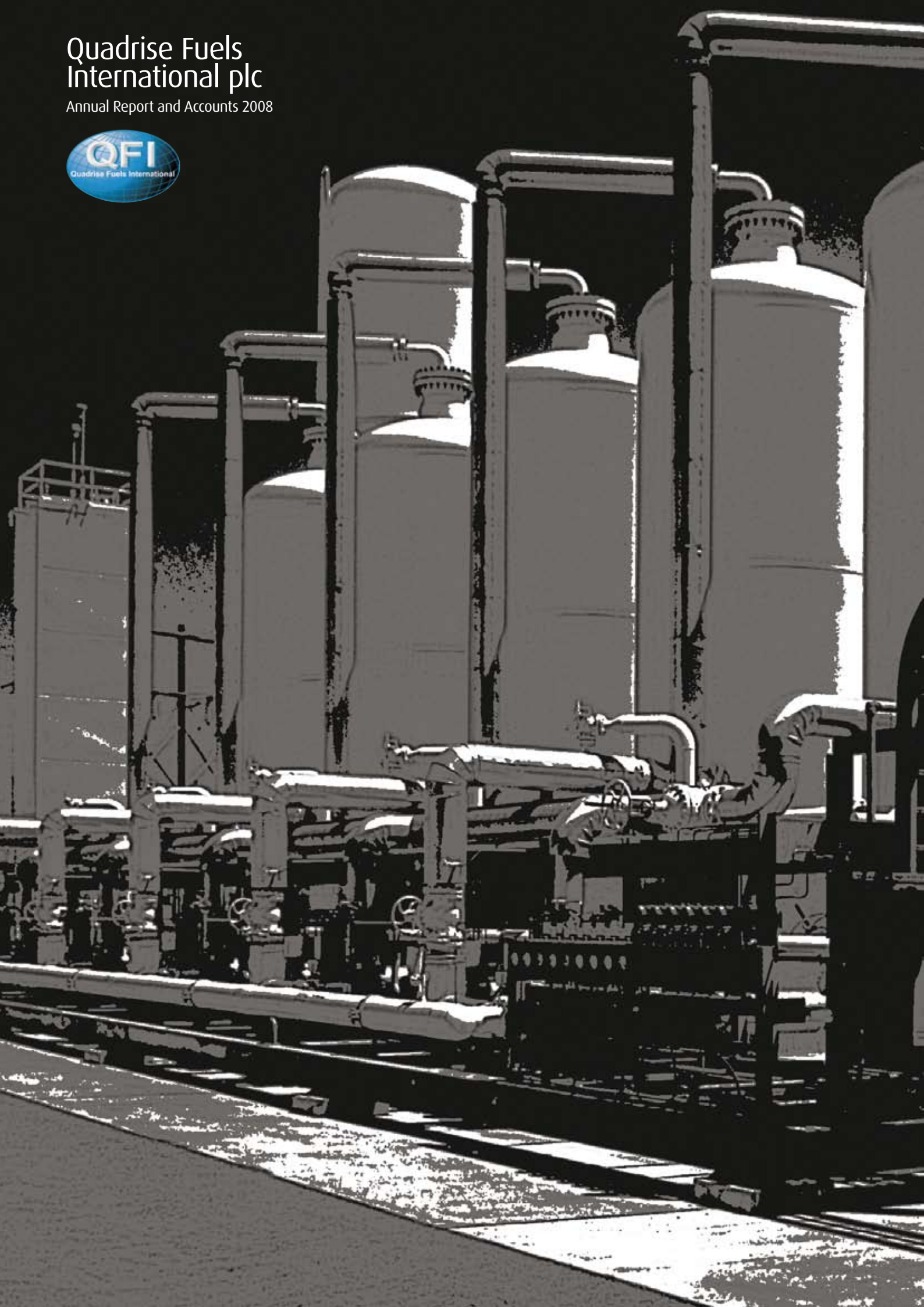


Quadrise Fuels International plc

Annual Report and Accounts 2008



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Quadrise Fuels International plc ("QFI") produces an oil-in-water emulsion fuel (MSAR[®]) as a low cost substitute for conventional heavy fuel oil ("HFO") for use in power generation plants and industrial diesel engines.

In manufacturing its fuels, QFI uses the least valuable elements of the oil barrel, thus providing a lower cost liquid fuel, which is also competitive with natural gas.

The emulsion fuel, termed MSAR[®] (multiphase superfine atomised residue), has superior combustion characteristics to conventional heavy fuel oil, achieving complete carbon burn-out and producing lower NO_x emissions.

Oil refiners applying the technology enjoy enhanced value realisation for their least valuable residues and the potential to avoid very heavy capital expenditure on heavy oil upgrading facilities.

Chairman's Statement

I am pleased to present this Annual Report for Quadrise Fuels International plc ("Quadrise", "Company") for the year ended 30 June 2008.

INTRODUCTION

Quadrise has made major progress in the transition to commercial operations in the reporting period and we now anticipate first substantial revenues from 2010.

As advised in previous reports, major changes which have affected global energy markets since late 2006 led to a strategic review and adaptation of the Company's business model and a redefinition of first phase business development priorities. This review was completed early 2007 and set the near term objectives and activity programmes for the 2008 business year and beyond.

Key objectives for the year included selecting and progressing prime project opportunities to MSAR[®] fuel trials, and securing a "reference site", with a prospect of continuous operation, by end 2009. Shareholders have been kept informed, through the regular release of a series of announcements of the Company's associated activities and progress achieved. Quadrise has met all of the key objectives, most notably in the form of the well-publicised project in Lithuania.

While the recent focus has been largely on progressing this first commercial opportunity through the demonstration phase towards securing a long-term supply contract, Quadrise is also actively engaged in progressing several further opportunities along the same path.

These developments have led to an increased level of awareness of the Company and the value potential of our MSAR[®] fuels and associated technologies. The growing recognition and credibility that Quadrise management has achieved in the energy field is testimony to their professionalism and capability, and bodes well for the future.

FINANCIAL PERFORMANCE AND FUNDING

The Board has consistently applied a conservative approach in financial matters and the Company has remained free of debt throughout the year. Non-core services continued to be outsourced to limit fixed overheads, and spending levels were tightly controlled to conserve equity funds. No equity funds were raised in the year, or at any time since listing in early 2006, and the Company has progressed right through to the present pre-commercial stage on the funds provided by the 2006 placing.

Quadrise is now in transition to the early commercial phase which will require new funding to meet capital expenditure associated with processing plant establishment and related site works and services. Ranges of deal structures and funding combinations have been considered to optimise the financing of fuel manufacturing capacity. Project viability is encouragingly robust and management have engaged with finance providers to progress the preferred combination of equity and conventional project finance.

DIRECTORS, MANAGEMENT AND ASSOCIATES

Quadrise has a relatively small team of very high calibre experienced management who have been responsible for the commendable progress made since the last report. The body of specialist expertise represented in the combination of the Quadrise team and our specialist associates and partners is unmatched at a global level.

Progress across the selected group of prime projects has illustrated the ability to gain the attention and respect of both management and specialists in oil refining and power generation organisations that are MSAR[®] fuel project targets. The ability of Quadrise management to coordinate and direct these programmes has been key to the progress made.

The dedication and commitment of the team was well illustrated in the very successful Lithuanian project, which saw management and specialists from Quadrise, AkzoNobel, contractors and consultants working around the clock in the installation, preparation and operation of the MSAR[®] fuel manufacturing and supply systems.

The resignation of Tony Kallis, former Executive Director – Business Development, in order to return to South Africa, was accepted with great reluctance. His expertise and experience were invaluable in the re-focusing of the business model and in creating new market relationships. Fortunately his services are still available to the Company on a consultancy basis.

Jason Miles succeeded Mr Kallis and was appointed to the Board in his place. Jason brings a wealth of experience in the emulsion fuels field and played a central role in securing and progressing the Lithuanian project opportunity.

Dr Ian Duckels joined the Board as a Non-Executive Director to replace Tony Lowrie who stood down at the Annual General Meeting. I would like to record the Company's appreciation of the contribution made by Mr Lowrie over his term on the Board, especially with regard to advice on financial matters. Dr Duckels has a long association with Quadrise

and brings a great deal of experience of the global energy sector to the Company.

The prime period of the Alliance Agreement, which provides Quadrise access to AkzoNobel proprietary technology know-how and services, has been extended for two years in recognition of the significant progress achieved over the year. The Company enjoys a close and constructive relationship with AkzoNobel. The Company places considerable value on this association and is highly appreciative of the quality and extent of support received from the AkzoNobel Surface Chemistry management and specialists in developing our business activities.

MARKET RATING AND FUTURE OUTLOOK

The Directors have been very conscious of continuing shareholder concerns regarding the market rating of the Company over the past year. Recent events and trends in the financial markets have served to put even greater pressure on the AIM energy sector, in particular the junior pre-revenue subset.

These recent developments have further reduced the Quadrise market rating despite communication on the very encouraging developments in Lithuania. While we cannot reasonably expect to raise awareness and change perceptions in the very near term, we expect to do so as this and other project activity intensifies during 2009.

Quadrise is now on the cusp of the early commercial phase and is poised to move forward progressively towards developing a multi-project portfolio realising the Quadrise business potential in terms of MSAR[®] fuel sales revenues and profitability.

The staffing requirements to support varying levels of expansion have been scoped, as have the implications for recruitment and training.

The Directors would like to again thank shareholders for their understanding and support of the Company during the extended preparatory phase. We believe that significant value has been added over this time, and expect that this will be realised to the benefit of all as we move forward and secure a position as a value added fuel supplier in the global energy market.

Ian Williams
Chairman
24 October 2008

Pre-atomised fuel –
superior combustion
with complete
carbon burn-out.

Lithuanian
commercial
demonstration
successfully
completed.

Chief Executive's Review

During the past 12 months Quadrise has refined and enhanced the post listing business strategy outlined in last year's annual report. This strategy, designed to accommodate a high oil price environment, has dictated our operational focus and culminated in the establishment of a pipeline of business opportunities where the fundamental market drivers for success are in place. Our first commercial project is now close to realisation following a very successful large-scale commercial manufacturing and refuelling demonstration of MSAR[®] fuel in Lithuania.

BUSINESS STRATEGY

Our forward strategy remains unaltered and continues to comprise two elements.

SHORT TERM – PHASE 1

Our short-term Phase 1 strategy continues; focused on the pursuit of power plant refuelling opportunities in circumstances where clients have of necessity to include oil as part of their fuel mix. Although the high oil price environment has diminished opportunities for firing oil in conventional steam cycle power plants, for those clients still dependent on conventional liquid fuels there is, at current oil prices, an even greater incentive to consider using our lower cost MSAR[®] fuel. We are pursuing highly material contracts in this, the first phase of the Company's development. A single commercial success has the potential to fully underpin the cost of our operations and transform Quadrise to revenue generating status.

LONG TERM – PHASE 2

Quadrise continues to develop those geographic markets where the fundamentals for oil use in conventional steam cycle power plants remain positive (Saudi Arabia, Kuwait and Mexico). The use of oil as a power generation fuel will continue to grow off a high base in these countries providing a platform for ongoing expansion of the Quadrise business.

In addition to its longer-term geographic activity, Quadrise has applied focus to the worldwide market for diesel engine power generation where inter-fuels competition is more limited and margins are potentially higher. Once manufacturing hubs developed as part of our Phase 1 strategy are up and running, Quadrise sees high potential to source MSAR[®] from these facilities and act as a fuel provider to

concentrated areas of diesel power generation. Over 20 countries have individual requirements in excess of 500MWe. These, together with new-build opportunities, represent the prime targets for the Company to act as a merchant fuel provider for the diesel engine market.

REVIEW OF ACTIVITIES

Power Plant Refuelling

The primary focus of Quadrise's activity during the year has been the performance of a large-scale commercial demonstration of the manufacture and combustion of MSAR[®] in Lithuania. To facilitate the demonstration, Quadrise entered into a contract with the Lithuanian oil refiner AB Mazeikiu Nafta for the purchase of heavy residue for the manufacture of MSAR[®]. Contemporaneously we secured a sales contract with the Lithuanian state power generator AB Lietuvos Elektrine for the supply of 20,000 tonnes of MSAR[®] delivered to its 1,800MWe Elektrenai power plant ("Elektrenai").

Working together with AkzoNobel, our technology licensor, Quadrise established, during May/June 2008, a 500 tonne per day manufacturing facility on the AB Mazeikiu Nafta oil refinery site. The refinery is owned by the Polish energy group PKN Orlen; operators of seven oil refineries in central Europe.

As part of the pre-manufacturing activity, Quadrise was responsible for the design, supply and construction of the temporary MSAR[®] manufacturing facility and procurement of all needed process chemicals and consumables. The manufacturing operation was undertaken on a 24/7 operating basis during July and August 2008, and was manned by Quadrise and AkzoNobel specialists plus a limited number of direct-hire personnel. MSAR[®] production was stored in tankage at the refinery site and was intermittently shipped 300km by rail to Elektrenai in 3,000 tonne parcels. The existing rail loading facilities at the refinery were operated sequentially with conventional heavy fuel oil dispatch, demonstrating the practicality of concurrent production of MSAR[®] and heavy fuel oil.

MSAR[®] was offloaded from rail cars and stored at the power plant prior to its use at Elektrenai. Combustion took place in two 150MWe super-critical steam generators equipped with modern pollution control equipment meeting all EU emission specifications. During September 2008, MSAR[®] fired generation capacity at Elektrenai reliably supplied up to 300MWe on an ongoing basis into the Lithuanian grid. All 20,000 tonnes of the MSAR[®] was combusted by mid September 2008. Quadrise specialists provided on-site support to the Elektrenai personnel during the entire period of the demonstration, from delivery and quality checks of the MSAR[®] through to its combustion.

In late September 2008, both AB Mazeikiu Nafta and AB Lietuvos Elektrine declared the demonstration a success, paving the way for negotiation of Quadrise's first long term MSAR® supply contract, a matter currently of significant attention by our team.

Quadrise are following a number of similar power plant refuelling prospects. These trail the Lithuanian development by some months and progress has been slower than anticipated given the concentration of our resources on the Lithuanian development. We fully expect these opportunities to be facilitated following the Lithuanian success which has fully demonstrated the viability of our strategy of alignment of candidate power plants with appropriately located and configured oil refineries.

Oil Field Development

The oil field development project outlined in the interim annual report has moved more slowly than anticipated due to political inertia. We continue to follow this prospect, which has very positive fundamentals. One of the stakeholders in this venture continues to cover Quadrise's project development costs.

Market Development

Consistent with our belief that Saudi Arabia and Kuwait offer outstanding long-term potential, we have continued market development in these territories. Quadrise has engaged with a major Saudi Arabian engineering company active in the power generation and oil and gas businesses to promote the technology and execute resulting contracts. We anticipate an acceleration of activity in the Middle East during the coming year.

We continue market development in Mexico. This market will be handled through our "to be formed" company Quadrise Fuels US LP (QFUS), in which Quadrise will hold a 76% interest. Formation of QFUS is well advanced and we have made positive progress with Mexican clients towards a demonstration firing of MSAR® fuel.

ASSOCIATED COMPANIES

Quadrise Canada Corporation (QCC)

Quadrise owns an 18.7% interest in QCC and will also receive a 6.67% royalty based on QCC's net income before tax (after recovery by QCC of all startup and development costs) from MSAR® business in Canada. QCC operate in Canada under an exclusive technology agreement with AkzoNobel. Relationships with QCC are positive and the two companies' executives meet on a twice-yearly basis to review matters of common interest.

"The MSAR® commercial demonstration has confirmed to us that the technology offers a commercially viable alternative to fuel oil production, and has a suitable fit with future plans for our refinery."

Marek Mroczkowski,
General Director of AB Mazeikiu Nafta

"From 2009 onwards, MSAR® could offer us a competitively priced Lithuanian sourced fuel as an economic alternative to our current supplies."

Pranas Noreika,
Board President and General Director
of AB Lietuvos Elektrine

Chief Executive's Review

CONTINUED

QCC's Canadian business is heavily orientated to use of MSAR® as the steam raising energy source for SAGD (steam assisted gravity drainage) heavy oil recovery in Alberta. This market has excellent long-term potential, but at present is suffering from delays in project release due to environmental, permitting, fiscal and cost escalation issues. These delays have prompted the prudent approach of writing down the valuation of both our shareholding and royalty stream associated with QCC in our balance sheet. We remain positive, however, regarding the long-term potential of QCC.

Paxton Corporation

Quadrise owns a 3.7% interest in Paxton Corporation, a Canadian company active in enhanced oil recovery. Paxton successfully raised CAD \$20m during the course of the year to develop its activity in enhanced oil recovery using CO₂ sweep methodology. Paxton envisage oxy-firing MSAR® to generate low cost CO₂ whilst co-producing steam and power.

Alliance Agreement with AkzoNobel

AkzoNobel is Quadrise's technology licensor and also provides pre-project emulsion testing, specialist chemicals and proprietary equipment. We maintain a regular dialogue with our licensor to discuss and pre-plan business development activity, resolve technical issues, review market developments and agree strategy for the MSAR® technology.

During the course of the year AkzoNobel agreed to extend our Alliance Agreement by two years. This agreement is applicable worldwide other than Nafta, China and Japan. During the year AkzoNobel have additionally authorised Quadrise to develop the Mexican oil and power plant market – a key territory in respect of our Phase 2 business strategy.

Relationships remain extremely positive and AkzoNobel's support to the Lithuanian commercial demonstration was outstanding.

FINANCIAL

Quadrise operated within its budget during the financial year. Costs were well controlled and the Company expects to reach December 2008 with approximately £2.5m cash resources, exclusive of monies received from current fundraising activity associated with the Lithuanian commercial project. The Quadrise management team is to be particularly commended for its control of the cost of the major logistical exercise in Lithuania. This required commitments by the Company in excess of £3m, which, because of a sound commercial strategy, and highly competent management of the demonstration, was largely recovered through the MSAR® sales revenues.

The Lithuanian commercial project requires an estimated £12m to execute. Various means of raising these monies are under consideration, including the sourcing of non-recourse financing secured by the Lithuanian contract revenues.

THE FUTURE

Quadrise is currently focused on securing the commercial contract for the Lithuanian power plant refuelling project, which will generate revenues from January 2010. We anticipate that success in Lithuania, as reflected by a commercial contract, will radically enhance the Company's credibility with potential clients in the oil refining and power sectors and provide positive impetus to other prospects we have in the pipeline. We expect an acceleration of activity in 2009 and growth in the Company's resources.

Given the changing dynamics of the energy business, the core management team regularly re-visits and tests its future growth plan and business strategy. We are convinced that the strategy developed post listing is sound and robust and plays to the market fundamentals. We are thus well positioned as we go forward.

The team has achieved a lot in the past year; having performed outstandingly well and fully achieving its objectives. We are looking to the future with a high level of confidence and optimism.

Bill Howe

Chief Executive Officer
24 October 2008

Financial Review

INTRODUCTION

The prime focus for the Group and its management during the year was to progress various high-ranking prospects and leads, identified in the previous period, through to detailed evaluations, formal proposals and commercial demonstrations. This objective has been successfully achieved, leading to a large-scale commercial demonstration in Lithuania in August/September of this year. The Lithuanian trial demonstration involved the manufacturing and burning of 20,000 tonnes of MSAR[®] on commercial terms which made a significant contribution towards the costs of the trial for Quadris. Following the success of this demonstration, management is now engaged in negotiations for long-term commercial contracts and anticipates securing them by early 2009, generating revenues for Quadris from early 2010.

In keeping with the established early-stage business and financial management strategy, Quadris has maintained a low overhead base during the year with outsourcing of non-core services. This strategy will continue as we move forward.

RESULTS FOR THE YEAR

The after-tax loss for the year to 30 June 2008 is £22.5m (2007: £11.9m). This includes a charge of £11.9m (2007: £8.6m) for the amortisation and impairment of intangible assets, a charge of £7.9m (2007: £nil) for the impairment of the investment in Quadris Canada Corporation, administration expenses of £2.6m (2007: £3.4m) and bank deposit interest income of £0.3m (2007: £0.5m). The charge for the share options, included in the administration expenses, is £0.4m (2007: £0.5m).

Basic and diluted loss per share is 4.86p (2007: 2.74p).

BALANCE SHEET

At 30 June 2008, the Group had net assets of £25.9m (2007: £49.4m). The most significant balances are intangible assets of £16.1m (2007: £28.0m), available for sale investments of £6.4m (2007: £16.1m) and cash of £3.6m (2007: £5.9m).

CASH FLOW

The Group ended the year with £3.6m of cash and cash equivalents (2007: £5.9m). The Group continues to remain debt free. All the Group's cash is held with Coutts & Co and at 30 June 2008, £3.2m (2007: £5.1m) was placed on short-term deposits.

CAPITAL STRUCTURE

The Group had 461,726,857 ordinary shares of 1p each in issue, out of its authorised share capital of 1,000,000,000 ordinary shares, at 30 June 2008. Following the Annual General Meeting (AGM) held on

12 September 2008, the Board presently has an authority to issue up to 300,000,000 ordinary shares under sections 80 and 89 of the Companies Act 1985. These authorities will be reviewed at the next AGM, as appropriate.

TREASURY AND FINANCIAL RISK MANAGEMENT

Control over treasury and risk management is exercised by the Board and its Audit Committee through the setting of policies and the regular review of forecasts and financial exposures. Presently, the Group's financial instruments comprise principally of cash and liquid resources and other items, such as accounts receivable and payable, which arise directly from its operations. It is still the Group's policy not to undertake any trading activity in financial instruments, including derivatives.

The principal risks arising from the Group's financial instruments are interest risk, liquidity risk and foreign exchange risk. The Board reviews and establishes appropriate policies for the management of such risks and monitors them on a regular basis.

TAXATION

At 30 June 2008, the Group has tax losses of approximately £20.2m (2007: £2.3m) arising in the UK that are available indefinitely against future taxable profits under current legislation. Deferred tax assets of approximately £2.7m (2007: £3.2m) have not, however, been recognised in the financial statements as a result of the uncertainties of their realisation in the foreseeable future.

OUTLOOK

The Group has firmly adhered to its early-stage business strategy during the year under review and will continue to do so going forward. We shall also continue to place cash management at the forefront of our financial management strategy and are focused on minimising the Group's working capital requirements where possible.

Given the current state of affairs, the Group is well positioned to reach its primary goal of securing its first revenues from the Lithuanian project from early 2010 and in progressing other highly prospective opportunities at the same time. This may, however, call for additional financial resources, depending on the structure of the commercial arrangements reached with the counterparties. The Board will continue to monitor these situations and will take the most appropriate action as and when required.

Hemant Thanawala

Finance Director
24 October 2008

Directors

IAN WILLIAMS – CHAIRMAN

Ian joined the Masfield Group in 1999 with responsibility for the development and management of business ventures. In this capacity, he led the strategy to secure the portfolio of assets and related business interests that culminated in the formation of International Energy Group AG, the ultimate parent of Quadrise Fuels International plc. Ian's wide ranging industry experience encompassed 27 years with the Royal Dutch/Shell Group as Managing Director and Deputy Chairman of Shell South Africa, Vice President (Downstream) of Shell Philippines and Head of Strategy and Consultancy (Downstream) at Shell International Petroleum Company. Ian was a member of the Shell Global Downstream Oil Coordinating Committee.

BILL HOWE – CHIEF EXECUTIVE OFFICER

Bill began his career as a process engineer in the hydrocarbon processing industry and joined Foster Wheeler in 1975. At Foster Wheeler, Bill was closely associated with the oil, gas, refining and power sectors, and held a number of senior executive positions including MD of its South African affiliate, as a main board member of Foster Wheeler Energy Ltd (UK), Senior VP of Foster Wheeler Power Systems Europe and as a member of the international Sales and Technology committees of Foster Wheeler International Corporation. Bill joined Bateman Project Holdings Limited in 1999 as Executive Director responsible worldwide for the company's oil, gas, energy and water engineering businesses. Bill has a BSc Hons in Chemical Engineering from the University of Birmingham, UK and joined QFI in 2006.

HEMANT THANAWALA – FINANCE DIRECTOR

Hemant is a Chartered Accountant with over 25 years' professional and commercial experience. Hemant joined the Masfield Group as Chief Financial Officer in 2001. After qualifying with KMG Thomson McLintock, now KPMG, Hemant was involved in professional practice in the UK, before working as Finance Director for the Rostel Group for nine years and as Chief Financial Officer to Premier Telesports group for a further three.

JASON MILES – DIRECTOR – BUSINESS DEVELOPMENT

Jason started his career as a process engineer with British Petroleum (BP) Engineering in London. In 1992 he was seconded to BP's joint venture with Petroleos de Venezuela (PDVSA) that established Orimulsion®, a novel emulsion fuel with worldwide sales of over 60 million tons. He has over 10 years of specialist technical, environmental and commercial product knowledge in the application and competitiveness of emulsion fuel for power generation. Prior to joining QFI in 2006, he was a Senior Consultant for OpenLink for two years, implementing trading and risk

management solutions for oil majors. Jason read Chemical Engineering (BEng, Hons) at Loughborough University, has an Executive MBA with distinction from Cass Business School (City of London) and is a chartered chemical engineer (MIChemE).

LAURENCE MUTCH – NON-EXECUTIVE DIRECTOR

Laurie is a management consultant providing advice on governance, strategic planning, business development and change management to multi-national organisations. He has 25 years' experience in the energy industry with the Royal Dutch/Shell Group where he sat on the Board of Shell International Gas & Power, as Executive Director for business development in the Eastern Hemisphere, leading the commercial appraisal and development of all Shell's gas and power projects in the Middle East, South Asia, China, Philippines and the Russian Far East. From 1994 to 1996, he was the Finance Director in Shell International Gas, and Principal Executive to the International Energy Agency's Coal Industry Advisory Board (CIAB), a forum of coal industry leaders and a main source of advice for coal policy matters to the International Energy Agency in Paris. Prior roles include senior management positions in Shell's Coal and Chemical Divisions. During his last two years of service he was Group Chief Information Officer and on the Microsoft and Dell Enterprise Advisory Boards. Laurie holds a BSc in Mathematics & Physics and an MSc in Astrophysics.

IAN DUCKELS – NON-EXECUTIVE DIRECTOR (appointed 18 September 2008)

Ian joined Quadrise Ltd in 1998 after a career span of 28 years in the oil, chemicals and mining industries working for Shell and BP. In the early 90s, as the first Chairman of the management board, Ian managed BP's newly formed Nerefco refinery in Rotterdam. He has a BSc in Chemistry, a PhD in Chemical Physics, a BSc in Mathematics & Astrophysics and is an associate of the Chartered Institute of Management Accountants.

Directors' Report

The Directors present their report together with the audited accounts of Quadrise Fuels International plc ("the Company"), and its subsidiaries, ("the Group") for the year ended 30 June 2008.

Principal Activity

The principal activity of Quadrise Fuels International plc, and its subsidiaries, is to produce an emulsion fuel as a low cost substitute for conventional heavy fuel oil (HFO) for use in power generation plants and industrial diesel engines.

Business Review and Future Developments

A full review of the Group's activities during the year, recent events and future developments is contained in the Chief Executive's Review on pages 4 to 6 of this report.

Results and Dividends

The consolidated loss from continuing operations before and after taxation was £22.5m (2007: £11.9m) for the year ended 30 June 2008, including the £0.4m (2007: £0.5m) charge for share option costs and a £5.7m (2007: £8.6m) non-cash amortisation charge for intangible assets. The Directors do not recommend the payment of any dividend for the year.

Directors

Those who served as Directors during the year are:

- Ian Williams (Chairman)
- G. William Howe (Chief Executive Officer)
- Hemant Thanawala (Finance Director)
- Anthony Kallis (Commercial Director) resigned on 29 November 2007
- Jason Miles (Commercial Director) appointed on 29 November 2007
- Anthony Lowrie (Non-Executive Director) resigned on 12 September 2008
- Laurence Mutch (Non-Executive Director)

Directors' Interests

The interests of the Directors holding office at 30 June 2008 were as follows:

Number of shares held:

	30 June 2008	30 June 2007
	Ordinary shares of 1p each	Ordinary shares of 1p each
Directors		
Ian Williams	9,396,580¹	9,396,580 ¹
G. William Howe	2,079,827²	2,079,827 ²
Hemant Thanawala	8,344,189	8,344,189
Jason Miles	Nil	Nil
Anthony Lowrie	18,196,705³	18,196,705 ³
Laurence Mutch	Nil	Nil

1 Tilehouse Limited, a Jersey registered company, also holds 377,000 ordinary shares of 1p each. Tilehouse Trust is the owner of Tilehouse Limited and Ian Williams is a beneficiary of Tilehouse Trust.

2 The shares of G. William Howe are held in the name of Hargreaves Lansdown (Nominees) Limited.

3 The shares of Anthony Lowrie and his notifiable interests are held in HSBC Global Custody Nominees (UK) Limited. In 2007 they were held in Mellon Nominees (UK) Limited.

Number of options held:

	30 June 2008	30 June 2007	Exercisable up to
	Options	Options	
Directors			
Ian Williams	1,500,000	1,500,000	19 April 2016
G. William Howe	4,000,000	2,000,000	19 April 2016
Hemant Thanawala	2,000,000	2,000,000	19 April 2016
Anthony Kallis	3,000,000	1,500,000	19 April 2016
Jason Miles	750,000	750,000	19 April 2016
Anthony Lowrie	750,000	750,000	19 April 2016
Laurence Mutch	750,000	750,000	19 April 2016

Directors' Report

Continued

Options held at 30 June 2007 were granted to the Directors on 22 March 2006, conditional upon the acquisition of Zareba plc and the subsequent flotation of the Company on AIM on 19 April 2006.

On 4 July 2007 Quadrise Fuels International plc granted options totalling 5,250,000 shares to two Directors and two employees with an exercise price of 12p each.

12 million share options have been given by International Energy Group AG (IEG), from its own holding of shares held in Quadrise Fuels International plc (QFI), to three Directors and three employees of QFI during the year and an additional 4 million shares to two employees after the balance sheet date. The details of the share options granted to Directors is as follows:

	30 June 2008 IEG options
Directors	
G. William Howe	3,000,000
Anthony Kallis	1,000,000
Jason Miles	2,500,000

Substantial Shareholders

The Board was aware of the following interests of 3% and over of the issued share capital of the Company at 30 June 2008.

	Number of ordinary shares held	Percentage of issued share capital
International Energy Group AG	272,474,715 ¹	59.01%
Anthony Davies	16,703,411	3.62%
Anthony Lowrie	18,196,705	3.94%

¹ With reference to the 16 million share options given by IEG as noted above, if all of the options were exercised, IEG's shareholding in QFI would be reduced from 272,474,715 ordinary shares to 256,474,715 ordinary shares and the percentage interest from 59.01% to 55.55%.

Events After the Balance Sheet Date

On 3 July 2008 the shareholders of Quadrise Power Systems AG unanimously resolved to dissolve the Company by liquidation.

On 31 July 2008 IEG granted 4 million share options, from its own holding of shares held in QFI, to two employees of QFI. All options issued vest immediately.

On 31 July 2008 IEG executed an amendment to the 12 million QFI options issued on 28 November 2007. Previously 1 million options vested on award, with the remaining 11 million options to vest in equal parts on 31 December 2009 and 31 December 2010. As a consequence of the amendment, all 12 million options issued vest effective from 31 July 2008.

On 12 September 2008, at the Annual General Meeting, Mr Anthony Lowrie did not seek re-election as Non-Executive Director. Dr Ian Duckels was appointed as Non-Executive Director on 18 September 2008.

In September 2008, the Company successfully completed its commercial demonstration in Lithuania. Refer to the Chief Executive's Review on pages 4 to 6 for further details of this commercial demonstration.

Employees

The success of the business depends upon maintaining a highly qualified and well-motivated workforce and every effort is made to achieve a common awareness of the financial and economic factors affecting the performance of the Group. Quadrise Fuels International plc is committed to being an equal opportunity employer.

Going Concern

The Directors are confident that the Group has adequate financial resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis in preparing the accounts.

Supplier Payment Policy & Practice

It is the Group's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of these terms and abide by them. Trade creditors as at 30 June 2008 amount to 45 days (2007: 32 days) of purchases made in the year.

Financial Instruments

The Group's principal financial instruments comprise cash balances, balances with related parties and other payables and receivables that arise in the normal course of business. The Group's financial risk management objectives and policies are set out in note 2.19 to the financial statements.

Directors' Liabilities

Subject to the conditions set out in the Companies Act 1985, the Company has arranged appropriate Directors' and officers' insurance to indemnify the Directors against liability in respect of proceedings brought by third parties. Such provisions remain in force at the date of this report.

Disclosure of Information to Auditors

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors and the Group's auditors, each Director has taken all the steps that he is obliged to take as a Director in order to have made himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution to re-appoint Mazars LLP will be proposed at the next General Meeting.

Board Committees

Information on the Audit Committee and Compensation Committee is included in the Corporate Governance section of the Annual Report on page 14.

General Meeting

The General Meeting will be held on Thursday 11 December 2008 as stated in the Notice of Meeting, which accompanies this Annual Report.

By order of the Board.

Audrey Clarke

Company Secretary
24 October 2008

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with EU endorsed International Financial Reporting Standards ("IFRS"), interpretations from the International Financial Reporting Interpretations Committee ("IFRIC") and those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, comparable, understandable and prudent;
- ensure that the financial statements comply with IFRS; 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 proper books of account which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. The Directors 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 also responsible for the maintenance and integrity of the Group's website on the internet. However, information is accessible in many different countries where legislation governing the preparation and dissemination of financial statements may differ from that applicable in the United Kingdom.

Report of Directors' Remuneration

Directors' Emoluments

The Compensation Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for all Executive Directors and the Executive Team. The Compensation Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

To assist in achieving these objectives, the Compensation Committee links the nature and amount of Executive Directors' and officers' emoluments to the Company's financial and operational performance.

Details of the nature and amount of each element of the emoluments of each Director of the Company for the year ended 30 June 2008 were as follows:

Director	Salary £'000s	Fees £'000s	Bonus £'000s	Pension £'000s	Other £'000s	Total June 2008 £'000s	Total June 2007 £'000s
Ian Williams	–	66	–	–	–	66	76
G. William Howe	145	–	72	–	27	244	249
Hemant Thanawala	–	79	–	–	–	79	74
Jason Miles	90	–	50	–	–	140	74
Anthony Kallis	80	–	70	15	15	180	205
Anthony Lowrie	–	23	–	–	–	23	12
Laurence Mutch	–	23	–	–	–	23	12
Total	315	191	192	15	42	755	702

Ian Williams and Hemant Thanawala provide services to the Company through a service agreement with International Energy Services Limited, which is a related party.

Share Options Granted to Directors

Details of share options granted to Directors during the year ended 30 June 2008 are presented below:

Director	30 June 2008	
	Number of shares	Exercise price per share
G. William Howe	2,000,000	12p
Anthony Kallis	1,500,000	12p

On 4 July 2007 share options were granted with an exercise price of 12p each. All options must be exercised by 3 July 2015. Each option may be exercised in respect of 50% of the ordinary shares at any time after 3 July 2008, 75% of the ordinary shares at any time after 3 January 2009 and the balance at any time after 3 July 2009. The weighted fair value of the options granted is 4.6p per share. The impact of these options on the year ending 30 June 2008 is a £262k charge to the income statement.

12 million share options have been given by IEG, from its own holding of shares held in QFI, to three Directors and three employees of QFI during the year and an additional 4 million shares to two employees after the balance sheet date. All options issued vest effective from 31 July 2008.

Ian Duckels

Chairman of the Compensation Committee
24 October 2008

Corporate Governance Statement

As the Company is listed on the Alternative Investment Market (AIM) of the London Stock Exchange, it is not required to comply with the provisions of the Combined Code. However, the Board is committed to the high standards of good corporate governance embodied in the Combined Code on Corporate Governance and seeks to apply the principles of the Combined Code where practicable for a company of Quadrise's size and complexity.

Board of Directors

The Board is responsible for the direction and overall performance of the Group with emphasis on policy and strategy, financial results and major operational issues.

The Code recommends that at least one-third of Board members should be Non-Executive Directors. The Board comprises four Executive and two Non-Executive Directors who are independent of management and do not participate in the Group's bonus or pension schemes although one of the Non-Executive Directors has share options.

The roles of the Chairman and Chief Executive, both of which are executive, are separate, thus ensuring a division of responsibility at the head of the Group.

The Chief Executive and the Director of Business Development are employed by the Company but the services of the other Executive Directors are secured through a contract for services with International Energy Services Limited, a related party.

At each Annual General Meeting, one third of the Directors who are subject to retirement by rotation shall retire from office provided that if their number is more than three, but not a multiple thereof, then the number nearest to but not exceeding one-third shall retire. The Chief Executive shall not, while he continues to hold that office, be subject to retirement by rotation and shall not be taken into account in determining which Directors shall retire by rotation.

Appropriate Directors' and officers' liability insurance has been arranged by the Company.

Meetings of the Board of Directors

The Board meets at least four times a year after all relevant information has been circulated in good time, to discuss a formal scheduled agenda covering key areas of the Group's affairs including operational and financial performance and quarterly management accounts.

All members of the Board are expected to attend Board Meetings, which are scheduled in advance, and full attendance was achieved throughout the year.

Audit Committee

The Audit Committee comprises the two Non-Executive Directors and is chaired by Laurence Mutch. Executive Directors may attend by invitation. The minutes of every meeting are circulated to the Board at the next Board Meeting at which the Chairman provides a verbal report of meetings of the Committee.

The Audit Committee, which meets at least twice a year, is responsible for keeping under review the scope and results of the audit, its cost

effectiveness and the independence and objectivity of the auditors. Due to the size of the Company, there is currently no internal audit function, although the Audit Committee has oversight responsibility for public reporting and the Company's internal controls.

Compensation Committee

Anthony Lowrie chaired the Compensation Committee during the year and its other member is Laurence Mutch. The minutes of every meeting are circulated to the Board at the next Board Meeting at which the Chairman provides a verbal report of meetings of the Committee.

The Compensation Committee, which meets at least twice a year, is responsible for considering the remuneration packages for Executive Directors and the bonus and share option strategy for the Group and making recommendations as appropriate.

The Compensation Committee is also responsible for reviewing the performance of the Executive Directors and ensuring that they are fairly and responsibly rewarded for their individual contributions to the Group's overall performance. The Committee's scope extends to all remuneration of Directors including bonus and share options.

None of the Committee members has any day-to-day involvement in running the Company and no Director participates in discussions about his own remuneration.

Internal Control

The Board is responsible for the effectiveness of the Group's internal control system and is supplied with information to enable it to discharge its duties. Internal control systems are designed to meet the particular needs of the Group and to manage rather than eliminate the risk of failure to meet business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Laurence Mutch

Chairman of the Audit Committee
24 October 2008

Independent Auditors' Report to the Shareholders of Quadrise Fuels International plc

Year ended 30 June 2008

We have audited the group and parent company financial statements (the "financial statements") of Quadrise Fuels International plc for the year ended 30 June 2008 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statement of Changes in Shareholders' Equity and related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective Responsibilities of Directors and Auditors

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

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

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

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

Basis of Audit Opinion

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

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 June 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 30 June 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Mazars LLP
Chartered Accountants
Registered Auditors
24 October 2008

Tower Bridge House
St.Katharine's Way
London E1W 1DD

Note: The maintenance and integrity of the Quadrise Fuels International plc website is the responsibility of the Directors. The work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were originally presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Income Statement

For the year ended 30 June 2008

	Note	Year ended 30 June 2008 £'000s	18 Months ended 30 June 2007 £'000s
Continuing operations			
Other income	4	46	287
Write-off of goodwill on acquisition		-	(584)
Amortisation of intangible assets	7	(5,708)	(8,646)
Impairment of intangible assets	13	(6,229)	-
Impairment of available for sale investments	14	(7,921)	-
Administration expenses		(2,574)	(3,439)
Operating loss	5	(22,386)	(12,382)
Finance costs		-	(126)
Finance revenue	9	255	507
Loan write-off gain		-	115
Foreign exchange (loss)/gain		(326)	10
Loss before tax		(22,457)	(11,876)
Taxation	10	-	(41)
Loss for the year from continuing operations attributable to equity holders of the Company		(22,457)	(11,917)
Loss per share – pence loss per share			
Basic	11	(4.86)p	(2.74)p
Diluted	11	(4.86)p	(2.74)p

Consolidated Balance Sheet

As at 30 June 2008

	Note	As at 30 June 2008 £'000s	As at 30 June 2007 £'000s
Assets			
Non-current assets			
Property, plant and equipment	12	20	1
Intangible assets	13	16,104	28,041
Available for sale investments	14	6,447	16,131
Non-current assets		22,571	44,173
Current assets			
Cash and cash equivalents	16	3,607	5,874
Trade and other receivables	17	210	66
Prepayments		123	7
Current assets		3,940	5,947
TOTAL ASSETS		26,511	50,120
Equity and liabilities			
Current liabilities			
Trade and other payables	18	636	755
Current liabilities		636	755
Equity attributable to equity holders of the parent			
Issued capital	20	4,617	4,617
Share premium	21	53,634	53,634
Revaluation reserve	22	566	2,002
Share option reserve	22	910	507
Reverse acquisition reserve	22	522	522
Accumulated losses		(34,374)	(11,917)
Total shareholders' equity		25,875	49,365
TOTAL EQUITY AND LIABILITIES		26,511	50,120

The financial statements, accompanying policies and notes 1 to 31 (forming an integral part of these financial statements), were approved and authorised for issue by the Board on 24 October 2008 and were signed on its behalf by:

G W Howe
Chief Executive Officer

H Thanawala
Finance Director

Consolidated Statement of Changes in Equity

For the year ended 30 June 2008

	Accumulated losses £'000s	Issued capital £'000s	Share premium £'000s	Revaluation reserve £'000s	Share option reserves £'000s	Reverse acquisition reserve £'000s	Total £'000s
As at 1 January 2006	–	100	–	–	–	–	100
New shares issued	–	4,517	54,751	–	–	–	59,268
Share issue costs	–	–	(1,117)	–	–	–	(1,117)
Share options reserve	–	–	–	–	507	–	507
Revaluation of available for sale investments	–	–	–	2,002	–	–	2,002
Reverse acquisition reserve	–	–	–	–	–	522	522
Loss for the period	(11,917)	–	–	–	–	–	(11,917)
Shareholders' equity at 30 June 2007	(11,917)	4,617	53,634	2,002	507	522	49,365
Share options reserve	–	–	–	–	403	–	403
Impairment of available for sale investments	–	–	–	(2,002)	–	–	(2,002)
Revaluation of available for sale investments	–	–	–	566	–	–	566
Loss for the year	(22,457)	–	–	–	–	–	(22,457)
Shareholders' equity at 30 June 2008	(34,374)	4,617	53,634	566	910	522	25,875

Consolidated Cash Flow Statement

For the year ended 30 June 2008

	Note	Year ended 30 June 2008 £'000s	18 Months ended 30 June 2007 £'000s
Operating activities			
Loss before tax from continuing operations		(22,457)	(11,876)
Interest expense		-	126
Interest income	9	(255)	(507)
Income tax paid		-	41
Impairment of goodwill on acquisition		-	584
Amortisation of intangibles	7	5,708	8,646
Impairment of intangibles	13	6,229	-
Impairment of available for sale investments	14	7,921	-
Depreciation of property, plant and equipment	12	5	-
Share-based payments expense		403	507
Impairment of capitalised development costs		-	911
Foreign exchange loss/(gain)		326	(10)
Loan write-off gain		-	(115)
Working capital adjustments			
Increase in trade and other receivables		(260)	(73)
Increase in trade and other payables		(118)	(427)
Cash generated from operations			
		(2,498)	(2,193)
Net cash outflow from operating activities			
		(2,498)	(2,360)
Investing activities			
Purchase of available for sale investments	14	-	(845)
Purchase of property, plant and equipment	12	(24)	-
Acquisition of subsidiaries		-	(3,416)
Interest received	9	255	507
Net cash inflow/(outflow) from investing activities			
		231	(3,754)
Financing activities			
Proceeds from issue of shares		-	12,940
Transaction costs incurred with share issues		-	(952)
Net cash inflow from financing activities			
		-	11,988
Net (decrease)/increase in cash and cash equivalents			
		(2,267)	5,874
Cash and cash equivalents at the beginning of the year		5,874	-
Cash and cash equivalents at 30 June 2008			
		3,607	5,874

Company Balance Sheet

As at 30 June 2008

	Note	30 June 2008 £'000s	30 June 2007 £'000s
Assets			
Non-current assets			
Property, plant and equipment	12	20	–
Available for sale investments	14	1,119	845
Other financial assets	15	21,434	45,000
Non-current assets		22,573	45,845
Current assets			
Cash and cash equivalents	16	3,512	5,776
Trade and other receivables	17	4,911	4,882
Prepayments		123	7
Current assets		8,546	10,665
TOTAL ASSETS		31,119	56,510
Equity and liabilities			
Current liabilities			
Trade and other payables	18	562	675
Current liabilities		562	675
Equity attributable to equity holders of the parent			
Issued capital	20	4,617	4,617
Share premium	21	53,634	53,634
Revaluation reserve	22	566	(10)
Share option reserve	22	910	507
Accumulated losses		(29,170)	(2,913)
Total shareholders' equity		30,557	55,835
TOTAL EQUITY AND LIABILITIES		31,119	56,510

The financial statements, accompanying policies and notes 1 to 31 (forming an integral part of these financial statements), were approved and authorised for issue by the Board on 24 October 2008 and were signed on its behalf by:

G W Howe
Chief Executive Officer

H Thanawala
Finance Director

Company Statement of Changes in Equity

For the year ended 30 June 2008

	Accumulated losses £'000s	Issued capital £'000s	Share premium £'000s	Revaluation reserve £'000s	Share option reserves £'000s	Total £'000s
As at 1 January 2006	-	100	-	-	-	100
New shares issued	-	4,517	54,751	-	-	59,268
Share issue costs	-	-	(1,117)	-	-	(1,117)
Share options reserve	-	-	-	-	507	507
Revaluation of available for sale investments	-	-	-	(10)	-	(10)
Loss for the period	(2,913)	-	-	-	-	(2,913)
Shareholders' equity at 30 June 2007	(2,913)	4,617	53,634	(10)	507	55,835
Share options reserve	-	-	-	-	403	403
Impairment of available for sale investments	-	-	-	10	-	10
Revaluation of available for sale investments	-	-	-	566	-	566
Loss for the year	(26,257)	-	-	-	-	(26,257)
Shareholders' equity at 30 June 2008	(29,170)	4,617	53,634	566	910	30,557

Company Cash Flow Statement

For the year ended 30 June 2008

	Note	Year ended 30 June 2008 £'000s	18 Months ended 30 June 2007 £'000s
Operating activities			
Loss before tax from continuing operations		(26,257)	(2,852)
Interest expense		-	27
Interest income	9	(253)	(504)
Impairment of available for sale investments	14	281	-
Impairment of investment in subsidiaries	15	23,566	-
Foreign exchange gain/(loss)		21	(11)
Depreciation of property, plant and equipment	12	4	-
Share-based payments expense		403	506
Working capital adjustments			
Increase in trade and other receivables		(145)	(4,714)
(Decrease)/increase in trade and other payables		(113)	313
Cash generated from operations		(2,493)	(7,235)
Interest paid		-	(27)
Net cash outflow from operating activities		(2,493)	(7,262)
Investing activities			
Purchase of property, plant and equipment		(24)	-
Purchase of available for sale investments		-	(845)
Interest received	9	253	504
Net cash inflow/(outflow) from investing activities		229	(341)
Financing activities			
Proceeds from issue of shares		-	12,940
Transaction costs incurred with share issues		-	(797)
Net cash inflow from financing activities		-	12,143
Net (decrease)/increase in cash and cash equivalents		(2,264)	4,540
Cash and cash equivalents at the beginning of the year		5,776	1,236
Cash and cash equivalents at 30 June 2008		3,512	5,776

Notes to the Group Financial Statements

1. General Information

Quadrise Fuels International plc (“QFI”, “Quadrise”, “Company”) and its subsidiaries (“the Group”) are engaged principally in the manufacture and marketing of emulsified fuel for use in power generation, industrial diesel engines and steam generation applications. The Company’s ordinary shares are listed on the AIM market of the London Stock Exchange.

QFI, the legal parent company, was incorporated on 22 October 2004 as a limited company under the Companies Act 1985 with registered number 05267512. It is domiciled at, and is registered at, Parnell House, 25 Wilton Road, London SW1V 1YD.

2. Summary of Significant Accounting Policies

(2.1) Basis of Preparation

The Group financial statements of QFI have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted for use by the European Union, and effective, or issued and early adopted, as at the date of these statements. The Group financial statements have been prepared under the historical cost convention as modified for financial assets carried at fair value.

The Group has not adopted the following standards in the preparation of the financial statements, as they are either not effective as at 30 June 2008 or not applicable to the Group’s business.

New/Revised International Financial Reporting Standards		Issued/revised	Effective date
IFRS 2	Share-based Payment – Amendment relating to vesting conditions and cancellations	Revised 2008	Annual periods beginning on or after 1 January 2009
IFRS 3	Business Combinations – Comprehensive revision on applying the acquisition method	Revised 2008	Annual periods beginning on or after 1 July 2009
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations – Amendments resulting from May 2008 Annual Improvements to IFRSs	Revised May 2008	Annual periods beginning on or after 1 July 2009
IFRS 8	Operating Segments	Original issuance 2006	Annual periods beginning on or after 1 January 2009

Revised International Accounting Standards		Revised	Effective date
IAS 1	Presentation of Financial Statements – Comprehensive revision including requiring a statement of comprehensive income	2007	Annual periods beginning on or after 1 January 2009
IAS 1	Presentation of Financial Statements – Amendments relating to disclosure of puttable instruments and obligations arising on liquidation	2008	Annual periods beginning on or after 1 January 2009
IAS 1	Presentation of Financial Statements – Amendments resulting from May 2008 Annual Improvements to IFRSs	May 2008	Annual periods beginning on or after 1 January 2009
IAS 16	Property, Plant and Equipment – Amendments resulting from May 2008 Annual Improvements to IFRSs	May 2008	Annual periods beginning on or after 1 January 2009
IAS 19	Employee Benefits – Amendments resulting from May 2008 Annual Improvements to IFRSs	May 2008	Annual periods beginning on or after 1 January 2009
IAS 20	Government Grants and Disclosure of Government Assistance – Amendments resulting from May 2008 Annual Improvements to IFRSs	May 2008	Annual periods beginning on or after 1 January 2009
IAS 23	Borrowing Costs – Comprehensive revision to prohibit immediate expensing	2007	Borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009

Notes to the Group Financial Statements

Continued

2. Summary of Significant Accounting Policies continued

Revised International Accounting Standards	Revised	Effective date
IAS 23 Borrowing Costs — Amendments resulting from May 2008 Annual Improvements to IFRSs	May 2008	Annual periods beginning on or after 1 January 2009
IAS 27 Consolidated and Separate Financial Statements — Consequential amendments arising from amendments to IFRS 3	2008	Annual periods beginning on or after 1 July 2009
IAS 27 Consolidated and Separate Financial Statements — Amendment relating to cost of an investment on first-time adoption	2008	Annual periods beginning on or after 1 January 2009.
IAS 27 Consolidated and Separate Financial Statements — Amendments resulting from May 2008 Annual Improvements to IFRSs	May 2008	Annual periods beginning on or after 1 January 2009
IAS 28 Investments in Associates — Consequential amendments arising from amendments to IFRS 3	2008	Annual periods beginning on or after 1 July 2009
IAS 28 Investments in Associates — Amendments resulting from May 2008 Annual Improvements to IFRSs	May 2008	Annual periods beginning on or after 1 January 2009
IAS 29 Financial Reporting in Hyperinflationary Economies — Amendments resulting from May 2008 Annual Improvements to IFRSs	May 2008	Annual periods beginning on or after 1 January 2009
IAS 31 Interests in Joint Ventures — Consequential amendments arising from amendments to IFRS 3	2008	Annual periods beginning on or after 1 July 2009
IAS 31 Interests in Joint Ventures — Amendments resulting from May 2008 Annual Improvements to IFRSs	May 2008	Annual periods beginning on or after 1 January 2009
IAS 32 Financial Instruments: Presentation — Amendments relating to puttable instruments and obligations arising on liquidation	2008	Annual periods beginning on or after 1 January 2009
IAS 36 Impairment of Assets — Amendments resulting from May 2008 Annual Improvements to IFRSs	May 2008	Annual periods beginning on or after 1 January 2009
IAS 38 Intangible Assets — Amendments resulting from May 2008 Annual Improvements to IFRSs	May 2008	Annual periods beginning on or after 1 January 2009
IAS 39 Financial Instruments: Recognition and Measurement — Amendments resulting from May 2008 Annual Improvements to IFRSs	May 2008	Annual periods beginning on or after 1 January 2009
IAS 39 Financial Instruments: Recognition and Measurement — Amendments for eligible hedged items	July 2008	Annual periods beginning on or after 1 July 2009
IAS 40 Investment Property — Amendments resulting from May 2008 Annual Improvements to IFRSs	May 2008	Annual periods beginning on or after 1 January 2009
IAS 41 Agriculture — Amendments resulting from May 2008 Annual Improvements to IFRSs	May 2008	Annual periods beginning on or after 1 January 2009

2. Summary of Significant Accounting Policies continued

Interpretations		Effective date
IFRIC 12	Service Concession Arrangements	Annual periods beginning on or after 1 January 2008
IFRIC 13	Customer Loyalty Programmes	Annual periods beginning on or after 1 July 2008
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Annual periods beginning on or after 1 January 2008
IFRIC 15	Agreements for the Construction of Real Estate	Annual periods beginning on or after 1 January 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	Annual periods beginning on or after 1 October 2008

The preparation of financial statements in conformity with IFRS accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The Board has reviewed the accounting policies set out below and considers them to be the most appropriate to the Group's business activities.

(2.2) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of entities controlled by the Group as at 30 June 2008.

All inter-company balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated on consolidation. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Accounting policies of subsidiaries are consistent with those adopted by the Group.

Control is normally evident when QFI, or a company which it controls, owns more than 50% of the voting rights of a company's share capital. Investments in associated companies (generally investments of between 20% to 50% in a company's equity) where significant influence is exercised by the company are accounted for using the equity method. An assessment of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist. When the Group's share of losses exceeds the carrying amount of the investment, the investment is reported at nil value and recognition of losses is discontinued except to the extent of the Group's commitment. Investments where the Company holds less than 20% are accounted for on a fair value basis in accordance with IAS 39 and are held as investments available for sale. The Board has reviewed the accounting policies set out below and considers them to be the most appropriate to the Group's business activities.

(2.3) Changes in Accounting Principles

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted IFRS 7 on the disclosure of financial instruments and the consequential amendments to IAS 1 on the presentation of financial statements. Adoption of these revised standards and interpretations did not have any effect on the equity of the Group however they did give rise to additional disclosures in note 25.

(2.4) Significant Accounting Judgements and Estimates

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

- **Estimates and Assumptions** – The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities with the financial period are discussed below;
- **Other Intangible Assets** – The Group determines whether the intellectual property is impaired if any indication of an impairment comes to management's attention.
- **Investments** – The Group determines whether investments are impaired if any indication of an impairment comes to management's attention.

Notes to the Group Financial Statements

Continued

2. Summary of Significant Accounting Policies continued

(2.5) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenues can be reliably measured. Revenue is recognised at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue for the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods. To date the Group is in a pre-revenue generating start-up phase.

Interest income

Revenue is recognised as interest accrues.

Dividends

Revenue is recognised when the Group's right to receive the payment is established.

(2.6) Foreign Currencies

The Group financial statements are presented in UK sterling, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded using the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the balance sheet date. Any resulting exchange differences are included in the income statement. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the foreign operations, Quadrise Power Systems AG, is US dollars. As at the reporting date, the assets and liabilities of this subsidiary are translated into the presentation currency of the Group, namely UK sterling, at the rate of exchange ruling at the balance sheet date and its income statement is translated at the weighted average rate for the year. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement as part of the gain or loss on sale.

The following exchange rates are used in the Group's major currencies:

	ISO code	Unit	Balance sheet	Income statement
United States	USD	1	1.993	2.004
Canada	CAD	1	2.016	2.025
Switzerland	CHF	1	2.030	2.230
Europe	EUR	1	1.264	1.366

Transactions during the year in foreign currencies are translated into the respective local currencies at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into respective local currencies at the exchange rates prevailing at the year-end. Exchange gains and losses are recognised in the income statement.

(2.7) Business Combinations

The results of businesses acquired are consolidated from the effective date of acquisition, whereby upon acquisition of a business or an associate, net assets are restated at fair value in accordance with IFRS.

(2.8) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount,

2. Summary of Significant Accounting Policies continued

an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(2.9) Intangible Assets

Intangible assets acquired separately are measured initially at cost. The costs of intangible assets acquired in a business combination are measured at the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment loss.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each financial year-end. Changes in the expected useful life of the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimate. As a consequence, the intangible assets of finite life are amortised over 69 months. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expenses category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable and, if not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

(2.10) Equipment

All equipment is stated at cost less depreciation unless otherwise shown. Cost includes all relevant external expenditure incurred in acquiring the asset. No property assets are currently held within the Group.

The Group selects its depreciation rates carefully and reviews them regularly to take account of any changes in circumstances. When determining expected economic lives, the Group considers the expected rate of technological developments and the intensity at which the assets are expected to be used. All assets are subject to annual review and, where necessary, further write-downs are made for any impairment in value.

Equipment is recorded at cost, excluding the costs of day-to-day servicing less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing parts of such plant and equipment when that cost is incurred if the recognition criteria are met. Depreciation is calculated on a straight-line basis over the useful life. Useful lives of major classes of depreciable assets are:

Computer equipment	3 years
Equipment	1 year

The initial cost of equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the equipment has been placed into operation, such as repairs and maintenance and overhaul costs, are normally charged to the income statement in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of equipment beyond its original assessed standard of performance, the expenditures are capitalised as an additional cost of equipment. The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of equipment.

An item of equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the period the asset is derecognised.

(2.11) Investments and Other Financial Assets

Financial assets are classified as either financial assets at fair value through profit and loss, loans and receivables, held to maturity investments or available for sale financial assets, as appropriate. When financial assets are recognised initially, they are at fair value plus, in the case of investments not at fair value through the income statement, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date being, for example, the day that the Group commits to purchase the asset. Regular way purchases or sales of financial assets are those that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Notes to the Group Financial Statements

Continued

2. Summary of Significant Accounting Policies continued

Available for Sale Investments

Available for sale investments are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit and loss. After initial recognition available for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the closure of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of which is substantially the same; discounted cash flow analysis and option pricing models.

(2.12) Impairment

At each balance sheet date, reviews are carried out on the carrying amounts of tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Where the asset does not generate cash flows that are independent from the other assets, estimates are made of the cash-generating unit to which the asset belongs. Intangible assets with an indefinite useful life are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value, less costs to sell, and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a discount rate appropriate to the specific asset or cash-generating unit. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised immediately in the income statement.

(2.13) Taxation

Current Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and the tax laws used to compute the amount are those that are enacted, or substantively enacted, by the balance sheet date.

Deferred Tax

Deferred tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences except:

- a) where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or taxable profit; and
- b) in respect of taxable temporary differences associated with investment in subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- a) where the deferred income tax asset relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither the accounting profit or taxable profit; and
- b) in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognisable deferred income tax assets are re-assessed at each balance sheet date and are recognisable to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

(2.14) Employee Benefits

The Group maintains various defined contribution plans for providing employee benefits, which conforms to laws and practices in the countries concerned. Retirement benefit plans are generally funded by contributions from both the employees and the companies to independent entities (multi-employer plan) that operate the retirement benefit schemes. Current service cost for defined contribution plans is equivalent to the employer's contributions due for that period. The Group's contributions to the defined contribution pension plans are charged to the income statement in the year to which they relate.

2. Summary of Significant Accounting Policies continued

(2.15) Share-based Payments

Employees (including Directors and Senior Executives) of the Group receive remuneration in the form of share-based payment transactions, whereby these individuals render services as consideration for equity instruments ("equity-settled transactions"). These individuals are granted share option rights approved by the Board, which can only be settled in shares of the respective companies that award the equity-settled transactions. No cash settled awards have been made or are planned.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant individuals become fully entitled to the award ("vesting point"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments and value that will ultimately vest. The income statement charge for the year represents the movement in the cumulative expense recognised as at the beginning and end of that period. No equity-settled awards have been modified or cancelled during the year.

The fair value of share-based remuneration is determined at the date of grant and recognised as an expense in the income statement on a straight-line basis over the vesting period, taking account of the estimated number of shares that will vest. The fair value is determined by use of a Hull-White Binomial model.

(2.16) Separately Disclosable Items

Items that are both material in size and unusual and infrequent in nature are presented as separately disclosable items in the income statement or separately disclosed in the notes to the financial statements. The Directors are of the opinion that the separate recording of these items provides helpful information about the Group's underlying business performance.

(2.17) Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash-in-hand bank balances, call money and unrestricted time deposit balances with an original maturity of 90 days or less.

(2.18) Financial Risk Management, Recognition and Accounting

The Group's multi-national operations and debt financing arrangements expose it to a variety of financial risks that include the effects of changes in debt making prices, foreign currency exchange rates, credit risks, equity securities prices, liquidity and interest rates. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group. The Board has approved the risk management policies applied by the Group.

These policies are implemented by central finance that prepares regular reports to enable prompt identification of financial risks so that appropriate actions may be taken. The Group has a policy and procedures manual that sets out specific guidelines to manage foreign exchange risk, interest rate risk, credit risk and the use of financial instruments to manage these. No forward hedging activities are undertaken unless approved by the Group's Finance Director.

(2.19) Financial Risk Management Objectives and Policies

The QFI business model relies on bespoke contracts that do not contain any complex financial instruments or terms and conditions. Embedded derivatives do exist within contracts (e.g. share options) and these are closely associated with the commercial terms and conditions of each contract but none is required to be further disclosed as part of IAS 32 and IAS 39. The Group does not enter into any forward exchange rate contracts.

The main risks arising from the Group's activities are cash flow interest rate risk, liquidity risk, foreign currency risk, price risk (fair value) and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised as:

- **Cash Flow Interest Rate Risk** – the Group's exposure to the risk of changes in market interest rates relates primarily to the Group's deposit accounts with major banking institutions. The Group's policy is to manage its interest income using floating rate deposit accounts.
- **Liquidity Risk** – the Group raises funds as required on the basis of budgeted expenditure and inflows for the next 12 months. When funds are sought, the Group balances the costs and benefits of equity and debt financing. When funds are received they are deposited with banks of high standing in order to obtain market interest rates.
- **Foreign Currency Risk** – the Group's significant operations are in the UK, however movements in the USD, CAD and CHF to GBP exchange rates can affect its financial results. The Group does not hedge this potential exposure.
- **Price Risk** – the carrying amount of the following financial assets and liabilities approximate to their fair value due to their short-term nature: cash accounts, accounts receivable and accounts payable. Available for sale investments are valued at fair value based on recent shareholder transactions or the underlying net asset base. The Group monitors market conditions regularly and considers the market conditions when buying or selling investments.
- **Credit Risk** – with respect to credit risk arising from other financial assets of the Group, which comprise cash and time deposits, account receivables, and available for sale investments, the Group's exposure to credit risk arises from default of the counterparty, with a minimum exposure equal to the carrying amount of these instruments. The credit risk on cash is limited as cash is placed with substantial financial institutions.

Notes to the Group Financial Statements

Continued

2. Summary of Significant Accounting Policies continued

(2.20) Trade and Other Receivables and Payables

Trade and other receivables and trade and other payables are initially recognised at fair value. Fair value is considered to be the original invoice amount, discounted where material, for short-term receivables and payables. Long-term receivables and payables are measured at amortised cost using the effective interest rate method. Where receivables are denominated in a foreign currency, retranslation is made in accordance with the foreign currency accounting policy previously stated.

(2.21) Finance Costs

Finance costs include interest charges and other costs incurred in connection with the borrowing of funds and are expensed as incurred. Interest and costs are accounted for on the accruals basis and are recognised through the income statement in full. No interest or borrowing costs have been capitalised.

(2.22) Derecognition and Impairment of Financial Assets and Liabilities

Financial Assets

A financial asset is derecognised where:

- a) the right to receive cash flows from the asset has expired;
- b) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; or
- c) the Group has transferred the rights to receive cash flows from the asset, and
 - (i) either has transferred substantially all the risks and rewards of the asset or
 - (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

(2.23) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(2.24) Commitments and Contingencies

Commitments and contingent liabilities are disclosed in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(2.25) Events After the Balance Sheet Date

Post year-end events that provide additional information about a company's position at the balance sheet date and are adjusting events are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes when material.

3. Reverse Acquisition Accounting

On 18 April 2006 the Company became the legal parent of Quadrise International Limited in a share-for-share transaction and changed its name from Zareba plc to Quadrise Fuels International plc. Due to the relative size of the companies, the shareholders of Quadrise International Limited became the majority holders of the enlarged share capital. Further, the Company's continuing operations and executive management became those of Quadrise International Limited. Accordingly, the substance of the combination was that Quadrise International Limited acquired Quadrise Fuels International plc in a reverse acquisition accounted for under IFRS 3.

Under the Companies Act 1985 it would normally be necessary for the Company's consolidated accounts to follow the legal form of the business combination. In that case, the pre-combination results would be those of Quadrise Fuels International plc and Quadrise International Limited only from 18 April 2006. However, this would portray the combination as the acquisition of Quadrise International Limited by Quadrise Fuels International plc and would, in the opinion of the Directors, fail to give a true and fair view of the substance of the business combination. Accordingly, the Directors have adopted reverse acquisition accounting as the basis of the consolidation in order to give a true and fair view.

In invoking a true and fair view, the Directors note that the reverse acquisition accounting is endorsed under IFRS 3 and has considered the subject and concluded that there are instances where it is right and proper to invoke the true and fair override in such a way.

4. Other Income

Other income includes:

	Year ended 30 June 2008 £'000s	18 Months ended 30 June 2007 £'000s
Related party loan waived off	–	272
Write back of payables	–	7
Receivable from related parties	36	–
Recoverable costs recharged	3	–
Receipt of Directors fee from Quadrise Canada Corporation	7	8
Total	46	287

5. Operating Loss

Operating loss is stated after charging:

	Year ended 30 June 2008 £'000s	18 Months ended 30 June 2007 £'000s
Staff cost	1,174	1,340
Auditors' remuneration		
Audit services	31	59
Non-audit services – tax	4	6
Non-audit services – other	2	2
Goodwill impairment	–	584
Amortisation of intangibles	5,708	8,646
Impairment of intangibles	6,229	–
Impairment of available for sale investments	7,921	–
Share option charge	403	507
Depreciation of property, plant and equipment	5	–

Staff cost includes the salaries of Directors employed directly by the Company.

6. Staff Cost

Head count

	Year ended 30 June 2008 £'000s	18 Months ended 30 June 2007 £'000s
Average number of employees of the Group (including Executive Directors) during the year was:		
Management	4	4
Technical staff/support/other	5	5
Staff costs		
Wages and salaries	1,006	1,171
Social security costs	113	122
Other pension costs	55	47
Total	1,174	1,340

Included in total staff costs is Directors' remuneration of £755k (2007: £702k). Refer to Report of Directors Remuneration for further details.

Notes to the Group Financial Statements

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7. Amortisation of Intangible Assets

The Board has reviewed the accounting policy for intangible assets and has adopted a policy for the amortisation of those assets which have a finite life. A key asset that fits this description is the combination of rights secured under the AkzoNobel Alliance Agreement, together with other unpatented technologies, industry know-how and trade secrets, which drive the principal business case for QFI. Under the original arrangements, while intended to continue on an evergreen basis, AkzoNobel or QFI could terminate the AkzoNobel Alliance Agreement at 12 months notice at any time after 20 December 2009. In March 2008, however, a two-year extension to the termination clause was agreed resulting in AkzoNobel or QFI being able to terminate the agreement at 12 months notice at any time only after 20 December 2011. Whilst the Directors believe that it is likely to be in the commercial best interests of both parties to continue the agreement beyond 20 December 2011, there can be no guarantee that this will occur. The Directors have, accordingly, amortised this intangible asset over the remaining lifespan of the extended agreement. This policy has resulted in a non-cash charge of £5,708k to the income statement for the year ended 30 June 2008. If this change in the amortisation period had not been applied, the amortisation charge would have been higher by £1,204k. Refer to note 13 for further details.

8. Losses Attributable to Quadrise Fuels International plc

The loss for the year dealt with in the accounts of Quadrise Fuels International plc was £26.3m. As provided by s.230 of the Companies Act 1985, no income statement is presented in respect of Quadrise Fuels International plc.

9. Finance Revenue

All finance income recognised during the year has arisen from interest on bank deposits.

10. Taxation

	Year ended 30 June 2008 £'000s	18 Months ended 30 June 2007 £'000s
Current taxation	–	41
Total	–	41

No liability in respect of corporation tax arises as a result of trading losses.

Tax Reconciliation

	Year ended 30 June 2008 £'000s	18 Months ended 30 June 2007 £'000s
Loss on continuing operations before taxation	(22,457)	(11,876)
Loss on continuing operations before taxation multiplied by the UK corporation tax rate of 28% (2007: 30%)	(6,288)	(3,563)
Effects of:		
Expenses not deductible for tax purposes	5,655	2,771
Other tax adjustments	116	115
Losses not utilised	517	718
Current taxation on loss from continuing operations	–	41

The Group has tax losses of approximately £20,202k (2007: £2,273k) arising in the UK that are available indefinitely against future taxable profits. Deferred tax assets of approximately £2,677k (2007: £3,182k) have not been recognised as a result of existing uncertainties of their realisation.

11. Loss Per Share

The calculation of loss per share is based on the following loss and number of shares:

	Year ended 30 June 2008	18 Months ended 30 June 2007
Loss for the year from continuing operations (£000's)	(22,457)	(11,917)
Weighted average number of shares:		
Basic	461,726,857	435,424,442
Diluted	461,726,857	435,424,442
Loss per share:		
Basic	(4.86)p	(2.74)p
Diluted	(4.86)p	(2.74)p

Basic loss per share is calculated by dividing the loss for the year from continuing operations of the Group by the weighted average number of ordinary shares in issue during the year.

For diluted loss per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive options over ordinary shares. Potential ordinary shares resulting from the exercise of share options have an anti-dilutive effect due to the Group being in a loss position. As a result, diluted loss per share is disclosed as the same value as basic loss per share. The 23.9 million share options outstanding at year-end could potentially dilute earnings per share in the future if exercised when the Group is in a profit making position.

12. Property, Plant and Equipment Consolidated

	30 June 2008 £'000s	30 June 2008 £'000s	30 June 2008 £'000s	30 June 2007 £'000s	30 June 2007 £'000s	30 June 2007 £'000s
	Computers	Equipment	Total	Computers	Equipment	Total
Cost						
Opening balance	2	–	2	2	–	2
Additions	–	24	24	–	–	–
Closing balance	2	24	26	2	–	2
Depreciation						
Opening balance	1	–	1	–	–	–
Charge for the year	1	4	5	1	–	1
Closing balance	2	4	6	1	–	1
Net book value	–	20	20	1	–	1

Company

	30 June 2008 £'000s	30 June 2008 £'000s	30 June 2008 £'000s	30 June 2007 £'000s	30 June 2007 £'000s	30 June 2007 £'000s
	Computers	Equipment	Total	Computers	Equipment	Total
Cost						
Opening balance	–	–	–	–	–	–
Additions	–	24	24	–	–	–
Closing balance	–	24	24	–	–	–
Depreciation						
Opening balance	–	–	–	–	–	–
Charge for the year	–	4	4	–	–	–
Closing balance	–	4	4	–	–	–
Net book value	–	20	20	–	–	–

Notes to the Group Financial Statements

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13. Intangible Assets

Consolidated

	30 June 2008 £'000s Infinite	30 June 2008 £'000s Finite	30 June 2008 £'000s Total	30 June 2007 £'000s Infinite	30 June 2007 £'000s Finite	30 June 2007 £'000s Total
Cost						
Opening balance	10,786	25,901	36,687	–	–	–
Additions	–	–	–	10,786	25,901	36,687
Closing balance	10,786	25,901	36,687	10,786	25,901	36,687
Amortisation						
Opening balance	–	(8,646)	(8,646)	–	–	–
Amortisation	–	(5,708)	(5,708)	–	(8,646)	(8,646)
Impairment	(5,078)	(1,151)	(6,229)	–	–	–
Closing balance	(5,078)	(15,505)	(20,583)	–	(8,646)	(8,646)
Net book value	5,708	10,396	16,104	10,786	17,255	28,041

Intangibles include intellectual property of £36.7m acquired from Quadrise International Limited, which comprises both assets of finite and infinite life. Quadrise Canada Corporation's royalty income of £7.7m and the MSAR® trade name of £3.1m are termed as assets having infinite life and hence not amortised. The remaining intangibles amounting to £25.9m are primarily made up of technology and know-how, are considered as finite assets and amortised over 69 months. The Board has reviewed the accounting policy and adopted an amortisation policy on those assets which have a finite life as indicated in note 2.9 and further explained in note 7. As a consequence of adopting this policy, a non-cash charge of £5.7m has been recognised in the income statement during the year.

The Group tests intangible assets annually for impairment, or more frequently if there are indications that they might be impaired. The recoverable amount of intangible assets is determined based on a value in use calculation using cash flow forecasts derived from the most recent financial budget information available. These cash flow forecasts extend to the year 2025 to ensure the full benefit of all potential projects is realised. The key assumptions used in these calculations include discount rates, turnover projections, growth rates, joint venture participation expectations, and expected gross margins. Management estimates the discount rates using pre-tax rates that reflect current market assessments of the time value of money and risks specific to expected future projects. For reasons of prudence the growth rate used for the extrapolation of cash flows beyond budgeted projections for all intangible impairment reviews was 2.5%. The pre-tax discount rate applied to the cash flow projections is 13%, with the exception of Quadrise Canada Corporation's royalty income, to which a 25% discount rate was applied.

The Directors performed a review of the fair value of the intangibles at 30 June 2008. As a result of this review, the Directors concluded that Quadrise Canada Corporation's royalty income should be written down to a net fair value of £2.6m and the technology and know-how written down to £10.4m. This resulted in a £6.2m impairment charge to the income statement for the year to 30 June 2008.

14. Available for Sale Investments

	Consolidated 30 June 2008 £'000s	Consolidated 30 June 2007 £'000s	Company 30 June 2008 £'000s	Company 30 June 2007 £'000s
Unquoted securities				
Opening balance	16,131	–	845	–
Acquisitions	–	14,129	–	856
Revaluation	566	2,002	566	(11)
Impairment	(9,922)	–	(270)	–
Foreign exchange	(328)	–	(22)	–
Closing balance	6,447	16,131	1,119	845

Unquoted securities represent the Group's investment in Quadrise Canada Corporation and Paxton Corporation, both of which are incorporated in Canada. As at the balance sheet date the Group held an 18.71% share in the ordinary issued capital of Quadrise Canada Corporation and a 3.75% share in the ordinary issued capital of Paxton Corporation. The Directors do not consider that they have significant influence over either entity and as such these investments are not accounted for as associates.

The Directors performed a review of the fair value of the unquoted securities at 30 June 2008. Due to the lack of an active market in either of the securities, the Directors considered other factors such as past equity placing pricing and independent assessment of risked net present value of the enterprises to arrive at their conclusion of the fair value. As a result of their review, the Directors concluded that the carrying value of Quadrise Canada Corporation should be adjusted to C\$3.00 (£1.49) per share in the accounts. The most recent independent assessment of the risked net present value of the enterprise is, however, C\$15.00 (£7.43). This resulted in an impairment charge of £7,921k and a foreign exchange loss of £328k in the income statement. Of the £9,922k impairment, £2,002k refers to impairment of the previously revalued investment. With regard to Paxton Corporation, the Directors have concluded from their review that the investment should be revalued to C\$3.00 (£1.49) per share in the accounts. This has resulted in a gain in equity of £566k.

15. Other Financial Assets

	Consolidated 30 June 2008 £'000s	Consolidated 30 June 2007 £'000s	Company 30 June 2008 £'000s	Company 30 June 2007 £'000s
Investments in subsidiaries				
Opening balance	–	–	45,000	45,000
Impairment	–	–	(23,566)	–
Closing balance	–	–	21,434	45,000

Investments in subsidiary undertakings amounted to £21.4m for the Company. The Directors performed a review of the fair value of investments at 30 June 2008. This review resulted in an impairment charge of £23.6m to the income statement for the year. Holdings in subsidiaries are detailed in note 28.

16. Cash and Cash Equivalents

	Consolidated 30 June 2008 £'000s	Consolidated 30 June 2007 £'000s	Company 30 June 2008 £'000s	Company 30 June 2007 £'000s
Cash at bank	433	782	428	686
Short-term deposits	3,174	5,092	3,084	5,090
	3,607	5,874	3,512	5,776

Notes to the Group Financial Statements

Continued

17. Trade and Other Receivables

	Consolidated 30 June 2008 £'000s	Consolidated 30 June 2007 £'000s	Company 30 June 2008 £'000s	Company 30 June 2007 £'000s
Other receivables	76	39	76	39
Receivable from related parties	134	27	4,950	4,843
Provision for doubtful debts	-	-	(115)	-
	210	66	4,911	4,882

There are no material differences between the fair value of trade and other receivables and their carrying values at year-end.

Group receivables of £117k (2007: £17k) and Company receivables of £4,818k (2007: £4,833k) were past due but not impaired at year-end. These relate mostly to receivables from related parties for which there is no history of default. The ageing analysis of these receivables at the year-end is as follows:

	Consolidated 30 June 2008 £'000s	Consolidated 30 June 2007 £'000s	Company 30 June 2008 £'000s	Company 30 June 2007 £'000s
Up to 3 months	5	3	5	3
3–6 months	-	-	-	-
Over 6 months	112	14	4,813	4,830
	117	17	4,818	4,833

18. Trade and Other Payables

	Consolidated 30 June 2008 £'000s	Consolidated 30 June 2007 £'000s	Company 30 June 2008 £'000s	Company 30 June 2007 £'000s
Trade creditors	135	77	133	73
Employee benefits payable	17	25	17	25
Payable to related party	120	261	119	261
Accruals	305	333	293	316
Overseas VAT	59	59	-	-
	636	755	562	675

There are no material differences between the fair value of trade and other payables and their carrying values at year-end.

Trade creditors as at 30 June 2008 amount to 45 days (2007: 32 days) of purchases made in the year.

19. Share Options

On 15 February 2005, Zareba plc granted 9,000,000 options to advisors with an exercise price of 1p each, which were subsequently consolidated to 900,000 shares with an exercise price of 10p each. All share options must be exercised by 14 February 2010. The weighted average fair value of the options granted was 4.3p per share. A charge of -£25k (2007: £37k) has been charged to the income statement for the year relating to these options.

On 22 March 2006, conditional on the float of QFI on the AIM on 19 April 2006, QFI granted 16,900,000 options to Directors, management and advisors with an exercise price of 20p each. All share options must be exercised by 18 April 2016. The weighted fair value of the options granted was 3.3p per share. A charge of £116k (2007: £446k) has been charged to the income statement for the year relating to these options.

On 26 March 2007 QFI granted 1,500,000 options to two employees with an exercise price of 14.23p each. All share options must be exercised by 25 September 2015. Each option may be exercised in respect of 75% of the ordinary shares at any time after 25 September 2008 and in respect of the balance at any time after 25 March 2009. The weighted fair value of the options granted was 5.7p per share. A charge of £50k (2007: £23k) has been charged to the income statement for the year relating to these options.

On 4 July 2007 QFI granted 5,250,000 share options to two Directors and two employees with an exercise price of 12p each. All share options must be exercised by 3 July 2015. Each option may be exercised in respect of 50% of the ordinary shares at any time after 3 July 2008, 75% of the ordinary shares at any time after 3 January 2009 and the balance at any time after 3 July 2009. The weighted fair value of the options granted was 4.6p per share. A charge of £262k has been charged to the income statement for the year relating to these options.

19. Share Options continued

Movement in the year:

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	No. 30 June 2008	WAEP (pence) 30 June 2008	No. 30 June 2007	WAEP (pence) 30 June 2007
Outstanding as at 1 July	18,700,000	19.37	900,000	10.00
Granted during the year	5,250,000	12.00	18,400,000	19.53
Exercised during the year	-	-	(600,000)	10.00
Options outstanding as at 30 June	23,950,000	17.76	18,700,000	19.38
Exercisable as at 30 June	19,262,500	19.07	8,950,000	19.66

The following table lists the inputs used for the option issue, which occurred during the year:

	4 July 2007
Dividend yield	0%
Expected volatility	106%
Risk-free interest rate	5.39%
Expected life of options (years)	8
Weighted average share price at grant date	4.6p
Exercise price	12.0p
Model used	Hull-White Binomial

The weighted average share price during the year was 7.1p (2007: 17.2p) per share. The expected volatility reflects the assumption that historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

The expected life of the options is based on historical data available at the time of the option issue and is not necessarily indicative of future trends, which may not necessarily be the actual outcome. The Share Option Scheme is an equity settled plan and fair value is measured at the grant date of the option.

20. Share Capital

Consolidated and Company

	30 June 2008 Number of shares	30 June 2008 £
Authorised		
Ordinary shares of 1p each	1,000,000,000	10,000,000
	1,000,000,000	10,000,000

	30 June 2008 Number of shares	30 June 2008 £	30 June 2007 Number of shares	30 June 2007 £
Allotted, called up and fully paid	461,726,857	4,617,269	461,726,857	4,617,269
Issued capital of 1p each	461,726,857	4,617,269	461,726,857	4,617,269

21. Share Premium

Consolidated and Company

	30 June 2008 £'000s	30 June 2007 £'000s
Share premium	53,634	1,225
Premium on acquisition and issue	-	53,526
Share issue expenses	-	(1,117)
	53,634	53,634

Notes to the Group Financial Statements

Continued

22. Revaluation and Other Reserves Consolidated

	Revaluation reserve £'000s	Reverse acquisition reserve £'000s	Share option reserve £'000s
As at 1 July 2007	2,002	522	507
Impairment of available for sale investments	(2,002)	–	–
Revaluation of available for sale investments	566	–	–
Share options issued	–	–	403
As at 30 June 2008	566	522	910

Company

	Revaluation reserve £'000s	Share option reserve £'000s
As at 1 July 2007	(10)	507
Impairment of available for sale investments	10	–
Revaluation of available for sale investments	566	–
Share options issued	–	403
As at 30 June 2008	566	910

Nature and Purpose of Other Reserves

Revaluation Reserve

The revaluation reserve is used to record increases in the fair value of available for sale investments and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity. The reserve can only be used to pay dividends in limited circumstances.

Share Option Reserve

The share option reserve is used to record the cumulative fair value of share options granted.

23. Pension Commitments

For direct employees of Quadrise Fuels International plc, the Company contributes 7% of salary to a defined contribution pension scheme. Pension cost to the Company for the year amounted to £55k (2007: £47k).

24. Segmental Information

The Group is engaged in a business to produce emulsion fuel as a low cost substitute for conventional heavy fuel oil (HFO) for use in power generation plants and industrial diesel engines. In the opinion of the Directors, the Group's activities comprise one class of business. No turnover has arisen to date as the Group remains in the pre-revenue phase and therefore no business or geographical segmental analysis is provided.

25. Derivatives and Other Financial Instruments

The Group's principal financial instruments comprise available for sale investments, cash balances, accounts payable and accounts receivable arising in the normal course of its operations.

The financial instruments of the Group and the Company at year-end are:

	Consolidated 30 June 2008 £'000s	Consolidated 30 June 2007 £'000s	Company 30 June 2008 £'000s	Company 30 June 2007 £'000s
Financial assets				
Available for sale investments	6,447	16,131	1,119	845
Cash and cash equivalents	3,607	5,874	3,512	5,776
Trade and other receivables	210	66	4,911	4,882
Financial liabilities				
Trade and other payables	636	755	562	675

25. Derivatives and Other Financial Instruments continued

Foreign Currency Exchange Risk

The Group does not generally undertake foreign currency hedging. The Group's significant transactions are denominated in British pounds and it uses this as its reporting currency. Exposure to any foreign exchange movements exists primarily in European, American and Canadian currencies. The following significant exchange rates applied during the year:

	Balance sheet	Income statement
United States (USD)	1.993	2.004
Canada (CAD)	2.016	2.025
Switzerland (CHF)	2.030	2.230
Europe (EUR)	1.264	1.366

The Group had available for sale investments in Canada amounting to £6.4m (2007: £16.1m) as at the balance sheet date. These investments are represented in Canadian dollars amounting to CAD 13.0m (2007: CAD 36.7m).

A 10% strengthening of the GBP against the CAD at the balance sheet date would have decreased profit and loss by £0.6m (2007: £0.5m) whilst a 10% weakening of the GBP against the CAD would have increased profit and loss by £0.7m (2007: £2.9m). This analysis assumes that all other variables remain constant.

The net monetary assets in other currencies at 30 June 2008 were USD 90k (2007: USD -12k) and EUR -70k. Any fluctuations in the GBP against these other currencies at the balance sheet date would not have a significant effect on profit and loss.

Interest Rate Risk

The Group has floating rate financial assets in the form of deposit accounts with major banking institutions, however, is not currently subjected to any other interest rate risk.

Based on cash balances at the balance sheet date, a rise in interest rates of 1% will increase profit and loss by approximately £35,000 per annum.

Liquidity Risk

The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations. The Group takes liquidity risk into consideration when deciding its sources of funds.

Credit Risk

The Group had receivables of £210k at 30 June 2008 (2007: £66k), of which £134k was receivable from related parties, as mentioned in note 26. Receivables of £210k represent the maximum credit risk to which the Group is exposed. A loan receivable from Quadrise Fuels US (QFUS), a related party, amounted to £104k at year-end. Any risk associated with this balance has been mitigated by way of a promissory note received from the debtor. Group receivables of £117k (2007: £17k) at the year-end were past due, however the Directors consider there to be no credit risk arising from these receivables.

Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Fair Value of Financial Assets and Liabilities

There are no material differences between the fair value of the Group's financial assets and liabilities and their carrying values in the financial information.

Borrowings Facilities

The Group had no external borrowing facilities as at 30 June 2008.

26. Related Party Transactions

Executive Directors Ian Williams and Hemant Thanawala provide services under a service agreement with International Energy Services Limited, a subsidiary of International Energy Group AG (IEG), the ultimate parent of Quadrise Fuels International plc. The service charge for the year amounted to £449k (2007: £512k), out of which £164k (2007: £150k) was incurred for Directors' salaries, and £285k (2007: £362k) was charged for rent and other office costs. Trade payables include £120k (2007: £261k) payable at the balance sheet date to International Energy Services Limited relating to these services.

Notes to the Group Financial Statements

Continued

26. Related Party Transactions continued

Trade receivables of the Group are £134k (2007: £27k) receivable from other related parties, which include £110k (2007: £6k) from Quadrise Fuels US, £19k (2007: £nil) from Wilton Petroleum Limited for shared personnel costs and £5k (2007: £3k) from IEG for services rendered. Trade receivables of the Company include an amount of £4,816k receivable from subsidiaries (2007: £4,816).

Transactions with related parties are made at normal market prices. Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. For the year ended 30 June 2008, the Company has recorded a provision for bad debt of £115k relating to an amount owed by Quadrise Power Systems AG who filed for liquidation on 3 July 2008.

The Company and IEG, the ultimate parent of the Company, entered into a relationship agreement on 22 March 2006. Pursuant to the Relationship Agreement, IEG has agreed to exercise its rights only as a shareholder of the Company, so as to ensure the Company is capable of carrying on its business independently of IEG. IEG has undertaken to ensure, so far as it is able to, that all transactions, relationships and agreements between IEG and the Company are conducted on arm's length terms, on a normal commercial basis. In addition IEG has agreed that neither it nor any proposed Director who is a Director or employee of IEG will participate in the deliberations of the Board of Directors of the Company in relation to any proposal to enter into any commercial arrangements with IEG or its associates.

Key management personnel compensation is disclosed in the Report of Directors' Remuneration section.

27. Ultimate Parent Undertaking and Controlling Party

The Directors consider IEG, registered in Switzerland, to be the ultimate controlling party by virtue of a 59.01% direct shareholding. The Quadrise Fuels International plc Group was included in IEG's consolidation in the prior year; however, IEG is not required to prepare consolidated accounts in the current year. IEG's accounts are not publicly available.

28. Subsidiaries

The financial statements include the financial statements of Quadrise Fuels International plc and the following subsidiaries:

Name	Country of incorporation/ registration	Percentage interest	Class of share held
Quadrise International Limited	United Kingdom	100%	Ordinary
Quadrise Limited	United Kingdom	100%	Ordinary
Quadrise Power systems AG	Switzerland	100%	Ordinary

Quadrise Fuels International plc and its 100% subsidiaries are involved in activities such as enhanced heavy oil recovery, conversion of heavy oil, refinery upgrade projects manufacture and sale of MSAR[®] to large energy consumers.

29. Commitments and Contingencies

The Group and the Company had not entered into any finance or operating leases as at the balance sheet date. Additionally the Group and the Company have no capital commitments as at the balance sheet date.

30. Events After the Balance Sheet Date

On 3 July 2008 the shareholders of Quadrise Power Systems AG unanimously resolved to dissolve the Company by liquidation.

On 31 July 2008 IEG granted 4 million share options, from its own holding of shares held in QFI, to two employees of QFI. All options issued vest immediately.

On 31 July 2008 IEG executed an amendment to the 12 million QFI options issued on 28 November 2007. Previously 1 million options vested on award, with the remaining 11 million options to vest in equal parts on 31 December 2009 and 31 December 2010. As a consequence of the amendment, all 12 million options issued vest effective from 31 July 2008.

On 12 September 2008, at the Annual General Meeting, Mr Anthony Lowrie did not seek re-election as Non-Executive Director. Dr Ian Duckels was appointed as Non-Executive Director on 18 September 2008.

In September 2008, the Company successfully completed its commercial demonstration in Lithuania. Refer to the Chief Executive's Review on pages 4 to 6 for further details of this commercial demonstration.

31. Copies of the Annual Report

Copies of the annual report will be available on the Company's website at www.quadrisefuels.com and from the Company's registered office, Parnell House, 25 Wilton Road, London SW1V 1YD.

Corporate Information

Registered Office

Parnell House
25 Wilton Road
London SW1V 1YD

Company Secretary

Audrey Clarke FCIS
Parnell House
25 Wilton Road
London SW1V 1YD

Nominated Adviser & Broker

Smith & Williamson Corporate Finance Limited
25 Moorgate
London EC2R 6AY

Broker

Hichens, Harrison & Co plc
Bell Court House
11 Bloomfield Street
London EC2M 1LB

Solicitors

Bircham Dyson Bell
50 Broadway
London SW1H 0BL

Registrars

Share Registrars Ltd
Suite E
First Floor
9 Lion & Lamb Yard
Farnham
Surrey GU9 7LL

Auditors

Mazars LLP
Tower Bridge House
St. Katharine's Way
London E1W 1DD

Bankers

Coutts & Co.
440 Strand
London WC2R 0QS

Quadrisse Fuels International plc
Parnell House
25 Wilton Road
London SW1V 1YD
Tel: +44 (0) 20 7550 4930
Fax: +44 (0) 20 7550 4946