue generating business segment, the Ukrainian wood fibre business, was discontinued during 2017. As a result this unit has not generated any revenues in 2018. Following the discontinuance of this operating segment, the group has focused its efforts on the CoalSwitch™ and Forestry and Natural Resources business segments. Neither of these business segments have generated material revenues at the date of signing these financial statements.

The Directors have considered the cash requirements of the business for the following 12 months. As part of this process, they have taken into account existing liabilities, along with detailed operating cash flow requirements. The projections prepared include ongoing running costs of the Group and committed expenditure at the date of approving the financial statements.

The Directors have identified a variety of potential sources of funds including issue of additional equity and/or debt, shareholder loans, tax credits and sale of investments and/or plant. In addition, the Directors have identified additional cost reductions which may be implemented if necessary.

Taking this into account and following a detailed review by the Directors of the Group's cash flow requirements, the directors believe that the Group will have sufficient cash resources to continue to trade for a period of at least 12 months from the date that the financial statements are signed. Consequently, the financial statements have been prepared on a going concern basis.

However, as of the date of signing these financial statements, none of the potential sources of funds have been finalised and therefore there can be no guarantee that further funds will be received. These circumstances indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 1. ACCOUNTING POLICIES (continued)

#### Standards, interpretations and amendments to existing standards

At the date of authorisation of these financial statements, the IASB and IFRS Interpretations Committee have issued standards, interpretations and amendments which are applicable to the Company. These standards and interpretations are not effective for, and have not been adopted by the Company in the preparation of these financial statements. Management has not yet fully assessed the impact of these new standards.

- IFRS 1: First-time Adoption - Annual improvements 2014 – 2016 cycle (from 1 January 2018)
- IFRS 2: Amendments Share based payments – classification and measurement of share based payment transactions (from 1 January 2018)
- IFRS 4: Insurance Contracts – interaction of IFRS 4 and IFRS 9 (from 1 January 2018)
- IFRS 9: Financial Instruments – replaces IAS 39 in its entirety (from 1 January 2018)
- IFRS 15: Revenue from Contracts with Customers (from 1 January 2018)
- IFRS 16: Leases – replaces IAS 17 in its entirety (from 1 January 2019)
- IAS 28 Amendments: Investments in Associates and Joint Ventures – amendments resulting from annual improvements 2014-2016 cycle - clarifying certain fair value measurements (from 1 January 2018)
- IAS 39 Amendments: Financial Instruments -Recognition and measurement. Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied and to extend the fair value option to certain contracts that meet the 'own use' scope exception (from 1 January 2018)
- IAS 40 Amendments: Investment Property – amendments to clarify transfers of property to or from investment property (from 1 January 2018)
- IFRIC 22 Amendments: Foreign currency transactions and advance consideration-amendments to clarify the accounting for transactions that include the receipt for payment of advance consideration in a foreign currency (from 1 January 2019)

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 1. ACCOUNTING POLICIES (continued)

#### **Basis of consolidation**

The financial information incorporates the results of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Group has power over relevant activities, is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The consolidated financial statements present the financial results of the Company and its subsidiaries (the Group) as if they formed a single entity. Where necessary, adjustments are made to the results of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less provisions for any permanent diminution in value.

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts and value added taxes. The Group recognises revenue when the following conditions have been satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership;
- the Group does not retain either the continuing managerial involvement normally associated with ownership or effective control over the goods;
- the amount of revenue can be reliably measured;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs to be incurred in respect of the transaction can be reliably measured.

#### **Goodwill and business combinations**

On acquisition, the assets and liabilities and contingent liabilities of subsidiaries are measured at their fair values at the date of acquisition. Any excess of cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition.

When the consideration transferred by the Group in a business combination includes assets or liabilities from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration paid. Changes in the fair value of the consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill.

Goodwill arising on consolidation is recognised as an intangible asset and reviewed for impairment at least annually by comparing the carrying value of the asset to the recoverable amount. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

#### **Associates**

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the consolidated statement of financial position at cost. Subsequently associates are accounted for using the equity method, where the Group's share of post-acquisition profits and losses and other comprehensive income is recognised in the consolidated statement of profit and loss and other comprehensive income (except for losses in excess of the Group's investment in the associate unless there is an obligation to make good those losses).



# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 1. ACCOUNTING POLICIES (continued)

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

#### **Joint arrangements**

Profits and losses arising on transactions between the Group and its joint ventures are recognised only to the extent of unrelated investors' interests in the joint venture. The investor's share in the Joint Venture profits and losses resulting from these transactions is eliminated against the carrying value of the Joint Venture. Any premium paid for an investment in a joint venture above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the investment in joint venture. Where there is objective evidence that the investment in a joint venture has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

The Group accounts for its interests joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

#### **Impairment of non-financial assets (excluding inventories, investment properties and deferred tax assets)**

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its cash generating units ("CGUs"). Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from the synergies of the combination giving rise to the goodwill. Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognised in other comprehensive income. An impairment loss recognised for goodwill is not reversed.

#### **Intangible assets**

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques (see note 29 related to critical estimates and judgements below).

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 1. ACCOUNTING POLICIES (continued)

#### Intangible assets

Internally generated intangible fixed assets are recognised if they meet the requirements set out by international accounting standards. Specifically,

- the asset must be separately identifiable that is to say that either it is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged; or it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
- The cost of the asset can be measured reliably;
- the technical feasibility of completing the intangible asset;
- the Group intends and is able to complete the intangible asset and use or sell it;
- the intangible asset will generate probable future economic benefits;
- there are available and adequate technical, financial and other resources to complete and to use or sell the intangible asset.
- Expenditure attributable to the intangible asset is measurable.

The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are disclosed in note 10.

#### Property, plant and equipment

Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and any recognised impairment loss. Cost includes the purchase price and all directly attributable costs. Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Plant and equipment	– 2 to 10 years straight line
Furniture and office equipment	– 2 to 5 years straight line

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

#### Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

#### Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the management team including Executive Directors.

#### Financial instruments

The Group classifies its financial instruments into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Group has not classified any of its financial assets as held to maturity, or at fair value through profit or loss.

The accounting policy for each category is as follows:

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 1. ACCOUNTING POLICIES (continued)

#### *Loans and receivables*

The Group's loans and receivables comprise trade and other receivables, loan to joint venture partner and cash and cash equivalents in the statement of financial position. These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment. Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and for the purpose of the statement of cash flows, bank overdrafts.

#### *Available for sale financial assets*

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at fair value with changes in fair value recognised in other comprehensive income. When available for sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in equity are transferred to the income statement. Dividends on available for sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

#### *Other financial liabilities*

Other financial liabilities include the following items:

- Borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. These are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. The interest expense includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.
- Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

#### **Taxation**

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the consolidated statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available to utilise the difference. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/assets are settled/recovered.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 1. ACCOUNTING POLICIES (continued)

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different Group entities which intend either to settle current tax assets/liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled/recovered.

#### Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which they operate (their "functional currency"). The Company and Consolidated financial statements are presented in United States Dollar ("US Dollar", "US\$"), which is the Group's presentation currency as the Group's activities are ultimately linked to the US Dollar. The Company's functional currency is Pound Sterling.

Transactions entered into by Group entities in a currency other than their functional currency are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss.

On consolidation, the results of overseas operations are translated into the Group's presentation currency, US Dollars, at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. Differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in the foreign exchange reserve. Exchange differences recognised in the statement of comprehensive income of Group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve on consolidation. On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

#### Convertible debt

The proceeds received on issue of the Group's convertible debt are allocated into their liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that does not include an option to convert. Subsequently, the debt component is accounted for as a financial liability measured at amortised cost until extinguished on conversion or maturity of the bond. The remainder of the proceeds are allocated to the conversion option and are recognised in the "Convertible debt reserve" within shareholders' equity, net of income tax effects.

#### Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 1. ACCOUNTING POLICIES (continued)

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an "operating lease"), the total rentals payable under the lease are charged to the consolidated income statement on a straight-line basis over the lease term.

#### Share based payments

Where employees receive remuneration in the form of shares or share options, the fair value of the share-based employee compensation arrangement at the date of the grant is recognised as an employee benefit expense in the consolidated income statement. The total expense to be apportioned over the vesting period of the benefit is determined by reference to the fair value (excluding the effect of non-market-based vesting conditions) at the date of the grant. The assumptions underlying the number of awards expected to vest are subsequently adjusted for the effects of non-market-based vesting to reflect the conditions prevailing at the year-end date. Fair value is measured by the use of a Monte Carlo (JSOP options) or Black Scholes (other options) simulations. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of the non-transferability, exercise restrictions and behavioural considerations.

Where equity instruments are granted to persons other than employees, the consolidated income statement is charged with the fair value of goods and services received; except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

#### Own shares held

Consideration paid/received for the purchase/sale of shares held in escrow or in trust for the benefit of employees is recognised directly in equity. The nominal value of such shares held is presented within the "own shares held" reserve. Any excess of the consideration received on the sale of the shares over the weighted average cost of the shares sold is credited to retained earnings.

Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the Group consolidated income statement.

#### Investment in subsidiaries

Investments in subsidiaries are stated at cost less provision for impairment in the Company financial statements.

### 2. SEGMENTAL INFORMATION

The Group reports two operating continuing business segments:

- "Forestry & Natural Resources" denotes the Group's initiatives to secure ownership of the entire timber supply chain from forest to finished product
- "CoalSwitch™/PeatSwitch denotes the Group's renewable wood pellet and soil replacement business.

Revenues and costs associated with the Ukrainian Wood Fibre business have been reclassified as discontinued operations.

#### *Factors that management used to identify the Group's reportable segments*

The Group's reportable segments are strategic business units that offer different products. During the business development stage they are managed separately because each business operates in different markets and locations. In future it is likely that these business segments may be combined into single operations and reporting structures will be revisited accordingly.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 2. SEGMENTAL INFORMATION (continued)

*Measurement of operating segment profit or loss*

The Group evaluates segmental performance on the basis of profit or loss from operations calculated in accordance with IFRS but excluding corporate overheads, non-recurring losses, such as goodwill impairment, the effects of share-based payments, and joint venture profit and losses.

	<b>2017</b>	<b>2017</b>	<b>2017</b>
	<b>Forestry &amp; Natural Resources US\$</b>	<b>CoalSwitch™ / PeatSwitch US\$</b>	<b>Total US\$</b>
Total Revenue	-	-	-
Operating segment (loss)	-	(3,260,588)	(3,260,588)
Segment (loss) before tax	-	(3,260,588)	(3,260,588)
Tax charge	-	346,522	346,522
Segment (loss) for the year	-	(2,914,066)	(2,914,066)

	<b>2016</b>	<b>2016</b>	<b>2016</b>
	<b>Forestry &amp; Natural Resources US\$</b>	<b>Coalswitch™ / Peatswitch US\$</b>	<b>Total US\$</b>
Total Revenue	-	-	-
Operating segment (loss)	(349,989)	-	(349,989)
Segment (loss) before tax	(349,989)	-	(349,989)
Tax charge	8,969	-	8,969
Segment (loss) for the year	(341,020)	-	(341,020)

Profits and losses associated with the Ukrainian wood fibre business have been reclassified as discontinuing in 2017 and have therefore be excluded from the above analysis. All other finance costs relate to Group funding and are not allocated to an individual segment.

Capital expenditure relating to the CoalSwitch™/PeatSwitch segment was US\$3,877,226 and capital expenditure relating to the Forestry and natural resource segment was US\$896,957.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 2. SEGMENTAL INFORMATION (continued)

Reconciliation of reportable segment profit or loss, assets and liabilities to the Group's corresponding amounts are as follows:

	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Total (loss) from reportable segments	(2,914,066)	(341,020)
Unallocated amount - corporate expenses	(1,683,222)	(1,280,476)
Unallocated amount - finance income	-	18,152
Unallocated amount - finance expense	(3,031,054)	(1,784,170)
Share based payments	(307,749)	(631,465)
Discontinued operations	(7,284,981)	1,528,339
Loss for the period	<u>(15,221,072)</u>	<u>(2,490,640)</u>

An analysis of non-current assets by location of assets is given below:

	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
United Kingdom	4,741,653	6,623,193
Ukraine	2,170,583	4,858,530
Canada	2,179,584	1,282,627
United States	3,541,611	-
	<u>12,633,431</u>	<u>12,764,350</u>

### 3. REVENUE

All revenues relate to the Ukrainian wood fibre business have been reclassified as discontinued and therefore are not shown on the face of the income statement.

	<b>2017</b>	<b>2016</b>
<b>Group</b>	<b>US\$</b>	<b>US\$</b>
Sale of goods	<u>1,323,300</u>	<u>19,196,559</u>

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 3. REVENUE (continued)

The following table analyses revenue by location of customer. All these revenues relate to the Ukrainian wood fibre business and have therefore been classified as discontinued in the 2017 financial statements.

	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Turkey	856,869	19,186,708
Ukraine	466,331	9,851
	<u>1,323,200</u>	<u>19,196,559</u>

Revenue derived from a single external customer amounted to US\$856,869 (2016:US\$19,186,708), which relate to the Ukrainian Wood Fibre segment.

### 4. EMPLOYEE COSTS AND DIRECTORS

<b>Group</b>	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Wages and salaries	496,861	1,137,321
Social security costs	73,959	80,418
	<u>570,820</u>	<u>1,217,739</u>
Share based payments – others	59,240	75,756
Share based payments – directors (note 24)	248,509	555,709
	<u>878,569</u>	<u>1,849,204</u>

The average monthly number of employees during the year was as follows:

	<b>2017</b>	<b>2016</b>
Directors	3	4
Administration	11	14
Production	25	32
	<u>39</u>	<u>50</u>

#### Directors' and key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. During the period these were considered to be the Directors of the Company listed on page 14.

	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Directors' emoluments	719,293	667,161
Compensation for the loss of office	-	16,940
	<u>719,293</u>	<u>684,101</u>
Share based payments (note 24)	248,509	555,709
	<u>967,802</u>	<u>1,239,810</u>

The emoluments of the highest paid Director for the year, including non-cash share based payments, were US\$328,853 (2016: US\$797,457).



# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 5. OPERATING LOSS

<b>Group</b>	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
The loss before income tax is stated after charging/(crediting):		
Operating leases - premises	26,807	61,716
Operating leases - vehicles	2,886	11,347
Operating leases - equipment	29,045	38,709
Amortisation of intangible assets	44,845	44,845
Depreciation	280,473	344,495
Loss / (profit) on disposal of fixed assets/discontinued operations	5,600,464	(58,020)
Auditors' remuneration - parent company and consolidation	34,000	31,000
Auditors' remuneration - subsidiaries	20,500	9,000
Auditors' remuneration - taxation services	9,400	2,000
Share based payments	307,749	631,465
Foreign exchange (gains)/loss	(754,703)	37,864

### 6. FINANCE INCOME AND COSTS

<b>Group</b>	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
<b>Finance income</b>		
Bank interest	-	18,152
<b>Finance costs</b>		
Interest on convertible loan	958,299	160,447
Other loan interest and charges	929,083	671,069
Foreign exchange losses	1,143,672	952,654
Net finance costs	3,031,054	1,784,170

Foreign exchanges losses primarily relate to movements in US\$/Sterling exchange rates and resulting movements in intercompany balances.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 7. LOSS FROM DISCONTINUED OPERATIONS

During 2017 AEG plc discontinued its Wood fibre business in Ukraine. Details of the circumstances surrounding this exit are provided in the Chairman's report and operational review. The results of this business are disclosed as a single line item in the Group Income and Expenditure Statement in accordance with IRFS5. Details of the results of these operations are shown below.

	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
<b>REVENUE</b>	1,323,200	19,196,559
Cost of sales	(2,925,138)	(16,344,727)
<b>GROSS PROFIT</b>	<u>(1,608,938)</u>	<u>2,851,832</u>
Administrative expenses	(719,519)	(1,132,326)
<b>OPERATING (LOSS)/PROFIT</b>	<u>(2,321,457)</u>	<u>1,719,506</u>
Finance income	641,126	-
Finance costs	-	(60,055)
(Loss)/profit for the Period	(1,680,331)	1,659,451
Loss on sale of discontinued operations	(5,600,464)	-
Income tax	(4,186)	(131,112)
<b>(Loss)/profit attributable to the Parent Company</b>	<u><u>(7,284,981)</u></u>	<u><u>1,528,339</u></u>

Discontinued operations cashflows from operating activities were US\$124,081 outflow (2016: US\$1,177,035 outflow); cash flows from investing activities were US\$221,504 inflow (2016: US\$282,215 outflow); and cashflows arising from financing activities were US\$nil (2016: US\$60,055 outflow).

### 8. INCOME TAX

<b>Group</b>	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
<b>Current tax</b>		
Overseas tax charge on discontinued operations	4,187	131,112
R&D tax credit at 14.5% on continued operations	(346,522)	-
<b>Deferred tax</b>		
Reversal of temporary differences	(8,969)	(8,969)
Total income tax (credit)/charge	<u>(351,304)</u>	<u>122,143</u>
Breakdown between continuing and discontinuing operations		
Tax charge relating to discontinued operations	4,187	131,112
Tax (credit)/charge relating to continued operations	(355,491)	(8,969)
	<u>(351,304)</u>	<u>122,143</u>

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 8. TAXATION (continued)

#### Factors affecting the tax charge

The tax on the Group assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	2017 US\$	2016 US\$
Loss before income tax	(15,572,377)	(2,368,513)
Standard rate of corporation tax	19.25%	20%
Loss before tax multiplied by standard rate of corporation tax	(2,997,683)	(473,703)
Effects of:		
Difference between R&D tax credit rate (14.5%) and effective rate	113,516	-
Non-deductible expenses	1,553,856	581,262
Overseas tax rate difference from UK rate	4,883	14,567
Income not taxable	(264,739)	-
Accelerated depreciation	15,839	-
Losses carried forward	1,223,022	-
Current tax (credit)/charge	<u>(351,306)</u>	<u>122,126</u>
Tax charge relating to discontinued operations	<u>4,187</u>	<u>131,112</u>
Tax (credit) relating to Continued operations	<u>(355,491)</u>	<u>(8,986)</u>

The Finance Act 2017 confirmed that the main rate of corporation tax, which applies to most companies subject to UK tax, will be reduced from the 19% rate applying from 1 April 2017 to 17% from 1 April 2020.

#### Movements in the groups tax loss position can be summarised as follows:

	US\$
Tax losses brought forward at 1 January 2017	16,261,619
Adjusted Loss per A/c's	8,743,174
Surrendered for R&D tax credit	<u>(2,389,807)</u>
Tax losses carried forward at 31 December 2017	<u>22,614,986</u>

This equates to a potential deferred tax asset of \$4,296,847 at the year-end 2017, which has not been recognised due to uncertainties regarding the recoverability of this balance.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 8. TAXATION (continued)

Tax effects of amounts which are not deductible/(taxable) in calculating taxable income are as follows:

	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Intercompany loan written off	399,295	541,483
Loss on disposal of investments	184,206	-
Impairment of investment	848,402	-
Share based payments	59,242	-
Legal and professional fees	70,556	30,717
Revaluation of assets held for sale	63,830	-
Revaluation gains	(62,937)	-
Amortisation	-	8,969
Sundry items	(8,738)	93
	<u>1,553,856</u>	<u>581,262</u>

### 9. LOSS PER SHARE

Basic and diluted loss per share is calculated by dividing the loss attributable to equity holders of the company of US\$14,783,962 (2016: US\$2,490,640) by the weighted average number of ordinary shares in issue during the year, excluding own shares held, of 829,908,445(2016: 651,515,665).

At 31 December 2017, own shares held amounted to 33,212,841 (2016:33,212,841) ordinary shares. The weighted average number of own shares held by the company during the year are not included in the weighted average ordinary shares in issue during the financial year.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 10. INTANGIBLE ASSETS

Group	Goodwill	Other intellectual property	Development	Total
	US\$	US\$	US\$	US\$
<b>Cost</b>				
At 31 December 2015	2,212,930	104,124	2,936,252	5,253,306
Foreign exchange difference	-	(17,287)	-	(17,287)
Additions	-	2,659,910	-	2,659,910
At 31 December 2016	2,212,930	2,746,747	2,936,252	7,895,929
Foreign exchange difference	-	-	-	-
Additions	-	541,060	896,957	1,438,017
Disposals	(2,212,930)	-	-	(2,212,930)
Costs incurred by JV partner	-	1,911,121	-	1,911,121
Transfers from investment in associate	-	-	1,282,627	1,282,627
R&D costs transferred to income statement	-	(1,244,045)	-	(1,244,045)
At 31 December 2017	-	3,954,883	5,115,836	9,070,719
<b>Accumulated amortisation</b>				
At 31 December 2015	-	362	925,720	926,082
Charge for year	-	-	44,845	44,845
At 31 December 2016	-	362	970,565	970,927
Charge for year	-	-	44,845	44,845
At 31 December 2017	-	362	1,015,410	1,015,772
<b>Net book value</b>				
At 31 December 2017	-	3,954,521	4,100,426	8,054,947
At 31 December 2016	2,212,930	2,746,385	1,965,687	6,925,002

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 10. INTANGIBLE ASSETS (continued)

Company	Intellectual property
	US\$
At 31 December 2015	103,762
Foreign exchange difference	(17,276)
Additions	2,659,910
At 31 December 2016	2,746,396
Transfers to other group companies	(2,746,396)
At 31 December 2017	-
<b>Accumulated amortisation</b>	
At 31 December 2015, 2016 and 2017	-
<b>Net book value</b>	
At 31 December 2017	-
At 31 December 2016	2,746,396

#### Goodwill

Goodwill arose from the acquisition of Nikofeso and was considered to relate solely to the underlying business acquired which is a single cash generating unit ("CGU"). The asset was reviewed at each balance sheet dates to assess if it had been impaired. This Company was sold at the end of 2017 and therefore the associated goodwill was included in loss on sale of discontinued operations in the Income and Expenditure Statement.

#### Other intellectual property

Other intellectual property comprises costs incurred to secure the rights and knowledge associated with the CoalSwitch™ and PeatSwitch technology.

In 2015 the Group entered into a joint venture agreement with Biomass Energy Enhancements LLC ("BEE"), incorporated in the United States, for the joint commercial development and exploitation of intellectual property assets held by BEE in connection with biomass technologies. A long term loan to BEE was recognised in the accounts to reflect monies loaned by AEG to the joint venture. An agreement was later reached with the other joint venture partners whereby AEG became the sole proprietor of this technology and as a result the loan balance was transferred to intangible fixed assets.

Ongoing research costs associated with this activity have been recognised in the income statement in line with IAS38. Costs which specifically relate to future plant design have been capitalised as intangible fixed assets.

#### Development assets

Development assets relate to the following:

*Ukraine:* The Group is party to a supply contract granted by the Lyubomi Forestry, which is the administrator of the Lyubomi Forest in the Ukraine. This contract was extended to October 2060 from 1 January 2015 and the Company is currently reviewing options to develop this asset as feedstock for CoalSwitch™ plants in Eastern Europe. The remaining useful life on the Ukrainian assets is assessed to be 42 years and the asset is being amortised over this period. Management undertakes a review at each balance sheet date to assess whether these balances need to be impaired.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 10. INTANGIBLE ASSETS (continued)

*Northern Alberta:* During 2014 the Group acquired a 45% interest in a joint venture, KAQUO Forestry & Natural Resources Development Corporation, incorporated in Canada, to exclusively commercialise forestry and agricultural land holdings belonging to the indigenous Métis Settlements of Alberta in Western Canada. Cost associated with this activity were originally recorded as Investments in Associates. This Joint Venture is no longer operational. However, AEG is continuing to work with the Canadian authorities and its partners in Northern Alberta to develop and secure title to these assets. As a result the costs incurred on the joint venture were transferred to intangible fixed assets during 2017, on the basis that these costs fulfil the definition of an internally generated intangible fixed asset under IAS38.

*Newfoundland:* On 22 May 2017, AEG announced that it had entered into an agreement in principle with the Canadian Province of Newfoundland and Labrador. This arrangement envisaged the award of a Crown Timber Licence ("CTL") and a forest management agreement ("FMA") for 20 years relating to two Forest Management Districts covering 1.2 million hectares. On 12 October 2017 AEG announced that it had submitted all final documents to the Ministry of Fisheries and Land Resources of the Crown Province of Newfoundland and Labrador associated with the CTL and the FMAs. During 2017 and 2018 AEG has continued to develop management and supplier capability as well as government relations. The Canadian authorities have informed AEG that all necessary documentation has now been received with regards to the final award of the FMAs and the Company is anticipating final award of the FMA's in due course.

Costs incurred in acquiring these potential licences (in Northern Alberta and Newfoundland) have been recorded as additions to intangible fixed assets in 2017. These costs will be amortised over the period of awarded licences. No amortisation has been recognised in the current accounting period pending licence awards and commencement of production. Management undertakes a review at each balance sheet date to assess whether these balances need to be impaired.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 11. PROPERTY, PLANT AND EQUIPMENT

Group	Plant and equipment US\$	Furniture and office equipment US\$	Total US\$
<b>Cost</b>			
At 31 December 2015	2,967,931	29,488	2,997,419
Foreign exchange difference	(1,638)	-	(1,638)
Additions	282,255	2,858	285,113
Disposals	(60,939)	-	(60,939)
At 31 December 2016	3,187,609	32,346	3,219,955
Foreign exchange difference	(534,717)	768	(533,949)
Additions	4,219,081	-	4,219,081
Disposals	(3,080,362)	(24,154)	(3,104,516)
At 31 December 2017	3,791,611	8,960	3,800,571
<b>Accumulated depreciation</b>			
At 31 December 2015	349,980	25,807	375,787
Foreign exchange difference	(1,533)	-	(1,533)
Elimination on disposal	(60,939)	-	(60,939)
Charge for year	341,125	3,370	344,495
At 31 December 2016	628,633	29,177	657,810
Foreign exchange difference	(155,592)	(20,737)	(176,329)
Elimination on disposal	(752,588)	(406)	(752,994)
Charge for year	279,547	926	280,473
At 31 December 2017	-	8,960	8,960
<b>Net book value</b>			
At 31 December 2017	3,791,611	-	3,791,611
At 31 December 2016	2,558,976	3,169	2,562,145

The net book value of asset held under finance leases included within Property, Plant & Equipment above are US\$345,600 (2016:nil). No depreciation (2016:nil) has been charged on these assets as the machinery had not been brought into use at the balance sheet date.

Additions in the year primarily relate to the construction of the inaugural CoalSwitch™ plant in Utah. The exchange rates movements relate to the reduction in value of the Ukrainian Wood Fibre business, which was denominated in Ukrainian Hryvnia. This business was discontinued during 2017.



# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 11. PROPERTY, PLANT AND EQUIPMENT (continued)

Company	Furniture and office equipment US\$
<b>Cost</b>	
At 31 December 2015	9,830
Foreign exchange difference	(1,637)
At 31 December 2016	<u>8,193</u>
Foreign exchange difference	767
At 31 December 2017	<u><u>8,960</u></u>
<b>Accumulated depreciation</b>	
At 31 December 2015	8,887
Foreign exchange difference	(1,532)
Charge for year	576
At 31 December 2016	<u>7,931</u>
Charge for year	755
Foreign exchange difference	274
At 31 December 2017	<u><u>8,960</u></u>
<b>Net book value</b>	
At 31 December 2017	<u><u>-</u></u>
At 31 December 2016	<u><u>262</u></u>

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 12. INVESTMENTS IN SUBSIDIARIES

#### Company

Cost	US\$
At 31 December 2015	4,933,491
Additions	581,801
Foreign exchange translation difference	(903,722)
At 31 December 2016	4,611,570
Additions	58,431
Disposals	(546,804)
Foreign exchange translation difference	431,848
At 31 December 2017	4,555,045
<b>Provision for impairment</b>	
At 31 December 2015	728,628
Charge for the period	1,964,027
Foreign exchange translation difference	(121,377)
At 31 December 2016	2,571,278
Charge for the period	1,684,557
Foreign exchange translation difference	240,783
At 31 December 2017	4,496,618
At 31 December 2017	58,427
At 31 December 2016	2,040,292

The exchange rates movements in 2017 reflect the appreciation of the British Pound against the US Dollar, which resulted in a corresponding increase in the value of investments denominated in Sterling.

At 31 December 2017 the Group held share capital of the following companies:

Subsidiary undertaking	Country of incorporation	Nature of business	Percentage Holding	
			2017	2016
AE Ukraine	Ukraine	Woodchip processing and distribution	100	100
Nikofeso Holdings Limited	Cyprus	Wood chip distribution	100	100
Nikwood Company LLC*	Ukraine	Wood chip processing and distribution	-	100
AETrading (EMEA) SarL	Switzerland	Wood chip distribution	100	100
Active Energy Italia s.r.l.	Italy	Wood chip distribution	-	100
AEG Trading Limited	United Kingdom	Wood chip distribution	100	100
AEG Pelleting Limited	United Kingdom	Biomass for energy development	100	100
AEG Balkan	Montenegro	Dormant	-	100
AEG Biopower Limited	United Kingdom	Biomass for energy development	100	100
AEG Coalswitch Limited	United Kingdom	Biomass for energy development	100	-
ABS plc	United Kingdom	Biomass for energy development	85	-
Timberlands Int. Ltd	United Kingdom	Biomass for energy development	95	-
Alpha Prospects Ltd	United Kingdom	Energy/Natural resources investments holding company	4.2	4.1

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 13. INVESTMENT IN ASSOCIATE

	<b>Group 2017 US\$</b>	<b>Group 2016 US\$</b>	<b>Company 2017 US\$</b>	<b>Company 2016 US\$</b>
Carrying value at beginning of the year	1,282,627	1,142,605	2,333,176	2,077,463
Contribution to associate arrangement	-	255,721	-	255,714
Share of loss for the year	-	(305,151)	-	-
Share of other comprehensive income for the year - translation of foreign operation	-	189,452	-	-
Transfer to intangible fixed assets	(1,282,627)	-	-	-
Transfer to other group companies	-	-	(2,333,176)	-
Carrying value at end of the year	<u>-</u>	<u>1,282,627</u>	<u>-</u>	<u>2,333,177</u>

During 2014 the Group acquired a 45% interest in a joint venture, KAQUO Forestry & Natural Resources Development Corporation (KAQUO), incorporated in Canada, to exclusively commercialise forestry and agricultural land holdings belonging to the indigenous Métis Settlements of Alberta in Western Canada.

This joint venture is no longer operational and the licences were not awarded as anticipated. However, AEG is continuing to work with the Canadian authorities and its partners in Alberta to develop and secure title to these assets. As a result the costs incurred on the joint venture have been transferred to intangible fixed assets.

Summarised financial information in relation to the joint venture is presented below:

	<b>2017 US\$</b>	<b>2016 US\$</b>
<b>At 31 December</b>		
Current assets	-	-
Current liabilities	-	(2,334,546)
<b>Period ended 31 December</b>		
Revenues	-	-
Loss for the year	-	(678,113)
Other comprehensive income	-	421,000
Total comprehensive income	-	(257,113)

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 14. LOAN TO JOINT VENTURE PARTNER

	Group 2017 US\$	Group 2016 US\$	Company 2017 US\$	Company 2016 US\$
Carrying value at beginning of the year	1,911,121	691,748	1,911,121	691,748
Foreign exchange differences	-	(132,531)	-	(132,531)
Advanced during the year	-	1,351,904	-	1,351,904
Transfer to intangible fixed assets	(1,911,121)	-	-	-
Transfer to other group companies	-	-	(1,911,121)	-
Carrying value at end of the year	<u>-</u>	<u>1,911,121</u>	<u>-</u>	<u>1,911,121</u>

In September 2015 the Group entered into a joint venture agreement with Biomass Energy Enhancements LLC (“BEE”), incorporated in the United States, for the joint commercial development and exploitation of intellectual property assets held by BEE in connection with biomass technologies.

A long term loan to BEE was recognised in the accounts to reflect monies loaned by AEG to the joint venture. An agreement was later reached with the other joint venture partners whereby AEG became the sole proprietor of this technology and as a result the loan balance was transferred to intangible fixed assets.

### 15. AVAILABLE FOR SALE FINANCIAL ASSET

	Group 2017 US\$	Group 2016 US\$	Company 2017 US\$	Company 2016 US\$
Fair value at beginning of the year	83,455	100,137	83,455	100,137
Revaluation to market value	786,393	-	786,393	-
Foreign exchange translation	(83,065)	(16,682)	(83,065)	(16,682)
Fair value at end of the year	<u>786,873</u>	<u>83,455</u>	<u>786,873</u>	<u>83,455</u>

Available for sale assets consist of an unquoted equity instrument which is classified as non-current assets. The asset was revalued in 2017 based on the proceeds received from issue of shares by this entity, less a discount to reflect the absence of a liquid market for these shares. The available-for-sale financial asset is denominated in Pound Sterling.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 16. INVENTORIES

Group	2017 US\$	2016 US\$
Raw materials	20,349	143,855
Finished goods and goods for resale	-	281,143
Total inventories	<u>20,349</u>	<u>424,998</u>

The cost of inventories recognised as an expense and included in 'cost of sales' within discontinued operations amounted to US\$521,080 (2016: US\$10,434,931).

### 17. TRADE AND OTHER RECEIVABLES

	Group 2017 US\$	Group 2016 US\$	Company 2017 US\$	Company 2016 US\$
<b>Current</b>				
Trade receivables	128,136	268,980	128,136	-
Amounts due from group companies	-	-	13,629,890	275,589
Other receivables	1,198	381,111	-	15,449
VAT	42,046	233,713	14,642	33,064
Prepayments	-	1,766,528	-	-
Corporation tax credit receivable	346,522	-	-	-
Total	<u>517,902</u>	<u>2,650,332</u>	<u>13,772,668</u>	<u>324,102</u>

In the Directors' opinion the carrying values of trade and other receivables are stated at their fair value, after deduction of appropriate allowances for irrecoverable amounts as these assets are not interest bearing and receipts occur over a short period and are subject to an insignificant risk of changes in value.

Trade and other receivables that have not been received within the payment terms are classified as overdue. As at 31 December 2017 trade receivables of US\$Nil (2016: US\$Nil) were overdue.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 17. TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2017, Group trade receivables of US\$NIL (2016: US\$NIL) were overdue and impaired. The provision for impairment is analysed as follows:

	2017 US\$	2016 US\$
At beginning of the period	-	838,984
Provided during the year	-	(838,984)
Provision (released)/utilised	-	-
	<u>-</u>	<u>-</u>

An analysis of the Group's trade and other receivables classified as financial assets by currency is provided in note 27.

### 18. CASH AND CASH EQUIVALENTS

	Group 2017 US\$	Group 2016 US\$	Company 2017 US\$	Company 2016 US\$
Bank accounts	142,049	2,121,841	135,706	2,041,134
	<u>142,049</u>	<u>2,121,841</u>	<u>135,706</u>	<u>2,041,134</u>

### 19. TRADE AND OTHER PAYABLES

	Group 2017 US\$	Group 2016 US\$	Company 2017 US\$	Company 2016 US\$
<b>Current</b>				
Trade payables	936,111	799,816	200,512	268,549
Social security and other taxes	45,902	40,920	41,598	26,331
Accruals and deferred income	866,594	1,493,623	859,279	1,113,156
Other payables	96,069	686,793	21,069	-
	<u>1,944,676</u>	<u>3,021,152</u>	<u>1,122,458</u>	<u>1,408,036</u>

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 19. TRADE AND OTHER PAYABLES (continued)

The carrying values of trade and other payables approximate their fair value as payments occur over a short period and the risk of material changes in value is insignificant. The following table analyses the maturity of the trade and other payables, excluding borrowings. These are classified as financial liabilities on the balance sheet and they are measured at amortised cost.

	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Less than three months	1,944,676	3,021,152	372,458	1,408,036
Three to 12 months	-	-	750,000	-
	<u>1,944,676</u>	<u>3,021,152</u>	<u>1,122,458</u>	<u>1,408,036</u>

The amounts shown are undiscounted and represent the contractual cash-flows. An analysis of the Group's trade and other payables classified as financial liabilities by currency is provided in note 27.

### 20. DEFERRED TAXATION

Deferred tax is calculated on temporary differences under the liability method using tax rates applicable in the respective Group entities' jurisdiction. The movement on the deferred tax account is shown below and the balance relates to deferred tax on fair value adjustments related to intangibles:

<b>Group</b>	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
At beginning of the period	393,137	402,106
Reversal of temporary differences	(8,968)	(8,969)
At the end of the period	<u>384,169</u>	<u>393,137</u>

The deferred tax liability relates to temporary differences arising on the fair valuation of intangible assets acquired in 2011.

No provision for the deferred tax asset in respect of tax losses has been made in the Group or Company due to the uncertainty of the Group or Company being able to generate sufficient future taxable profits from which the future reversal of the timing difference can be deducted. See note 8 for further details of this balance.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 21. FINANCE LEASES

The future minimum finance lease payments are as follows:

	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Less than 1 year	89,607	-	-	-
Between 1 and 3 years	205,993	-	-	-
	<u>295,600</u>	<u>-</u>	<u>-</u>	<u>-</u>

The finance lease relates to a Pellet Mill leased from the manufacturer for use at the Utah CoalSwitch™ plant. The lease term is 3 years. At the end of the lease term the company has the option to purchase the asset for \$1.

### 22. LOANS AND BORROWINGS

The book value and fair value of loans and borrowings are as follows:

<b>Group</b>	<b>Book value</b>	<b>Fair value</b>	<b>Book value</b>	<b>Fair value</b>
	<b>2017</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>Non-Current</b>				
Convertible debt	13,224,252	13,224,252	-	-
Unsecured loans	-	-	580,000	580,000
	<u>13,224,252</u>	<u>13,224,252</u>	<u>580,000</u>	<u>580,000</u>
<b>Current</b>				
Convertible debt	-	-	1,233,600	1,233,600
Unsecured loans	-	-	5,829,130	5,829,130
	<u>-</u>	<u>-</u>	<u>7,062,730</u>	<u>7,062,730</u>
Total loans and borrowings	<u>13,224,252</u>	<u>13,224,252</u>	<u>7,642,730</u>	<u>7,642,730</u>
<b>Company</b>				
	<b>Book value</b>	<b>Fair value</b>	<b>Book value</b>	<b>Fair value</b>
	<b>2017</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>Non-Current</b>				
Convertible debt	13,224,252	13,224,252	-	-
Unsecured loans	-	-	580,000	580,000
	<u>13,224,252</u>	<u>13,224,252</u>	<u>580,000</u>	<u>580,000</u>
<b>Current</b>				
Convertible debt	-	-	1,233,600	1,233,600
Unsecured loans	-	-	2,890,000	2,890,000
	<u>-</u>	<u>-</u>	<u>4,123,600</u>	<u>4,123,600</u>
	<u>13,224,252</u>	<u>13,224,252</u>	<u>4,703,600</u>	<u>4,703,600</u>

#### Unsecured loans

During the year the Group repaid all outstanding unsecured short term loans.



# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 22. LOANS AND BORROWINGS (continued)

#### Convertible debt

On the 14 March 2017 the company successfully completed a fund raising of £11.57 million before expenses (or \$14.15 million) through the issue of convertible loan notes ('CLNs') to new and existing investors. The CLNs have a maturity date of 14 March 2022 and have been listed on the International Securities Exchange. The CLN can be converted into ordinary shares of AEG plc, at any time prior to the Maturity Date, at a 30% premium to 2.535p, being the Company's 10 day Volume Weighted Average Price immediately prior to the issue date. The fair value of the liability component at inception was calculated using a market interest rate for an equivalent instrument without conversion option. The CLN has a coupon rate of 8% and the imputed interest rate applied was 12%.

On 15 March 2017 the Convertible Loan Note to Brahma Finance for £1,000,000 was repaid in full and settled.

#### Convertible debt

The following table analyses the maturity of loan and borrowings. The amounts shown are undiscounted and represent contractual cash-flows.

Group	Up to 3 months US\$	Between 3 and 12 months US\$	Between 1 and 2 years US\$	Between 2 and 5 years US\$	Total US\$
<b>At 31 December 2017</b>					
Convertible debt	-	-	-	13,224,252	13,224,252
	-	-	-	13,224,252	13,224,252
<b>At 31 December 2016</b>					
Convertible debt	1,233,600	-	-	-	1,233,600
Unsecured loans	204,000	5,625,130	580,000	-	6,409,130
	1,437,600	5,625,130	580,000	-	7,642,730
Company	Up to 3 months US\$	Between 3 and 12 months US\$	Between 1 and 2 years US\$	Between 2 and 5 years US\$	Total US\$
<b>At 31 December 2017</b>					
Convertible debt	-	-	-	13,224,252	13,224,252
	-	-	-	13,224,252	13,224,252
<b>At 31 December 2016</b>					
Convertible debt	1,233,600	-	-	-	1,233,600
Unsecured loans	204,000	2,686,000	580,000	-	3,470,000
	1,437,600	2,686,000	580,000	-	4,703,600

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 23. CALLED UP SHARE CAPITAL

	2017 Number	2017 US\$	2016 Number	2016 US\$
<b>Allotted, called up and fully paid</b>				
Ordinary shares of 1p each				
At 1 January	840,381,500	12,621,134	642,158,903	10,099,329
Issue of shares	142,689,776	1,872,112	198,222,597	2,521,805
As at 31 December	983,071,276	14,493,246	840,381,500	12,621,134

#### Shares issued for Cash

During 2017 the Company issued 142,689,776 ordinary shares for a total consideration of US\$3.3m as follows:

- On 27 June 2017 the company issued 17,623,110 ordinary shares at 1.6 US cents satisfying exercise notices over warrants in issue.
- On 6 November 2017 the company issued 83,333,333 ordinary shares at 2.7 US cents following a new share placement.
- On 21 December 2017 the company issued 40,000,000 ordinary shares at 1.6 US cents satisfying exercise notices over share options in issue.
- On 21 December 2017 the company issued 1,733,333 ordinary shares at 1.6 US cents satisfying exercise notices over warrants in issue.

During 2016 the Company issued 198,222,597 ordinary shares for a total consideration of US\$7.3m as follows:

- On 29 June 2016 the company issued 1,554,666 ordinary shares at 1.6 US cent satisfying exercise notice over warrants in issue.
- On 4 July 2016 the company issued 586,661 ordinary shares at 1.6 US cent satisfying exercise notice over warrants in issue.
- On 3 August 2016 the company issued 77,358,491 ordinary shares at 3.5 US cent, being a new shareholder equity contribution.
- On 24 November 2016 the company issued 88,722,779 ordinary shares at 3.3 US cent in settlement of existing debt and acquisition of an investment in the BEE joint venture. Of these shares 29,287,159 were issued from Treasury shares.
- On 21 December 2016 the company issued 30,000,000 ordinary shares at 3.4 US cent in settlement of convertible debt.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 24. SHARE OPTIONS AND WARRANTS

From time to time the Company has entered into share option arrangements under which the holders are entitled to subscribe for a percentage of the Company's ordinary share capital. All options vest immediately with the exception of 14,166,667(2016: 95,500,000) options which are based on various market, service and performance conditions. The number of warrants and share options exercisable at 31 December 2017 was 127,325,099 (2016: 239,655,831).

The movements of warrants and share options during the period were as follows:

	<b>Weighted average exercise price (UK pence)</b>	<b>Number of Warrants and Share Options</b>	<b>Weighted average exercise price (UK pence)</b>	<b>Number of Warrants and Share Options</b>
Outstanding at beginning of the period	1.96	239,655,831	1.68	267,959,701
Cancelled	1.09	(54,707,622)	0.57	(26,162,543)
Granted	-	-	-	-
Exercised	1.25	(57,623,110)	1.25	(2,141,327)
Outstanding at end of the period	2.72	127,325,099	1.96	239,655,831

At 31 December 2017, the weighted average remaining contractual life of warrants and share options exercisable was 4.02 years (2016 – 5.02 years). There were no share options granted during the year (2016:nil). Therefore no information is provided regarding the weighted average assumptions associated with estimating the fair values of options granted.

There was charge for equity settled share based payments of US\$307,749 (2016: US\$631,465) in the income statement for the year ended 31 December 2017. In addition, during the year ended 31 December 2017 certain nil-cost options were cancelled. This resulted in a credit to equity settled share based payments of US\$1,044,452. This was not shown in the income statement for the year ended 31 December 2017, but was recorded as a reserve transfer.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 24. SHARE OPTIONS AND WARRANTS (continued)

Options and warrants outstanding at 31 December 2017 were exercisable as follows:

Exercise price range (Pence, US cent in brackets)	2017	2016
	Number	Number
0.000p (0 cent)	-	37,500,000
1.250p (1.686 cent)	56,500,000	117,616,448
1.500p (2.023 cent)	7,500,000	7,500,000
1.750p (2.360 cent)	19,047,619	19,047,619
3.000p (4.047cent)	13,450,000	25,950,000
5.000p (6.745 cent)	15,000,000	15,000,000
6.000p (8.094 cent)	4,500,000	4,500,000
6.375p (8.600 cent)	1,823,480	1,823,480
7.000p (9.444 cent)	-	1,214,284
7.500p (10.118 cent)	9,000,000	9,000,000
20.000p (26.982 cent)	504,000	504,000
At the end of the period	<u>127,325,099</u>	<u>239,655,831</u>

The above disclosures apply to both the Company and the Group.

#### JSOP awards

Under the JSOP, shares in the Company are jointly purchased at fair market value by the participating employee and the trustees of the JSOP trust, with such shares held in the JSOP trust. For accounting purposes the awards are valued as employee share options.

The JSOP trust holds the shares of the JSOP until such time as the JSOP shares are vested and the participating employee exercises their rights under the JSOP. The JSOP trust is granted an interest bearing loan by the Company in order to fund the purchase of its interest in the JSOP shares. The loan held by the trust is eliminated on consolidation in the financial statements of the Group. The Company funded portion of the share purchase price is deemed to be held in treasury until such time as the shares are transferred to the employee and is recorded as a reduction in equity in both the Group and Company financial statements.

The exercise price of the "option" is deemed to be the issue price of the shares. The awards vest based on a market condition, which requires the shares to meet a specific share price hurdle, or a change in control condition, as defined by the plan. Under the JSOP and subject to the vesting of the employee's interest, the participating employee will, when the JSOP shares are sold, be entitled to a share of the proceeds of sale equal to the growth in market value of the JSOP shares versus the exercise price, less simple interest on the original share purchase price, net of executives' cash contribution at inception, as agreed for each grant (the "Carry Charge"). The balance of proceeds will remain to the benefit of the JSOP trust and be applied to the repayment of the loan originally made by the Company to the JSOP trust. Any funds remaining in the JSOP trust after settlement of the loan and any expenses of the JSOP trust are for the benefit of the Company.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 24. SHARE OPTIONS AND WARRANTS (continued)

The Group measures the fair value of the awards using the Monte Carlo (JSOP options) or Black Scholes (other options) simulations and the share based payment expense is recorded over the expected life of the option. The full value of the JSOP awards is calculated using the Monte Carlo simulation and share based payment expenses are recognised in the income statement in accordance with the provisions of IFRS2. No awards were made in 2017. The share based payment charge for the year is US \$Nil (2016: US\$13,450) related to the JSOP awards.

The Group granted 15,000,000 JSOP awards on 4 July 2013. The JSOP awards granted during 2013 contained a share price hurdle of 3p per share. The awards vested in 2015, but all remain outstanding at year end. The above disclosures apply to both the Company and the Group.

### 25. RESERVES

The following describes the nature and purpose of each reserve within equity:

<b>Reserve</b>	<b>Description and purpose</b>
Share premium	Amounts subscribed for share capital in excess of nominal value.
Merger reserve	Difference between fair value and nominal value of shares issued to acquire 90% or more interest in subsidiaries.
Foreign exchange reserve	Gains/losses arising on retranslating the net assets of overseas operations into US Dollars.
Own shares held reserve	Cost of own shares held by the employee benefit trust, the JSOP trust or the company as shares held in escrow.
Convertible debt and warrant reserve	Equity component of the convertible loan and the fair value of equity component of warrants issued that do not form part of a share based payment.
Retained earnings/ Accumulated loss	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 26. NOTES SUPPORTING THE STATEMENT OF CASH FLOWS

Reconciliation of loss before taxation to cash outflows from operating activities

<b>Group</b>	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Loss for the period	(15,221,072)	(2,490,640)
<b>Adjustments for:</b>		
Share of loss of associate	-	305,151
Share based payment expense	307,749	631,465
Depreciation	280,473	344,495
Amortisation of intangibles	44,835	44,845
R&D expensed to income statement	1,244,045	-
Write off of goodwill	2,212,930	-
Loss/ (profit) on disposal of PP&E	2,130,018	(58,020)
Revaluation of investments for resale	(454,928)	-
Foreign currency translations	(556,421)	(899,328)
Finance income	-	(18,152)
Finance expenses	3,031,054	1,844,225
Income tax	(4,781)	122,143
	<b>(6,986,098)</b>	<b>(173,816)</b>
Decrease/(increase) in inventories	404,649	(118,789)
Decrease/(increase) in trade and other receivables	2,132,430	(76,244)
(Decrease) in trade and other payables	(1,372,076)	(613,469)
<b>Net cash outflow from operating activities</b>	<b>(5,821,095)</b>	<b>(982,318)</b>

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 26. NOTES SUPPORTING THE STATEMENT OF CASH FLOWS (continued)

Company	2017	2016
	US\$	US\$
Loss for the period	(11,218,600)	(7,293,248)
<b>Adjustments for:</b>		
Share based payment expense	307,749	631,465
Depreciation	755	576
Impairment of investments/ intercompany debtors	2,040,292	2,846,709
Revaluation of investments for resale	(454,928)	-
Foreign currency translations	702,918	(527,845)
Finance income	-	-
Finance expenses	1,648,174	1,661,491
	(6,973,640)	(2,680,852)
(Increase)/decrease in trade and other receivables	(6,457,872)	592,506
(Decrease)/increase in trade and other payables	(285,578)	2,636,972
Net cash inflow/(outflow) from operating activities	(13,717,090)	548,626

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 27. FINANCIAL INSTRUMENTS

The Group's treasury policy is to avoid transactions of a speculative nature. In the course of trade the Group is exposed to a number of financial risks that can be categorised as market, credit and liquidity risks. The board reviews these risks and their impact on the activities of the Group on an ongoing basis.

#### *Principal financial instruments*

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables
- Available-for-sale financial assets
- Loans and borrowings
- Loan to joint venture partner

A summary of the financial instruments held by category is provided below:

	Group 2017 US\$	Group 2016 US\$	Company 2017 US\$	Company 2016 US\$
<b>Financial assets</b>				
<i>Loans and receivables</i>				
Cash and cash equivalents	142,049	2,121,841	135,706	2,041,134
Trade and other receivables	129,334	650,091	13,758,026	291,038
Loan to joint venture partner	-	1,911,121	-	1,911,121
	<u>271,383</u>	<u>4,683,053</u>	<u>13,893,732</u>	<u>4,243,293</u>
Available-for-sale financial asset	786,873	83,455	786,873	83,455
Total financial assets	<u>1,058,256</u>	<u>4,766,508</u>	<u>14,680,605</u>	<u>4,326,748</u>
	<b>Group 2017 US\$</b>	<b>Group 2016 US\$</b>	<b>Company 2017 US\$</b>	<b>Company 2016 US\$</b>
<b>Financial liabilities</b>				
<i>Financial liabilities at amortised cost</i>				
Trade and other payables	2,240,276	3,021,152	1,122,458	1,408,036
Loans and Borrowings	13,224,252	7,642,730	13,224,252	4,703,600
	<u>15,464,528</u>	<u>10,663,882</u>	<u>14,346,710</u>	<u>6,111,636</u>

#### **Fair value measurement**

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

Level 1: Quoted prices in active markets for identical items (unadjusted)

Level 2: Observable direct or indirect inputs other than Level 1 inputs

Level 3: Unobservable inputs (i.e. not derived from market data).



# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 27. FINANCIAL INSTRUMENTS (continued)

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item.

Transfers of items between levels are recognised in the period they occur.

The only financial asset carried at fair value consists of the available for sale financial asset, which is classified as level 3.

#### Market Risk

##### Currency risk

The Group's financial risk management objective is broadly to seek to make neither profit nor loss from exposure to currency or interest rate risks. The Group is exposed to transactional foreign exchange risk and takes profits and losses as they arise, as in the opinion of the directors, the cost of hedging against fluctuations would be greater than the potential benefits.

The carrying amounts of the group's trade and other receivable financial instruments are denominated in the following currencies:

	<b>Group 2017 US\$</b>	<b>Group 2016 US\$</b>	<b>Company 2017 US\$</b>	<b>Company 2016 US\$</b>
US Dollar	-	574,952	13,629,890	275,589
UK Pound sterling	129,334	45,445	-	15,449
Euro	-	1,052	128,136	-
Ukrainian Hryvnia	-	28,642	-	-
	<u>129,334</u>	<u>650,091</u>	<u>13,758,026</u>	<u>291,038</u>

The carrying amounts of the group's cash and cash equivalents are denominated in the following currencies:

	<b>Group 2017 US\$</b>	<b>Group 2016 US\$</b>	<b>Company 2017 US\$</b>	<b>Company 2016 US\$</b>
US Dollar	134,510	2,016,005	132,262	2,011,994
UK Pound sterling	3,945	33,005	3,244	28,786
Euro	2,214	1,881	200	354
Ukrainian Hryvnia	1,381	70,950	-	-
	<u>142,050</u>	<u>2,121,841</u>	<u>135,706</u>	<u>2,041,134</u>

Information about the Group's loans and borrowings are provided in note 22.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 27. FINANCIAL INSTRUMENTS (continued)

The carrying amounts of the group's trade and other payable financial instruments are denominated in the following currencies:

	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
US Dollar	1,106,200	2,498,548	-	1,113,156
UK Pound sterling	1,122,457	291,776	1,122,458	294,880
Euro	4,304	16,135	-	-
Ukrainian Hryvnia	7,315	214,693	-	-
	<u>2,240,276</u>	<u>3,021,152</u>	<u>1,122,458</u>	<u>1,408,036</u>

The effect of a 5 per cent strengthening of the US Dollar at the reporting date on the foreign denominated financial instruments carried at that date would, all variables held constant, would have resulted in a decrease in the net loss for the period and increased net assets by US\$7,107 (2016: US\$100,800). A 5 per cent weakening in the exchange rate would, on the same basis, have increased the net loss and decreased net assets by the same amount.

#### **Interest rate risk**

The Group and Company finances its operations through a mixture of equity and loans. The Group and Company exposure to interest rate fluctuations on its borrowings has been limited by the terms of the Convertible Loan Notes described in note 22.

#### **Credit risk**

##### Operational

The Group is mainly exposed to credit risk from credit agreements and sales. It is the Group's policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings, taking into account local business practices are then factored into trading decisions. The Group does not enter into any derivatives to manage credit risk. Further information on Trade and other receivables are presented in note 17.

##### Financial

Financial risk relates to non-performance by banks in respect of cash deposits and is mitigated by the selection of institutions with a strong credit rating.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 27. FINANCIAL INSTRUMENTS (continued)

#### Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The Group finances its operations through a mix of equity and borrowings. The Group's objective is to provide funding for future growth. The Group's policies aim to ensure sufficient liquidity is available to meet foreseeable needs through the preparation of short and long term forecasts. Further disclosure of the Directors' consideration of going concern is included in note 1.

The Group had no bank loans or invoice finance facilities at 31 December 2017 (2016: Nil). The Group had no overdraft at 31 December 2017 (2016: Nil) and no personal guarantees were in place.

#### Capital risk management

The Group's objective when managing capital is to establish and maintain a capital structure that safeguards the Group as a going concern and provides a return to shareholders.

### 28. RELATED PARTY DISCLOSURES

Details of Director's remuneration are given in the Report of the Directors.

Transactions between the Company and its subsidiaries, which are related parties to the Company, have been eliminated on consolidation. During the year in the Company's financial statements, the Company made net cash recoveries from fellow Group companies of US\$nil (2016: net cash recoveries of US\$2,702,684).

The Company's intercompany receivable balances at the year-end were as follows:

	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Amounts due from Group companies	13,629,890	275,589

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 29. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial information in conformity with International Financial Reporting Standards requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the year-end date and the reported amounts of revenues and expenses during the reporting period.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were as follows:

#### **Impairment of goodwill, intangible fixed assets and other assets**

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount of cash generating units is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Actual outcomes may vary. Intangible fixed assets and other assets are considered for impairment where such indicators exist using value in use calculations or fair value and recoverability estimates. The use of these methods similarly requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows.

#### **Share based payments**

In determining the fair value of equity settled share based payments and the related charge to the income statement, the Group makes assumptions about future events and market conditions. In particular, judgements must be made as to the fair value of each award granted. The fair value is determined using a valuation model which is dependent on further estimates, including the Group's future dividend policy, the timing with which options will be exercised and the future volatility in the price of the Group's shares. Such assumptions are based on publicly available information and reflect market expectations and advice taken from qualified personnel. Different assumptions about these factors to those made by the Group could materially affect the reported value of share based payments.

#### **Useful lives of intangible assets and property, plant and equipment**

Intangible assets and property, plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated statement of comprehensive income in specific periods.

#### **Recognition of development costs within intangible fixed assets**

The Group undertakes certain development activity which is recognised within intangible fixed assets, if it meets certain criteria laid down by international accounting standards. This means that management is required to assess various factors associated with these assets to determine whether the asset is separately identifiable, that it is probable that future economic benefits attributable to will arise; the technical feasibility of completing the asset; that the Group intends and is able to complete the asset; and there are available and adequate technical, financial and other resources to complete the asset. All these matters involve technical and economic judgement and changes to these assessment can result in significant variations in the carrying value and amounts charged to the consolidated statement of comprehensive income in specific periods.

# ACTIVE ENERGY GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 29. CAPITAL AND OPERATING COMMITMENTS

Capital commitments at the 31 December 2017 were US\$408,908 (2016: US\$436,220). Operating lease commitments at the 31 December 2017 were US\$11,142 (2016: US\$54,142). All amounts were due within one year.

### 30. SUBSEQUENT EVENTS

The key business developments since 31 December 2017 were as follows:

- On 4 February 2018 the Group announced that its first commercial CoalSwitch™ plant in Utah, United States (the 'Plant'), would be officially opened later that week.
- On 13 March 2018 the Group announced that it has signed a joint venture agreement with Cobant Sp. z o.o. a Polish research, development and coal recovery/production company, to explore opportunities to commercialise the Company's CoalSwitch™ product in blends with reclaimed coal from coal slurry dumps in Upper Silesia, Poland.
- On 17 May 2018 the Group announced that it had signed a Memorandum of Understanding to acquire a controlling interest in PowerWood Canada Corp, a privately owned Canadian company which holds substantial forestry assets in Alberta, Canada.
- On 11 June 2018 the Group announced the proposed sale of an advanced organic soil manufacturing facility to Young Living Farms, utilising the Company's proprietary PeatSwitch technology, for a total cash payment of US\$3.4 million.
- On 13 June 2018 the Group announced that two laboratories, including a Polish Government laboratory, had conducted independent tests of the new 'Super Fuel' product that utilises a blend of AEG's revolutionary CoalSwitch™ component with reclaimed and cleaned coal fines from Poland's legacy coal waste dumps. The results of these tests indicated that the new "Super Fuel" had a similar calorific value to coal (>23MJ/Kg), but with significantly low sulphur content <0.9%, low ash content, and low SOx and NOx emissions when combusted
- In the period from the 31 December 2017 to the date of issue of this report Company issued 49,633,227 equity shares due to conversions of CLN to equity.

Further details are provided in the chairman's statement.

### 31. ULTIMATE CONTROLLING PARTY

In the opinion of the directors there is no one ultimate controlling party.