



IPSA

INDEPENDENT POWER SOUTHERN AFRICA

IPSA GROUP PLC

ANNUAL REPORT 2008

COMPANY INFORMATION

DIRECTORS

S T Hargrave (non-executive Chairman)
N Bryson (non-executive)
M Cox
P R S Earl
J M Eyre
R Sampson (non-executive)
E R Shaw
J G West (non-executive)

SECRETARY

S A Laker

COMPANY NUMBER

5496202

REGISTERED OFFICE

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Prince Consort House
27-29 Albert Embankment
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SE1 7TJ

AUDITORS

Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
Grant Thornton House
Melton Street
Euston Square
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NW1 2EP

BUSINESS ADDRESS

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Prince Consort House
27-29 Albert Embankment
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BANKERS

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SW1W 8AL

SOLICITORS

Skadden, Arps, Slate,
Meagher & Flom (UK) LLP
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CHAIRMAN'S STATEMENT

I am pleased to present to shareholders of IPSA Group PLC (“IPSA”) the Report and Accounts for the year to 30 September 2008.

Since my annual statement to you in March 2008, the world's financial markets have deteriorated at a rate that few people expected. This deterioration has inevitably had a negative impact on IPSA, but unless these exceptional market conditions continue for a prolonged period, I see no reason for the Group to deviate from its strategy of building profitable electricity generating capacity in southern Africa, where all forecasts indicate a widening long-term gap between supply and demand.

To explain – last year I reported that the cogeneration plant in Newcastle, KwaZulu Natal had been successfully commissioned. In normal market conditions, this should have been sufficient to enable the Group to raise external finance on the plant (which, to date, has been financed entirely out of shareholders' funds) and thus release cash for the development of the next project. Extreme tightness in financial conditions has taken a number of potential funders out of the market altogether and has made others much more reluctant to make commitments.

Efforts to refinance the Newcastle plant have also been hampered by the procurement process for new power in South Africa, as in these more cautious markets external finance will not be available until a long-term Power Purchase Agreement (“PPA”) has been signed. We have participated in the tender processes for new capacity announced by Eskom and currently await the outcome of the Medium Term Power Purchase Programme, which is due to conclude on or before 31 March 2009. Despite these delays to reaching full revenue generation, the plant remains operational.

Cash flow constraints have therefore had an impact on our plans for Newcastle, and will continue to do so until such time as we either refinance the plant or sell the turbines originally intended for Coega as described in the next paragraph. We have nevertheless increased the steam supply capability of the plant and signed up a new steam supply customer during the year under review, and we have supplied steam to our customers through to our year end and beyond as well as supplying electricity to Eskom until the end of September 2008 under a temporary PPA. We are very grateful for the contribution of Chris Louw and his team at Newcastle, who have worked hard to keep the project in good shape in trying circumstances.

Over the past few months, I have also reported on delays to the Coega project near Port Elizabeth and the decision by the Board to sell the four Fiat Avio 501D gas turbines previously earmarked for that project. This decision was taken

CHAIRMAN'S STATEMENT

reluctantly in view of the lack of progress in the issue of tender documents for the project and the possibility that the state of the world's finances may lead to significant rephrasing of the whole Coega Industrial Development Zone. Again, in more buoyant market conditions, prospective buyers would normally have had relatively little difficulty in raising finance to acquire these turbines from us and we would, by now, have expected to have completed a sale and realised a significant profit. However, the withdrawal from the market of most of the key infrastructure lenders means that although we continue to see a good level of interest in the turbines at a price substantially above the book value, no transaction has been concluded to date and negotiations are still continuing.

In the absence of normal commercial lines of finance, the Company has, since the year end, received additional financial support from Independent Power Corporation PLC ("IPC"), a company controlled by our chief executive, Peter Earl. We are very grateful for this support. Meanwhile the Board is focused on the key issues of securing a sale of the turbines and entering into a commercially viable long-term PPA at Newcastle whilst we continue to work to enhance the viability of the Elitheni coal-fired project.

As the Company's bank loan is due for repayment at the end of September and the sale of the turbines has not yet been concluded, the Board considers it prudent to explore other medium term working capital options, including raising debt for the Newcastle plant once a medium term PPA has been secured. In light of these uncertainties, I draw your attention to the fact that the independent auditors have included an emphasis of matter paragraph in their unqualified audit opinion.

In summary, the near collapse of financial markets has impacted our growth plans quite considerably, but the overall strategy of building profitable electricity generating capacity in South Africa and neighbouring countries remains intact. While financing remains our top priority for the present, I believe that the Group has the necessary skills and experience to achieve its ambitions.

Stephen Hargrave

Chairman

20 March 2009

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

The last twelve months have seen unprecedented turmoil in financial markets with an increasing knock-on effect in the economics of the real world. South Africa and IPSA have not been immune to these seismic changes and the Company now finds itself adjusting its operations and growth plans to match the tightened credit conditions affecting southern Africa.

Fortunately, IPSA is in the power generation and power development business, and South Africa and its neighbours have an urgent need for more power plants. There is therefore still an opportunity for IPSA to develop new power plant capacity to complement its existing initial co-generation plant at Newcastle.

During the financial year, IPSA saw its Newcastle plant enter full commercial operations. Sales of steam to its industrial customers, Karbochem and African Amines, continued and we signed agreements for further steam sales to Lanxess CISA Pty. Limited, a subsidiary of Lanxess of Germany. IPSA also entered into its first power purchase agreements ("PPAs"), supplying power initially to City Power of Johannesburg and later to Eskom under interim power sales contracts pending clarification of the role of long term PPAs in the South African market.

Long term commercial production of electricity is expected to follow when a satisfactory PPA is signed. The Newcastle plant has been tendered under Eskom's Medium Term Power Purchase Programme (the "MTPPP") along with proposed additional capacity. The Eskom MTPPP is intended to acquire 3,000 MW of capacity at prices between ZAR 650 and 1050 MWh for a period of 6 years with a maximum term under the MTPPP PPA of 8 years. The deadline for award of PPAs under the tender is currently 31 March 2009. Negotiations to put in place long term debt finance for the business based on the steam and electricity contracts are on-going.

During the year, IPSA made progress with its Coega project when it entered into a memorandum of cooperation with the Central Energy Fund ("CEF"), the holding body for the country's principal state-owned energy companies. This memorandum envisages IPSA proceeding with its proposed 1,600 MW Coega Fast Track Combined Cycle Gas Turbine Project in close collaboration with PetroSA and iGas so as to achieve rapid installation of new privately financed power generation capacity. This will be in tandem with the Government of South Africa's plans for the Coega Industrial Development Zone to be at the heart of a new energy centre providing liquid fuels and LNG for South Africa in Port Elizabeth.

IPSA is now awaiting confirmation of the terms of reference for the first 800 MW of capacity to be constructed at the Coega IDZ using liquid fuels as an initial fuel source until the anticipated arrival of an LNG regasification plant on site.

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

However, given the current financial climate and the fact that the Coega project is unlikely to receive all necessary zoning and environmental consents until the second half of 2010, the Board has decided to sell the four Fiat Avio 501 DU gas turbines previously earmarked for Coega in order to repay its senior debt facility prior to 30 September 2009. At the same time, the Company is taking steps to procure identical new build 501 DU turbines from Siemens Italy with delivery timeframes that would allow IPSA to meet the anticipated construction programme dictated by the likely timetable. The worldwide increase in the price of gas turbines over the last two years means that IPSA can potentially realise a substantial uplift from the sale of the units and deploy the funds generated from the sale to invest as equity for other projects. Since October 2008, we have been in negotiations with selected parties for the sale of the turbines at a price of approximately US\$100m. These negotiations have yet to produce a positive outcome for the Company but we continue to pursue options and will keep shareholders fully informed of any significant developments.

In September 2008, IPSA and Strategic Natural Resources PLC ("SNR") agreed outline terms for new contractual arrangements to permit IPSA both to increase the overall scale of its coal-fired development at the proposed Indwe mine mouth site and to accelerate the in-service date of some of its initial capacity based on the use of Elitheni coal, not only at the mine mouth itself but also in other parts of the Eastern Cape using rail transport to take Elitheni coal from Indwe to other sites.

In order to accelerate the construction of its initial coal-fired capacity, IPSA is focusing on the installation of circulating fluidized bed ("CFB") boilers of around 75 MW each. These imported CFB boilers, which are of proven technology and manufactured to standards accepted in South Africa, have a shorter delivery and installation time, around two years to commissioning, compared with the four to five year lead time of the large scale boilers favoured by Eskom and international developers. The faster boiler delivery times and IPSA's ability to source matching smaller steam turbines now allows IPSA to cut the development time at Indwe and other locations in the Eastern Cape so that its first units can be targeted for commissioning in 2010 as "fast track" plants.

IPSA announced at the end of October 2008 that it had reached formal agreement with Elitheni Coal (Pty) Ltd ("Elitheni"), a subsidiary of SNR, for the coal supply to approximately 250 MW of its initial power projects in South Africa's Eastern Cape. At the same time, the basis of a framework agreement has also been put in place giving IPSA the right of first refusal for further coal

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

supplies from Elitheni to serve the 1,000 MW of clean coal power plant capacity which IPSA intends to develop throughout the Eastern Cape between East London and Port Elizabeth. Under the terms of the contract which has been signed between Elitheni and Indwe Power (Pty.) Ltd ("IPPL"), an indirect subsidiary of IPSA, IPPL will purchase approximately 1,000,000 tonnes of coal per annum for a period of 20 years (20 million tones) for use at its power projects under development in the Eastern Cape. As further coal is proved up by Elitheni, IPPL intends to increase coal-fired capacity under development in subsequent phases.

IPSA has also been pre-qualified to participate in Eskom's Multi-site Baseload IPP Programme.

IPSA is a development company and, like all development companies, it relies on the availability of external financing, principally through the debt markets. The current lending climate is making the job of the Directors far harder than previously anticipated, especially since the end of the Company's financial year on 30 September 2008.

In the absence of bank lending, the Company has received loans of approximately £1,081,000 to date from Independent Power Corporation PLC ("IPC"), a company controlled by myself, of which James West (Non-Executive Director of IPSA) is Chairman and Elizabeth Shaw (Chief Operating Officer of IPSA) is also a director.

The Company is in the process of arranging finance to meet its most recent interest payment, which was due on 2 January 2009, of approximately £330,000 in respect of its senior secured bank loan. IPC has indicated its provisional willingness to consider making available a further loan to IPSA for this purpose.

It has been an exceptionally torrid year but we remain confident in the future of independent power generation in southern Africa. I am most grateful to all my colleagues for the tremendous efforts they have all made on behalf of the Company and all its shareholders.

Peter Earl

Chief Executive
20 March 2009

GROUP DIRECTORS' REPORT

The directors present their report together with the audited financial statements for the year ended 30 September 2008.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activities of the Group comprise the acquisition and development of power generation assets in southern Africa.

The Group's strategy is to create a portfolio of power generation assets in southern Africa, in conjunction with project partners, where the directors believe this to be advantageous. In the event that appropriate opportunities present themselves outside this geographic area, the Group's investment boundaries may be extended.

The Company was incorporated on 1 July 2005. In September 2005, the Company, through a wholly owned intermediary subsidiary, acquired the entire issued share capital of Newcastle Cogeneration (Proprietary) Ltd, a company incorporated in the Republic of South Africa, for a total consideration of £875,000 and was admitted to AIM. In October 2006, the Company obtained a secondary listing, on the Alternative Exchange of the Johannesburg Stock Exchange Limited (Alt^x).

A review of the Group's activities and future plans is set out in the Chairman's Statement and the Chief Executive's Review.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the Group, apart from the efficient operation of the Group's generation plants and possible changes in demand and pricing for electricity in the markets in southern Africa in which the Group operates, relate to political and currency risk and financing conditions.

Political – the Directors believe the Government of the Republic of South Africa supports the provision of efficient power generation and the Company's listing on Alt^x, local shareholders now enjoy the benefit of owning a significant portion of the Company, which further strengthens the Group's position in the Republic of South Africa.

Currency risk – movements in the value of the South African Rand (“ZAR”) relative to Sterling affect the Sterling value of assets located in South Africa and will, in the future, affect the value of dividends which the Company expects to receive from its activities in South Africa. In due course the Directors will, where appropriate, use hedging instruments, including Rand denominated finance, to reduce the impact of currency risk.

Financing – the current economic conditions have affected the market for project finance. If these conditions continue for a prolonged period, the Group may experience difficulties in raising funds to finance future development plans.

KEY PERFORMANCE INDICATORS

At this stage in the Group's development, the Directors consider that the key performance indicators are:

- The Group's MW capacity – at the date of this report, the Group owns plant with a total MW capacity of 539 MW of which 18 MW of capacity is in operation and 521 MW now has been fully refurbished and upgraded. As set out in the Chairman's statement, the planning aspects associated with the proposed installation of the 521 MW plant have experienced delays and the Board has therefore decided to sell this plant and will, subject to conditions being satisfactory, enter into options to acquire new turbines for the project.
- Operating efficiency and input costs – the Group is committed to investing in efficient technology appropriate for its purpose.
- Profitability and return on shareholders' funds – the construction of efficient and cost effective generation plants in areas where demand is rapidly increasing and is expected to deliver predictable earnings and shareholder dividends.

As the Group's operations expand, further key performance indicators will become relevant.

RESULTS AND DIVIDENDS

The Group results for the year ended 30 September 2008 are set out on page 20.

GOING CONCERN

The Directors have continued to adopt the 'going concern' basis for the preparation of the financial statements since the Directors consider that the Company and the Group will have sufficient financial resources available to continue trading for the foreseeable future. However, the availability of these resources is dependent upon either the sale of one or more of the Fiat turbines in order to repay the £15m loan by 30 September 2009 (see note 25) or a renewal of that facility. As noted in the Chairman's statement, negotiations for the sale of the turbines remain positive but as at the date of signing of these financial statements, no firm agreement has been reached. The Directors have also initiated additional plans to raise external finance from other sources but these plans remain at a relatively early stage and their outcome cannot be determined with certainty at this stage. Further details are provided in note 4.2.

SHARE CAPITAL

Details of the authorised and issued share capital are set out in note 22. There were no changes in the share capital of the company during the year.

DIRECTORS

The Directors who served during the year, and appointments during the year, are as follows:

S Hargrave
N Bryson
P Earl
J Eyre
E Shaw
J West
M Cox (appointed 23.1.08)
R Sampson (appointed 25.1.08)

DIRECTORS' INTERESTS

The beneficial interests of the directors who served during the year in the share capital of the company at the year end were as stated below:

| | 30 September 2008 | 30 September 2007 |
|------------|-------------------|-------------------|
| S Hargrave | 5,370,370 | 5,370,370 |
| N Bryson | 50,000 | 50,000 |
| P Earl* | 10,010,000 | 5,010,000 |
| J Eyre | 1,250,000 | 1,250,000 |
| E Shaw | 1,250,000 | 1,250,000 |
| J West | 1,750,000 | 1,750,000 |

* includes 10,000 shares owned by Mrs E Earl

R Sampson has an indirect interest in the share capital of the company as a result of being a director and shareholder of Amandla Energy.

There have been no changes in the above shareholdings since the year end.

CORPORATE GOVERNANCE

The Group's policy on Corporate Governance is set out on pages 13 to 16.

POLICY AND PRACTICE ON PAYMENT OF SUPPLIERS

It is the policy of all Group companies, with respect to suppliers, to:

- determine payment terms when agreeing the terms of each transaction,
- ensure suppliers are made aware of the terms of payment, and
- pay in accordance with the contractual and legal obligations. The Company's average creditor payment period at 30 September 2008 was 40 days.

RISK MANAGEMENT POLICIES AND OBJECTIVES

The financial risk management policies and objectives are set out in note 27.

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union.

Company law in the United Kingdom 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 the Company and of the profit or loss of the Group and the Company for that period. In preparing these financial statements, the Directors are required to:

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

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

In so far as the Directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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

GROUP DIRECTORS' REPORT

AUDITORS

The auditors, Grant Thornton UK LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the annual general meeting ("AGM").

On behalf of the Board

S A Laker

Secretary

20 March 2009

CORPORATE GOVERNANCE STATEMENT

For the year ended 30 September 2008

INTRODUCTION

The Company is committed to applying high standards of corporate governance, integrity and business ethics to all activities. The Company is not required by the rules of the AIM market of the London Stock Exchange to comply with the Combined Code on Corporate Governance (June 2008) (“the Code”). However, the Board is accountable to the Company’s shareholders for good corporate governance and has therefore taken steps to aspire to compliance with the Code in so far as is practicable as a smaller company.

The Company’s primary listing is on the AIM market of the London Stock Exchange and as a result, the Group is exempt from complying with the requirements of the King Code of corporate governance in South Africa.

THE BOARD OF DIRECTORS

The Group supports the concept of an efficient and effective Board managing the Company in an entrepreneurial manner. The Board is responsible for approving the Company policy and strategy with regard to management structure and senior appointments, strategic or policy considerations, capital transactions, finance and general matters. It meets regularly and has a schedule of matters specifically reserved to it for decision which include raising new capital, entering into financing facilities for project, treasury policies and approval of annual operating budgets. The Board met nine times during 2007/2008. Management supplies the Board with appropriate and timely information that they consider necessary.

The current Board consists of four executive directors and four non-executive directors. Neil Bryson is the only non-executive director who is regarded under the Code as independent. Stephen Hargrave has significant shareholding in the Company, James West holds cross directorships with other directors through involvement in other companies and Rizelle Sampson has an indirect interest in the shares of the Company, all being circumstances which may appear to impact their independence. Neil Bryson has been appointed to all the committees of the Board and is regularly consulted at a senior level on business operations and strategy. The Chairman of the Board is Stephen Hargrave, who is also Chairman of two other companies and is a trustee of 3 registered charities. The Chief Executive Officer is Peter Earl.

All Directors are involved in significant decisions. The Chief Executive Officer, Peter Earl, leads the executive directors with particular regard to the protection and enhancement of shareholder value, project financing arrangements, government and public relations and dialogue with shareholders. Elizabeth

CORPORATE GOVERNANCE STATEMENT

Shaw has responsibility for the day to day operations of the Group, Michael Cox has responsibility for financial matters and Mike Eyre has responsibility for technical operations and engineering matters.

RELATIONS WITH SHAREHOLDERS

The Group values the views of its shareholders and recognises the interest on the Group's strategy and performance, Board membership and quality of management. It therefore holds regular meetings with its institutional shareholder to discuss objectives.

The AGM is used to communicate with private investors and they are encouraged to participate. The chairman of each of the Audit, Remuneration and Nominations Committees is available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a resolution to approve the annual report and accounts. The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with by a show of hands.

ACCOUNTABILITY AND AUDIT

The Board seeks to present a balanced and understandable assessment of the Group's position and prospects in all interim and price-sensitive reports, reports to regulators and the information required by statute.

The Audit Committee comprises James West, Stephen Hargrave and Neil Bryson, who are all non-executive directors. James West, who has recent and relevant financial experience, is the Chairman of the Audit Committee.

The terms of reference of the Audit Committee include keeping under review the scope and results of the external audit and its cost effectiveness. The Committee reviews the independence and objectivity of the external auditors. This includes reviewing the nature and extent of non-audit services supplied by the external auditors to the Group, seeking to balance objectivity and value for money.

INTERNAL CONTROL

The Board of Directors has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The risk management process and the systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the Group's objectives. It should be recognised that such systems can only provide reasonable and not absolute assurance against misstatement or loss.

CORPORATE GOVERNANCE STATEMENT

ASSESSMENT OF BUSINESS RISK

A system of business risk identification, assessment and evaluation is in place within the management process through the Group. Strategic risks are regularly reviewed by the Board. Risk relating to the key activities within the subsidiary operation units is assessed continuously by their respective boards of directors. Further details are set out in note 27.

CONTROL ENVIRONMENT

The Group's operating procedures include a comprehensive system for reporting financial and non-financial information to the Board including:

- preparation and review of annual budgets
- review of the business at each Board meeting, focusing on any new risks arising (for example key changes in the market).

CONTROL PROCEDURES

Detailed operational procedures have been developed to safeguard shareholders' investments and the Company's assets that embody key controls and these are reviewed annually by the Board. The implications of changes in law and regulations are taken into account within these procedures.

MONITORING PROCESS

There are clear procedures for monitoring the system of key controls. The significant components are a review by the Audit Committee of the processes for identifying and assessing risk and the effectiveness of controls. The Board has considered the need for an internal audit function but has decided that is not justified at present. However, it will keep the decision under review on at least an annual basis.

DIRECTOR'S REMUNERATION

The Board recognises that director's remuneration is of legitimate concern to the shareholders and it is committed to following current best practise. The particulars of the remuneration of the Directors are set out in note 31 and their interests in the shares of the Company are set out in the Directors' Report. The Remuneration Committee comprises Neil Bryson (Chairman) and Stephen Hargrave.

CORPORATE GOVERNANCE STATEMENT

APPOINTMENT OF DIRECTORS

The Nominations Committee meets to make recommendations to the Board on all new Board appointments and comprises Stephen Hargrave and Neil Bryson. The Board does not use an external consultancy in the appointment of Directors.

Susan Laker

Company Secretary

20 March 2009

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF IPSA GROUP PLC

We have audited the Group and parent company financial statements (the “financial statements”) of IPSA Group PLC for the year ended 30 September 2008 which comprise the principal accounting policies, the consolidated income statement, the consolidated and parent company statements of recognised income and expense, the consolidated and parent company balance sheets, the consolidated and parent company cash flow statements and notes thereto. 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 Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (“IFRSs”) as adopted for use in 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. The information given in the Directors’ Report includes that specific information presented in the Chairman’s statement and the Chief Executive’s review that is cross referenced from the principal activities and review of the business section of the Directors’ Report.

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 other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' report, the Chairman's statement, the Chief Executive's review of operations and the 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 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and company's circumstances, consistently applied and adequately disclosed.

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

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 September 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRS's 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 September 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985;
- the information given in the Directors' report is consistent with the financial statements.

EMPHASIS OF MATTER – GOING CONCERN BASIS OF PREPARATION

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 4.2 of the accounting policy note to the financial statements concerning the going concern basis of preparation of the Group and Company financial statements.

The directors have concluded that the combination of circumstances the Group faces represent a material uncertainty that casts significant doubt upon the Company and the Group's ability to continue as a going concern for the foreseeable future. The Directors have initiated a number of discussions and strategic plans to mitigate this uncertainty, although given that these discussions and strategic plans are at a relatively early stage their ultimate outcome cannot presently be determined with certainty. The Directors have a reasonable expectation that the discussions and strategic plans will reach a successful conclusion and that these will ensure that the Group and Company have adequate resources to continue in operational existence for the foreseeable future and will enable them to continue to adopt the going concern basis in preparing the financial statements.

The financial statements have been prepared on a going concern basis.

Grant Thornton UK LLP

Registered Auditors

Chartered Accountants

London

20 March 2009

CONSOLIDATED INCOME STATEMENT AND STATEMENTS OF RECOGNISED INCOME AND EXPENSE

For the year ended 30 September 2008

| | Notes | Year ended 30.9.08 £'000 | Year ended 30.9.07 £'000 |
|-----------------------------------------------------------------------------------------------------------|-----------|--------------------------------|--------------------------------|
| Consolidated income statement | | | |
| Revenue | 5 | 2,828 | 37 |
| Cost of sales | | (3,630) | (57) |
| Gross profit | | (802) | (20) |
| Administrative expenses | 7 | (1,421) | (922) |
| Other expense | 8 | (2,221) | (1,980) |
| Finance income | 9 | 33 | 72 |
| Finance expense | 10 | (40) | |
| Loss before tax | | (4,451) | (2,850) |
| Tax expense / credit | 11 | – | – |
| Loss for the year attributable to equity shareholders of the parent | 23 | (4,451) | (2,850) |
| Loss per share (basic, diluted and headline) | 13 | (4.97p) | (3.95p) |
| All of the Group's activities are continuing activities. | | | |
| Statements of recognised income and expense | | | |
| a) Group | | | |
| Exchange differences on translation of foreign operations | 23 | 96 | (99) |
| Loss for the year | 23 | (4,451) | (2,850) |
| Total recognised income and expense for the year attributable to equity shareholders of the parent | | (4,355) | (2,949) |
| b) Company | | | |
| Loss for the year | 23 | (1,598) | (48) |
| Total recognised income and expense for the year attributable to equity shareholders of the parent | | (1,598) | (48) |

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

CONSOLIDATED BALANCE SHEET

As at 30 September 2008

| | Notes | 30.9.08 £'000 | 30.9.07 £'000 |
|---------------------------------------------------------------------------|-------|------------------|------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 14 | 11,574 | 32,724 |
| Intangible assets | 15 | 750 | 833 |
| Deferred tax asset | 17 | – | – |
| | | 12,324 | 33,557 |
| Current assets | | | |
| Assets held for resale | 19 | 32,253 | – |
| Trade and other receivables | 20 | 1,454 | 1,092 |
| Cash and cash equivalents | 21 | 405 | 703 |
| | | 34,112 | 1,795 |
| Total assets | | 46,436 | 35,352 |
| Equity and liabilities | | | |
| Capital and reserves attributable to equity holders of the Company | | | |
| Share capital | 22 | 1,792 | 1,792 |
| Share premium account | 23 | 25,267 | 25,267 |
| Foreign currency reserve | 23 | (454) | (550) |
| Profit and loss reserve | 23 | (8,328) | (3,877) |
| Total equity | | 18,277 | 22,632 |
| Current liabilities | | | |
| Trade and other payables | 24 | 12,017 | 12,720 |
| Borrowings | 25 | 16,142 | – |
| | | 28,159 | 12,720 |
| Total equity and liabilities | | 46,436 | 35,352 |

The financial statements were approved by the Board on 20 March 2009.

P R S Earl
Director

E R Shaw
Director

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

COMPANY BALANCE SHEET

As at 30 September 2008

| | Notes | 30.9.08 £'000 | 30.9.07 £'000 |
|---------------------------------------------------------------------------|-------|------------------|------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 14 | – | 21,837 |
| Investments | 18 | 500 | 500 |
| Trade and other receivables | 16 | 3,239 | 2,339 |
| | | 3,739 | 24,676 |
| Current assets | | | |
| Assets held for resale | 19 | 32,253 | – |
| Trade and other receivables | 20 | 15,115 | 12,774 |
| Cash and cash equivalents | 21 | 348 | 530 |
| | | 47,716 | 13,304 |
| Total assets | | 51,455 | 37,980 |
| Equity and liabilities | | | |
| Capital and reserves attributable to equity holders of the Company | | | |
| Share capital | 22 | 1,792 | 1,792 |
| Share premium account | 23 | 25,267 | 25,267 |
| Profit and loss reserve | 23 | (1,755) | (157) |
| Total equity | | 25,304 | 26,902 |
| Current liabilities | | | |
| Trade and other payables | 24 | 10,028 | 11,078 |
| Borrowings | 25 | 16,123 | – |
| | | 26,151 | 11,078 |
| Total equity and liabilities | | 51,455 | 37,980 |

The financial statements were approved by the Board on 20 March 2009.

P R S Earl
Director

E R Shaw
Director

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 September 2008

| | Notes | Year ended 30.9.08 £'000 | Year ended 30.9.07 £'000 |
|----------------------------------------------------------------------------|-------|--------------------------------|--------------------------------|
| Net cash (outflow)/inflow from operating activities before interest | 26 | (4,357) | 7,907 |
| Interest received | | 33 | 72 |
| Interest paid | | (40) | – |
| Net cash (outflow)/inflow from operating activities | | (4,364) | 7,979 |
| Cash flows from investing activities | | | |
| Additions to plant and equipment | | (1,660) | (27,128) |
| Additions to plant under construction | | (10,416) | – |
| Cash used in investing activities | | (12,076) | (27,128) |
| Cash flows from financing activities | | | |
| Issue of shares (net of costs) | | – | 19,326 |
| Bank loans | | 15,000 | – |
| Other loans | | 1,142 | – |
| Cash inflow from financing activities | | 16,142 | 19,326 |
| (Decrease)/increase in cash and cash equivalents | | (298) | 177 |
| Reconciliation and analysis of change in net funds | | | |
| (Decrease)/increase in cash during year | | (298) | 177 |
| Cash and cash equivalents at start of year | | 703 | 526 |
| Cash and cash equivalents at end of year | 21 | 405 | 703 |

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

COMPANY CASH FLOW STATEMENT

For the year ended 31 December 2008

| | Notes | Year ended 30.9.08 £'000 | Year ended 30.9.07 £'000 |
|----------------------------------------------------------------------------|-------|--------------------------------|--------------------------------|
| Net cash (outflow)/inflow from operating activities before interest | 26 | (4,159) | 10,267 |
| Interest received | | 32 | 69 |
| Interest paid | | (40) | – |
| Net cash (outflow)/inflow from operating activities | | (4,167) | 10,336 |
| Cash flows from investing activities | | | |
| Additions to plant under construction | | (10,416) | (21,837) |
| Short term loan to subsidiary | | (1,722) | (7,786) |
| | | (12,138) | (29,623) |
| Cash flows from financing activities | | | |
| Issue of shares (net of costs) | | – | 19,326 |
| Bank loans | | 15,000 | – |
| Other loans | | 1,123 | – |
| Net cash inflow from financing activities | | 16,123 | 19,326 |
| (Decrease)/increase in cash and cash equivalents | | (182) | 39 |
| Reconciliation and analysis of change in net funds | | | |
| (Decrease)/increase in cash during year | | (182) | 39 |
| Cash and cash equivalents at start of year | | 530 | 491 |
| Cash and cash equivalents at end of year | 21 | 348 | 530 |

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

1. PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

IPSA Group PLC and its subsidiaries' ("Group") principal activity is the construction, development and operation of electricity generation assets and the supply of electricity to the wholesale market and major end-users.

During the year under review, the Group's operating activities included the generation and sale of electricity and steam by the Group's gas fired plant in Newcastle, Republic of South Africa and the refurbishment of 4 gas turbines which were originally acquired for the Industrial Development Zone at Coega near Durban.

2. GENERAL INFORMATION

IPSA Group PLC is the Group's ultimate parent company. It is incorporated and domiciled in England and Wales. The address of IPSA Group PLC's registered office is given on the information page, page 2. IPSA Group PLC's shares are traded on the AIM market of the London Stock Exchange and, since October 2006, the shares have had a dual listing on Alt^x. The AGM will be held on 30 April at 10 a.m. in the Company's registered office.

3. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 30 September 2008 were approved by the Board of directors on 20 March 2009.

4. SUMMARY OF ACCOUNTING POLICIES

4.1 Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable International Financial Reporting Standards ("IFRS") as adopted by the European Union. The measurement bases and principal accounting policies of the Group are set out below.

4.2 Going concern

As set out in the Chairman's report and the Chief Executive's review, the directors have decided to sell the 4 steam turbines (note 19). The Company commenced discussions with potential purchasers in October and remains in negotiations and whilst there can be no certainty that a sale will be concluded, the directors have a reasonable expectation that a sale will be achieved at a price significantly above their carrying value.

The turbines provide the security for the bank loan (note 25) which is due for repayment on 30 September 2009. In the event that it becomes likely that a sale

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

is not achievable by that date, the Company will either seek to obtain an extension to the facility, or seek to obtain alternative finance failing which the directors may be obliged to sell one or more of the turbines at a price below that which is believed to be in the best interest of shareholders.

The directors are also pursuing alternative sources of funding which, if obtained, would be secured on the plant owned by the Group's wholly owned subsidiary in South Africa. This asset is currently unencumbered. However, as set out in the Chairman's report and the Chief Executive's review, the delay in obtaining a long term Power Purchase Agreement ("PPA") and the current economic environment has, to date, resulted in lenders being unwilling to provide finance against the plant. The directors remain confident that Newcastle Cogeneration (Pty.) Ltd will be awarded a PPA on terms which enable the plant to operate profitably following which the directors expect that the Group will be able to raise funds on the plant.

Since the year-end, the Group has obtained short term finance to meet its day-to-day working capital requirements from Independent Power Corporation PLC, a related party (see note 30). The directors have received indications that additional funding from this source may be available.

The directors have concluded that the combination of these circumstances represents a material uncertainty that casts significant doubt upon the Group's and the Company's ability to continue as a going concern for the foreseeable future. Nevertheless, after making enquiries and considering the uncertainties described above, the directors have a reasonable expectation that the Group and the Company does and will continue to have adequate resources to continue in operational existence for the foreseeable future provided one or more of the turbines is sold and/or the Newcastle plant is refinanced after the award of an appropriate PPA. For these reasons, the directors continue to adopt the going concern basis in preparing these financial statements.

4.3 Basis of consolidation

The Group financial statements consolidate those of the Company and its subsidiary undertakings drawn up to 30 September 2008.

Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Joint ventures are arrangements in which the Group has a long-term interest and shares control under a written contractual agreement. The Group reports

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

its interest in jointly controlled entities using proportionate consolidation such that the Group's share of the assets, liabilities, income and expenses are combined with the equivalent items in the consolidated financial statements on a line by line basis.

Unrealised gains on transactions between the Group and subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiary entities have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the acquired company, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the acquired entity are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies.

4.4 Intangible assets acquired as part of a business combination

In accordance with IFRS 3: Business Combinations, an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date. The fair value of an intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group. Where an intangible asset might be separable, but only together with a related tangible or intangible asset, the group of assets is recognised as a single asset separately from the goodwill where the individual fair values of the assets in the group are not reliably measured. Where the individual fair value of the complementary assets is reliably measurable, the Group recognises them as a single asset, provided the individual assets have similar lives. Subsequent to initial recognition, intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided to write-off the cost of the intangible asset over its useful economic life.

4.5 Impairment of property, plant, equipment and intangible assets

At each balance sheet date, the Group reviews the carrying amount of its 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 of the impairment loss (if any). Where it is not possible to estimate the recoverable

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

4.6 Foreign currency translation

The financial information is presented in pounds sterling, which is also the functional currency of the parent company.

In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of remaining balances at year-end exchange rates are recognised in the income statement under "other income" or "other expenses", respectively.

In the consolidated financial statements, all separate financial statements of subsidiary entities, originally presented in a currency different from the Group's presentation currency, have been converted into sterling. Monetary assets and liabilities have been translated into sterling at the closing rate at the balance sheet date. Income and expenses have been converted into sterling at the average rates over the reporting period. Any differences arising from this

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

procedure have been charged/(credited) through the statement of recognised income and expenditure to the Foreign Currency Reserve.

4.7 Income and expense recognition

Revenue from the sale of goods and services is recognised when i) the Group has transferred to the buyer the significant risks and rewards of ownership of the goods and services which is when supply has been made, ii) the amount of revenue can be reliably measured and iii) the costs incurred or to be incurred in respect of the transaction can be measured reliably. In the year to 30 September 2007 the Group's revenue was negligible as the plant was not commissioned until the end of that year. In the year to 30 September 2008, revenues represent sales of Steam (which commenced at the end of September 2007) and the sale of electricity which commenced initially in October 2007 but did not start commercial production until February 2008.

Operating expenses are recognised in the income statement upon utilisation of the service or at the date of their origin. All other income and expenses are reported on an accrual basis.

4.8 Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. No depreciation is charged during the period of construction.

All operational plant and equipment in the course of construction is recorded as plant under construction until such time as it is brought into use by the Group. Plant under construction includes all direct expenditure. On completion, such assets are transferred to the appropriate asset category.

Depreciation is calculated to write down the cost or valuation less estimated residual value of all property, plant and equipment other than freehold land by equal annual instalments over their estimated useful economic lives. The periods generally applicable are:

Plant and equipment: 3 to 15 years

The depreciation charged in the year to 30 September 2007 was minimal since it was not until shortly before that year end that the plant became operational. Material residual values are updated as required, but at least annually, whether or not the asset is revalued. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

4.9 Assets held for resale

Assets are categorised as assets held for resale when the directors intend that the asset be sold rather than employed as an operating asset. Assets held for resale are valued at lower of cost and fair value less costs to sell.

4.10 Borrowing costs

All borrowing costs, and directly attributable borrowing costs, are expensed as incurred except where the costs are directly attributable to specific construction projects, in which case the costs are capitalised as part of those assets.

4.11 Taxation

Current income tax assets and liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the period. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement or through the statement of recognised income and expense.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts.

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

Deferred income tax is provided on temporary differences arising in investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

4.12 Financial assets

The Group's financial assets include cash and cash equivalents, trade and other receivables.

Cash and cash equivalents include cash at bank and in hand as well as short term highly liquid investments such as bank deposits.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

Receivables are non-derivative financial assets with fixed or determinable payment dates that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Receivables are measured initially at fair value and subsequently re-measured at amortised cost using the effective interest method, less provision for impairment. Any impairment is recognised in the income statement.

Trade receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated cash flows.

4.13 Financial liabilities

Financial liabilities are obligations to pay cash or other financial instruments and are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in "finance expense" in the income statement except to the extent that the costs are directly attributable to specific construction projects. Bank and other loans are raised for support of long term funding of the Group's operations. They are recognised initially at fair value, net of transaction costs. In subsequent periods, they are stated at amortised cost using the effective interest method. Finance charges, including premiums payable on settlement or redemption, and direct issue costs are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

4.14 Hedging instruments

The Group has not entered into any derivative financial instruments for hedging or for any other purpose.

4.15 Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Foreign currency reserve" represents the differences arising from translation of investments in overseas subsidiaries.
- "Profit and loss reserve" represents retained earnings.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

4.16 Investment in subsidiary undertakings

The company's investments in subsidiary undertakings are stated at cost less any provision for impairment.

4.17 Amounts due from subsidiaries

Amounts due from subsidiaries are stated at their original value less any provision for impairment.

4.18 Pensions

During the year under review, the Group did not operate or contribute to any pension schemes.

4.19 Key assumptions and estimates

The Group makes estimates and assumptions concerning the future. The resulting estimates will, by definition, seldom equal the related actual results. The Board has considered the critical accounting estimates and assumptions used in the financial statements and concluded that the main area of significant risk which may cause material adjustment to the carrying value of assets and liabilities within the next financial year is in respect of the assumptions used to value intangible and tangible fixed assets. The Board has valued intangible assets, property plant and equipment and assets held for re-sale at cost. In view of the nature of these assets, changes in technology, prices or industry practices may result in the assumptions used in these valuations needing to be changed.

As set out in note 4.2, the financial statements have been prepared on a going concern basis.

4.20 Accounting standards and interpretations not yet applied

The Group has not applied any new standards or interpretations issued by the IASB and endorsed by the EU where the effective date is for accounting periods commencing after 1 October 2007.

The application of such standards is not anticipated to have a material impact on the Group's or the Company's financial statements.

There follows a list of standards and interpretations in issue but not effective for accounting periods commencing on 1 October 2007.

IAS 1 Presentation of Financial Statements (revised 2007) (effective 1 January 2009)

IAS 23 Borrowing Costs (revised 2007) (effective 1 January 2009)

Amendment to IAS 32 Financial Instruments: Presentation and IAS 1

Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective 1 January 2009)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective 1 July 2009)
 Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (effective 1 January 2009)
 Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – Costs of Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective 1 January 2009)
 Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective 1 July 2009)
 Improvements to IFRSs (effective 1 January 2009 other than certain amendments effective 1 July 2009)
 IFRS 3 Business Combinations (Revised 2008) (effective 1 July 2009)
 IFRS 8 Operating Segments (effective 1 January 2009)
 IFRIC 12 Service Concession Arrangements (effective 1 January 2008)
 IFRIC 13 Customer Loyalty Programmes (effective 1 July 2008)
 IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008)
 IFRIC 15 Agreements for the Construction of Real Estate (effective 1 January 2009)
 IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008)
 IFRIC 17 Distributions of Non-cash Assets to Owners (effective 1 July 2009)

5. SEGMENT ANALYSIS

The following table provides a segmental analysis by geographic region. At present, there is only one geographic and business segment.

Activities in RSA relate to Newcastle Cogeneration (Pty.) Ltd and activities in UK relate to IPSA Group PLC and Blazeway Engineering Ltd.

| | RSA | UK | Intra-Group eliminations | Total |
|---------------------------------|---------|---------|-----------------------------|---------|
| i) Year ended 30 September 2008 | £'000 | £'000 | £'000 | £'000 |
| Revenue | 2,828 | – | – | 2,828 |
| Cost of sales | (3,630) | – | – | (3,630) |
| Administrative expenses | (498) | (923) | – | (1,421) |
| Other expense | (654) | (1,567) | – | (2,221) |
| Net finance income/(expense) | 1 | (8) | – | (7) |
| Loss for the year | (1,953) | (2,498) | – | (4,451) |
| At 30 September 2008 | | | | |
| Total assets | 13,180 | 47,736 | (14,480) | 46,436 |
| Total liabilities | 16,488 | 26,151 | (14,480) | 28,159 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

| ii) Year ended 30 September 2007 | RSA £'000 | UK £'000 | Intra-Group eliminations £'000 | Total £'000 |
|----------------------------------|--------------|-------------|--------------------------------------|----------------|
| Revenue | 37 | – | – | 37 |
| Cost of sales | (57) | – | – | (57) |
| Administrative expenses | (260) | (662) | – | (922) |
| Other income / expense | (2,016) | 36 | (1,980) | |
| Finance income | 4 | 578 | (510) | 72 |
| Loss for the year | (2,292) | (48) | (510) | (2,850) |
| At 30 September 2007 | | | | |
| Total assets | 12,846 | 35,244 | (12,738) | 35,352 |
| Total liabilities | 14,380 | 11,078 | (12,738) | 12,720 |

6. SENSITIVITY ANALYSIS

The value of shareholder equity and the results for the Group are affected by changes in exchange rates, prices for electricity, steam and gas and interest rates. The following illustrates the effects of changes in these variables.

- Sensitivity to exchange rates

The Group's electricity generating assets, which also provide steam to industrial customers, are located in South Africa and therefore the £ value of the revenues and costs from this activity are affected by movements in the value of the £ versus the ZAR.

The parent company has provided 100% of the funding for the construction of the plant. The loans are denominated in £ and therefore the ZAR value of the loans is affected by movements in the value of the ZAR versus £.

The parent company acquired, in 2007, 4 second hand gas turbines from an Italian manufacturer and during the current year, the manufacturer was engaged in refurbishing these turbines. The price of these turbines and the refurbishment was denominated in € and therefore the £ cost of the turbines is affected by movements in the value of £ versus the €.

The exchange rates applicable to the results for the current and prior year were as follows:

| | Year to 30.09.08 | Year to 30.09.07 |
|------------------|---------------------|---------------------|
| i) Closing rate | | |
| ZAR to £ | 14.90 | 14.17 |
| € to £ | 1.26 | 1.44 |
| ii) Average rate | | |
| £ to ZAR | 14.74 | 14.19 |
| £ to € | 1.31 | 1.48 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

a) The effect of closing exchange rates at the year end is summarised below:

i) ZAR vs. £

If the closing rate of the ZAR relative to £ at 30 September 2008 had been stronger or weaker by 10% with all other variables held constant, shareholder equity would have been £1.1m higher (2007 – £1.35m) higher or lower than reported and the loss for the year would have been £1.46m (2007 – £1.29m) lower or higher than the loss reported.

ii) € vs. £

If the closing rate of the € relative to £ at 30 September 2008 has been stronger or weaker by 10% with all other variables held constant, shareholder equity would have been £950k (2007 – £1.1m) lower or higher than reported.

b) The effect of average exchange rates during the year is estimated to be:

i) ZAR vs. £

If the average rate of the ZAR relative to £ during the year to 30 September 2008 had been stronger or weaker by 10% with all other variables held constant, the loss for the year would have been £126k (2007 – £294k) higher or lower than the loss reported.

ii) € vs. £

The effect of the € on the Group results arose from the € liabilities due to the manufacturer of the 4 turbines. During the year to 30 September 2008, the amount of € liability settled was €15.7m (2007 – £nil). If the rate of the € vs. £ at the date of settlement had been 10% lower or higher, the loss for the year would have been £1.26m lower or higher than the reported loss.

• Sensitivity to price changes in electricity and steam revenues and gas purchases

The results of the Group are affected by the price that electricity and steam is sold at and by the price paid for the gas which is used by the turbines. The following table illustrates the effect on the results for the year and shareholder equity at the year end of a 10% increase or decrease in these prices:

| | Year to 30.09.08 | Year to 30.09.07 |
|------------------------------|---------------------|---------------------|
| Selling price of electricity | 116 | – |
| Selling price of steam | 167 | 4 |
| Purchase price of gas | 287 | 230 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

- Sensitivity to interest rates

The majority of the Group's funding has been provided by share capital. During the year, the Group agreed a £15m bank loan to assist in the funding of the 4 turbines. The interest on the £15m loan is being added to the cost of the turbines and as a result there is no impact of the Group's income statement from changes in interest rates on this loan.

The additional or lesser amount that would have been added to/deducted from the carrying value of the 4 turbines at 30 September 2008 if interest rates had been 10% higher or lower is £62k (2007 – nil).

The Group also has short term loans. A 10% change in the interest rate applied to these loans would have changed the interest expense for the year by £4k (2007 – £nil).

7. ADMINISTRATIVE EXPENSES

| | Year ended 30.09.08 £'000 | Year ended 30.09.07 £'000 |
|----------------------------------------------------------------|---------------------------------|---------------------------------|
| Expenditure incurred in administrative expenses is as follows: | | |
| Payroll and social security | 728 | 466 |
| Other administrative expenses | 693 | 456 |
| Total | 1,421 | 922 |

Audit fees for the Group amounted to £31,614 (2007 – £36,000). Fees payable to Grant Thornton UK LLP in respect of advisory services amounted to £nil (2007 – £21,079). The advisory services in 2007 related to the Group's listing on the Alt^x market in South Africa and were charged to the share premium account.

8. OTHER EXPENSE

| | Year ended 30.09.08 £'000 | Year ended 30.09.07 £'000 |
|--------------------------------------------------|---------------------------------|---------------------------------|
| Fees associated with listing on Alt ^x | – | (55) |
| Excess commissioning costs (a) | – | (2,308) |
| Foreign exchange (losses)/gains (b) | (2,221) | 383 |
| | (2,221) | (1,980) |

a) Excess commissioning costs represents payments made and an accrual for payments due to 30 September 2007 under a gas supply contract. Under the terms of the contract, which expires in June 2011, Newcastle Cogeneration (Pty.) Ltd is required to purchase minimum quantities of gas in each 12 month period ending on 30 June. During the first 15 months of the contract, to 30 September

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

2007, Newcastle Cogeneration (Pty.) Ltd was unable to purchase and use the required minimum quantities as a result of delays in obtaining the requisite licences to supply electricity into the national grid in South Africa. It is not anticipated that any further shortfalls will arise during the remaining period of the contract.

b) Foreign exchange losses have arisen as a result of i) £ denominated loans by the parent company to Newcastle Cogeneration (Pty.) Ltd being converted into ZAR at the exchange rate ruling at the balance sheet date as compared to the exchange rates ruling at the date of the individual transactions (2008 – £654,000 loss, 2007 – £383,000 gain) and ii) weakness of the £ vs. the € on the € denominated deferred consideration which was paid during the current year for the plant acquired for the Coega project (£1,567,000).

9. FINANCE INCOME

| | Year ended 30.09.08 £'000 | Year ended 30.09.07 £'000 |
|------------------------------------|---------------------------------|---------------------------------|
| Interest received on bank deposits | 33 | 72 |

10 FINANCE EXPENSE

| | Year ended 30.09.08 £'000 | Year ended 30.09.07 £'000 |
|-----------------------------|---------------------------------|---------------------------------|
| Bank interest (see note 25) | 2 | – |
| Loan interest (see note 25) | 38 | – |
| | 40 | – |

11. TAX EXPENSE/CREDIT

No UK corporation tax or foreign tax is payable on the results of the Group. The relationship between the expected tax credit and the tax credit actually recognised is as follows:

| | Year ended 30.09.08 £'000 | Year ended 30.09.07 £'000 |
|--------------------------------------------------------------|---------------------------------|---------------------------------|
| Loss for the year before tax | (4,451) | (2,850) |
| Standard rate of corporation tax in UK | 28% | 30% |
| Expected tax credit | 1,246 | 855 |
| Tax effect of consolidation adjustments and rate differences | 277 | (185) |
| Tax losses carried forward | 1,523 | 670 |

No deferred tax asset has been recognised at the balance sheet date due to uncertainty as to the timing of the expected utilisation of the tax losses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

12. LOSS ATTRIBUTABLE TO THE PARENT COMPANY

The loss attributable to the parent company, IPSA Group PLC, was £1,598,000 (12 months to 30.9.07 – £48,000 loss). As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the parent company. The parent company loss in the year to 30 September 2008 includes exchange losses of £1,567,000 (2007 – nil) – see note 8 above.

13. LOSS PER SHARE

The loss per share is calculated by dividing the loss for the period attributable to shareholders by the weighted average number of shares in issue during the year.

| | Year ended 30.09.08 £'000 | Year ended 30.09.07 £'000 |
|----------------------------------------------------|---------------------------------|---------------------------------|
| Loss attributable to equity holders of the company | £4,451,409 | £2,849,856 |
| Average shares in issue during the year | 89,564,081 | 72,216,664 |
| Basic, diluted and headline loss per share | (4.97p) | (3.95p) |

14. PROPERTY, PLANT AND EQUIPMENT

| | Plant and equipment £'000 | Plant under construction £'000 | Total £'000 |
|--------------------------------------------|---------------------------------|--------------------------------------|----------------|
| a) Group | | | |
| Cost | | | |
| Cost at 30 September 2006 | – | 5,603 | 5,603 |
| Additions in year to 30.9.07 | 27,128 | 27,128 | |
| Classification transfers | 10,894 | (10,894) | – |
| Cost at 30 September 2007 | 10,894 | 21,837 | 32,731 |
| Additions in year to 30.9.08 | 1,660 | 10,416 | 12,076 |
| Exchange adjustment | (566) | – | (566) |
| Transfer to 'Assets held for resale' | – | (32,253) | (32,253) |
| Cost at 30 September 2008 | 11,988 | – | 11,988 |
| Depreciation | | | |
| Depreciation at 30 September 2006 | – | 2 | 2 |
| Classification transfer | 2 | (2) | – |
| Charge for the year to 30.9.07 | 5 | – | 5 |
| Depreciation at 30 September 2007 | 7 | – | 7 |
| Exchange adjustments | (5) | – | (5) |
| Charge for the year to 30.9.08 | 412 | – | 412 |
| Depreciation at 30 September 2008 | 414 | – | 414 |
| Net book value at 30 September 2008 | 11,574 | – | 11,574 |
| Net book value at 30 September 2007 | 10,887 | 21,837 | 32,724 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

| | Plant and equipment £'000 | Plant under construction £'000 | Total £'000 |
|------------------------------------------------------------------------------|---------------------------------|--------------------------------------|----------------|
| b) Company | | | |
| Cost | | | |
| Cost at 30 September 2006 | – | – | – |
| Additions in the year to 30.9.07 | – | 21,837 | 21,837 |
| Cost at 30 September 2007 | – | 21,837 | 21,837 |
| Additions in year to 30.9.08 | – | 10,416 | 10,416 |
| Transfer to 'Assets held for resale' | – | (32,253) | (32,253) |
| Balance at 30 September 2008 | – | – | – |
| Depreciation – no depreciation has been charged on plant under construction. | | | |
| Depreciation at 30 September 2006 | – | – | – |
| Charge for the year to 30.9.07 | – | – | – |
| Depreciation at 30 September 2007 | – | – | – |
| Net book value at 30 September 2008 | – | – | – |
| Net book value at 30 September 2007 | – | 21,837 | 21,837 |

Property, plant and equipment has been valued at cost. No depreciation is charged until plant becomes operational. At 30 September 2007, plant under construction represents 4 Siemens Tornado turbines which were acquired by the Company for use in the planned Coega Basin project in South Africa. During the current year, the refurbishment work on these turbines was completed but as a result of delays to the Coega project, the assets have been made available for immediate sale. Additions during the year amounting to £10.4m include £618k of directly attributable borrowing costs. At 30 September 2006, plant under construction comprised the turbine which is now in use in Newcastle. This equipment was brought into initial production in September 2007 with the generation of steam. Initial electricity generation from this plant commenced in October 2007 though commercial generation did not begin until February 2008.

15. INTANGIBLE ASSETS

| | 30.09.08 £'000 | 30.09.07 £'000 |
|------------------------------|-------------------|-------------------|
| At beginning of year | 833 | 833 |
| Amortisation during the year | (83) | – |
| Cost at end of year | 750 | 833 |

The intangible asset represents the directors' estimate of the fair value of a contract, owned by Newcastle Cogeneration (Pty.) Ltd at the date of acquisition, to supply steam from the electricity generating plant. Amortisation over the life of the contract commenced in October 2007. The directors estimate that the expected life of the contract will be between 10 and 15 years. The amount of

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

amortisation, which has been included within 'administrative expenses' in the consolidated income statement, is based on 10% per annum straight line charge.

16. TRADE AND OTHER RECEIVABLES DUE IN MORE THAN 1 YEAR

| | 30.09.08 £'000 | 30.09.07 £'000 |
|----------------------------|-------------------|-------------------|
| a) Group | – | – |
| b) Company | | |
| Amount due from subsidiary | 3,239 | 2,339 |

The amount due from subsidiary is an interest free loan.

17. DEFERRED TAX ASSET

| | 30.09.08 £'000 | 30.09.07 £'000 |
|---------------------------------------------|-------------------|-------------------|
| a) Group | | |
| Asset recognised in respect of tax losses | – | – |
| Unrecognised asset in respect of tax losses | 2,434 | 1,045 |
| b) Company | | |
| Asset recognised in respect of tax losses | – | – |
| Unrecognised asset in respect of tax losses | 796 | 47 |

In view of the uncertainty over the timing of the utilisation of the tax losses, the Directors consider that it would be inappropriate to recognise the potential deferred tax asset at this early stage in the development of the Group.

18. INVESTMENTS

| | 30.09.08 £'000 | 30.09.07 £'000 |
|-------------------------------------|-------------------|-------------------|
| Investment in subsidiary company | 500 | 500 |
| Investment in joint venture company | – | – |
| | 500 | 500 |

a) Investment in subsidiary company

The Company owns 100% of the issued share capital of Blazeway Engineering Ltd (a company incorporated in England and Wales). The investment has been valued at cost. Blazeway Engineering Ltd owns 100% of Newcastle Cogeneration (Pty.) Ltd (a company incorporated in the Republic of South Africa).

b) Investment in joint venture company

On 11 October 2007, Elitheni Clean Coal Holdings Ltd ("ECCH") was incorporated under the British Virgin Islands Companies Act 2004 (company number 1437070) as a wholly owned subsidiary of the Company. On

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

28 November 2007, the Company sold 50% of its interest in ECCH to Exodus Elitheni Holdings LLC (“EEH”) on terms such that the Company is due to receive \$5m from EEH when ECCH secures funding for a coal mine mouth electricity plant. At 30 September 2008, ECCH had not obtained the necessary funding and accordingly the agreement to receive \$5m has lapsed. Under the terms of the agreement, the Company now has the option to repurchase the 50% shareholding at nil cost. Since the project has not commenced, the investment is being carried at cost (\$100).

19. ASSETS HELD FOR RESALE

| | 30.09.08 | 30.09.07 |
|-----------------------------------------------------------------|----------|----------|
| | £'000 | £'000 |
| Balance at 30 September 2007 | – | – |
| Steam turbines (transferred from property, plant and equipment) | 32,253 | – |
| Balance at 30 September 2008 | 32,253 | – |

These assets comprise 4 steam turbines which were acquired in 2007 for the Coega project at a cost of £21,837,000. During the current year, the manufacturer refurbished the turbines at a cost of £9.8m and £618,000 was added to the cost in respect of interest on a £15m bank loan which was used to partly finance the purchase and is secured by a first charge on the assets. The turbines were initially classified as ‘plant under construction’. Following the completion of their refurbishment and the decision to sell the turbines, the asset has been reclassified as ‘assets held for resale’.

As set out in the Chairman’s statement, there have been delays in the timetable for the Coega project and as a result, the Board has decided to sell these assets.

The directors consider, on the basis of professional valuations, that the fair value, based on ‘open market value’ is in excess of the carrying value. ‘Open market value’ assumes willing buyer and willing seller.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

20. TRADE AND OTHER RECEIVABLES DUE IN LESS THAN 1 YEAR

| | 30.09.08 | 30.09.07 |
|-----------------------------|---------------|---------------|
| | £'000 | £'000 |
| a) Group | | |
| Trade receivables | 1,370 | – |
| Prepaid taxes | – | 325 |
| Other prepayments | 84 | 767 |
| | 1,454 | 1,092 |
| b) Company | | |
| Trade receivables | 588 | – |
| Pre-paid taxes | – | 18 |
| Other prepayments | 66 | 17 |
| Amounts due from subsidiary | 14,461 | 12,739 |
| | 15,115 | 12,774 |

There is a high concentration of credit risk as the trade receivables relate to three companies. At the balance sheet date, no trade receivable were overdue. Amounts due from subsidiary represent short term finance to Newcastle Cogeneration (Pty.) Ltd in order to provide funding for the development of the plant in Newcastle. Interest in the year to 30 September 2007 was applied to the balance outstanding at 6.5% per annum. Interest during the year to 30 September 2008 was waived due to the delay in commissioning the plant. It is the intention of the directors to arrange for the repayment of this loan during the next 12 months subject to the availability of external finance.

21. CASH AND CASH EQUIVALENTS

| | 30.09.08 | 30.09.07 |
|---------------------------------------------|------------|------------|
| | £'000 | £'000 |
| a) Group | | |
| Cash at bank and in hand | 54 | 35 |
| Short term bank deposits | 15 | 668 |
| Short term bank deposits held as collateral | 336 | – |
| | 405 | 703 |
| b) Company | | |
| Cash at bank and in hand | 12 | 28 |
| Short term bank deposits | – | 502 |
| Short term bank deposits held as collateral | 336 | – |
| | 348 | 530 |

The deposits held as collateral have been provided as security for gas purchases by Newcastle Cogeneration (Pty.) Ltd.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

22. SHARE CAPITAL

| | 30.09.08 £'000 | 30.09.07 £'000 |
|-------------------------------------------------------------------|-------------------|-------------------|
| a) Authorised | | |
| 150,000,000 ordinary shares of 2p each | 3,000 | 3,000 |
| b) Allotted, called-up and fully paid | | |
| 89,564,081 ordinary shares of 2p each | 1,792 | 1,792 |
| c) Reconciliation of movement in share capital | Number | £ |
| At 30 September 2006 | 54,629,630 | 1,092,593 |
| Allotment in October 2006 on listing on Alt ^x Exchange | 11,499,839 | 229,997 |
| at ZAR 5.84 (40p) per share | | |
| Allotment in March 2007 | 7,500,000 | 150,000 |
| at ZAR 10.67 (75p) per share | | |
| Allotment in March 2007 | 2,500,000 | 50,000 |
| at 75p per share | | |
| Allotment in September 2007 | 13,434,612 | 268,692 |
| at ZAR 8.85 (61p) per share | | |
| At 30 September 2007 and 2008 | 89,564,081 | 1,791,282 |

The difference between the total consideration, less related costs, arising from shares issued and the nominal value of the shares issued has been credited to the share premium account (note 23).

23. STATEMENT OF CHANGES IN TOTAL EQUITY

| | Share capital £'000 | Share premium £'000 | Foreign currency reserve £'000 | Profit and loss reserve £'000 | Total £'000 |
|---------------------------------------------------|---------------------------|---------------------------|-----------------------------------------|----------------------------------------|----------------|
| a) Group | | | | | |
| Balance at 30 September 2006 | 1,093 | 6,640 | (451) | (1,027) | 6,255 |
| Allotment – October '06 | 230 | 3,575 | – | – | 3,805 |
| Allotment – March '07 | 200 | 7,273 | – | – | 7,473 |
| Allotment – September '07 | 269 | 7,779 | – | – | 8,048 |
| Effect of foreign exchange translation adjustment | – | – | (99) | – | (99) |
| Loss for the year | – | – | – | (2,850) | (2,850) |
| Balance at 30 September 2007 | 1,792 | 25,267 | (550) | (3,877) | 22,632 |
| Effect of foreign exchange translation adjustment | – | – | 96 | – | 96 |
| Loss for the year | – | – | – | (4,451) | (4,451) |
| Balance at 30 September 2008 | 1,792 | 25,267 | (454) | (8,328) | 18,277 |
| b) Company | | | | | |
| Balance at 30 September 2006 | 1,093 | 6,640 | – | (109) | 7,624 |
| Allotment – October '06 | 230 | 3,575 | – | – | 3,805 |
| Allotment – March '07 | 200 | 7,273 | – | – | 7,473 |
| Allotment – September '07 | 269 | 7,779 | – | – | 8,048 |
| Loss for the year | – | – | – | (48) | (48) |
| Balance at 30 September 2007 | 1,792 | 25,267 | – | (157) | 26,902 |
| Loss for the year | – | – | – | (1,598) | (1,598) |
| Balance at 30 September 2008 | 1,792 | 25,267 | – | (1,755) | 25,304 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

24. TRADE AND OTHER PAYABLES

| | 30.09.08 £'000 | 30.09.07 £'000 |
|----------------|-------------------|-------------------|
| a) Group | | |
| Trade payables | 11,108 | 979 |
| Other payables | 909 | 11,741 |
| | 12,017 | 12,720 |
| b) Company | | |
| Trade payables | 9,553 | 131 |
| Other payables | 475 | 10,947 |
| | 10,028 | 11,078 |

Trade payables at 30 September 2008 includes an amount of €11.8m/£9.35m in respect of the refurbishment work which has been completed on the 4 turbines acquired for the Coega project which, as noted in the Chairman's statement, the directors now intend to sell and replace. The sum of €11.8m is not payable until the turbines are either sold or commissioned. Interest at Euribor plus 1% per annum is due on this balance since September 2008.

Other payables at 30 September 2007 included an amount of €15.6m (£10.9m) which fell due on 31 March 2008, being the final instalment payment due on the 4 turbines acquired during 2007 for the proposed Coega project.

25. BORROWINGS

| | 30.09.08 £'000 | 30.09.07 £'000 |
|-------------|-------------------|-------------------|
| a) Group | | |
| Bank loans | 15,000 | – |
| Other loans | 1,142 | – |
| | 16,142 | – |
| b) Company | | |
| Bank loans | 15,000 | – |
| Other loans | 1,123 | – |
| | 16,123 | – |

Bank loans comprise a fully drawn facility of £15m which is repayable on 30 September 2009. Interest is calculated on 3 month LIBOR plus a margin of 2.25%. The interest rate applicable at 30 September 2008 was 8.5575%. Interest charged during the year amounted to £618,000. This interest has been added to the cost of Assets held for resale. The loan is secured by a first charge on the 4 turbines.

Other loans comprise short term loans which are repayable on demand. The loans bear interest at 8% per annum. Interest charged during the year amounted to £38,000.

All borrowings are denominated in sterling.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

26. RECONCILIATION OF LOSS BEFORE TAX TO CASH OUTFLOW FROM OPERATIONS

| | 30.09.08 | 30.09.07 |
|------------------------------------------------------------|----------------|----------------|
| | £'000 | £'000 |
| a) Group | | |
| Loss before tax | (4,451) | (2,850) |
| Depreciation | 412 | 5 |
| Amortisation of intangible | 83 | - |
| Changes in working capital | | |
| Trade and other receivables | (362) | (896) |
| Trade and other payables | (703) | 11,819 |
| Exchange translation adjustments | 657 | (99) |
| Interest received | (33) | (72) |
| Interest paid | 40 | - |
| Net cash (outflow)/inflow from operating activities | (4,357) | 7,907 |
| b) Company | | |
| Loss before tax | (1,598) | (48) |
| Changes in working capital | | |
| Trade and other receivables | (619) | 5 |
| Trade and other payables | (1,050) | 10,889 |
| Interest received/receivable | (932) | (579) |
| Interest paid | 40 | - |
| Net cash (outflow)/inflow from operating activities | (4,159) | 10,267 |

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group is exposed to a variety of financial risks which result from both its operating and investing risks. The Group's risk management is coordinated to secure the Group's short to medium term cash flows by minimising the exposure to financial markets. The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant risks to which the Group is exposed are described below:

a) Foreign currency risk

The Group is exposed to translation and transaction foreign exchange risk. Foreign exchange differences on retranslation of these assets and liabilities are taken to the income statement of the Group. The Group's principal trading operations are based in South Africa and as a result the Group has exposure to currency exchange rate fluctuations in the Rand relative to Sterling.

b) Interest rate risk

Group funds are invested in short term deposit accounts, with a maturity of less than three months, with the objective of maintaining a balance between accessibility of funds and competitive rates of return.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

c) Liquidity risk

There is a risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities since the Group's assets consist primarily of plant and equipment which may take time to realise. The Group anticipates the future cash requirements for each project and seeks to put in place appropriate equity and debt facilities to match the funding requirements of these projects.

d) Credit risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet (or in the detailed analysis provided in the notes to the financial statements). Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount. The Group's trade and other receivables are actively monitored to avoid significant concentrations of credit risk.

The financial assets and liabilities of the Group and the Company are classified as follows:

30 September 2008

| | Fair value through profit and loss £'000 | Group Loans and receivables and loss £'000 | Amortised cost £'000 | Fair value through profit £'000 | Company Loans and receivables £'000 | Amortised cost £'000 |
|-----------------------------------------|------------------------------------------------------|-----------------------------------------------------------|----------------------------|------------------------------------------|-------------------------------------------------|----------------------------|
| Trade and other receivables > 1 year | - | - | - | - | 3,239 | - |
| Trade and other receivables < 1 year | - | 1,370 | - | - | 14,461 | - |
| Cash and cash equivalents | - | 405 | - | - | 348 | - |
| Trade and other payables | - | - | (12,017) | - | - | (10,028) |
| Borrowings | - | - | (16,142) | - | - | (16,123) |
| Total | - | 1,775 | (28,159) | - | 18,048 | (26,151) |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

30 September 2007

| | Fair value through profit and loss £'000 | Group Loans and receivables and loss £'000 | Amortised cost £'000 | Fair value through profit £'000 | Company Loans and receivables £'000 | Amortised cost £'000 |
|-----------------------------------------|------------------------------------------------------|-----------------------------------------------------------|----------------------------|------------------------------------------|-------------------------------------------------|----------------------------|
| Trade and other receivables > 1 year | - | - | - | - | 2,339 | - |
| Trade and other receivables < 1 year | - | 325 | - | - | 12,757 | - |
| Cash and cash equivalents | - | 703 | - | - | 530 | - |
| Trade and other payables | - | - | (12,720) | - | - | (11,078) |
| Total | - | 1,028 | (12,720) | - | 15,626 | (11,078) |

In the opinion of the directors, there is no significant difference between the fair values of the Group's and the Company's financial assets and liabilities and their carrying values.

28. CAPITAL COMMITMENTS

There were no outstanding capital commitments at the year end.

29 . CONTINGENT LIABILITIES

Newcastle Cogeneration (Pty.) Ltd is party to a 'take or pay' contract to purchase gas. Under the terms of the contract, which commenced on 1 July 2006, Newcastle Cogeneration (Pty.) Ltd is required to make minimum annual purchases amounting to a total of ZAR121M over the life of the contract, which expires on 30 June 2011. For the reasons set out in note 8, there was a shortfall in the year to 30 June 2007. As the plant is now operational, no further shortfalls are anticipated and the directors do not consider that any additional provision is required.

30. RELATED PARTY TRANSACTIONS

Material transactions with related parties during the period were as follows:

i) Payment by the Company of £60,000 to Independent Power Corporation PLC under a "Shared Services Agreement" for the provision of offices and other administrative services. P Earl and E Shaw are shareholders and directors of Independent Power Corporation PLC and J West is a director. A sum of £23,500 (2007 - £11,750) was owing to Independent Power Corporation PLC at 30 September 2008.

ii) Short term loan from Independent Power Corporation PLC amounting to £781,231. Interest on the loan, which is being charged at 8%, amounted to £11,746 (2007 - £nil). The balance owing at the year end, including interest, was £793,067 (2007 - £nil). The loan is repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

iii) Short term loan from Secteur Holdings Ltd amounting to £303,750. Interest on the loan, which is being charged at 8%, amounted to £25,984 (2007 – £nil). The balance owing at the year end, including interest, was £329,734 (2007 – £nil). The loan is repayable on demand. Mrs E Earl, P Earl's wife, is a director of Secteur Holdings Ltd.

iv) Payment by the Group of salaries (short term employee benefits) to key management totalling £372,000 (2007 – £184,000).

Transactions between the Company and Newcastle Cogeneration (Pty.) Ltd included:

i) Expense recharges in relation to services provided – £2123k (2007 – £113k).

ii) Increase in unsecured loans by the Company to Newcastle Cogeneration (Proprietary) Ltd of £1.5m (2007 – £8.3m).

iii) Interest charge of £nil on loan balances outstanding – £nil (2007 – 6.5% – £229k).

31. DIRECTORS AND EMPLOYEE COSTS

30.09.087
£'000

Aggregate remuneration of all employees and directors
(including national insurance) 728

Remuneration paid to the directors

| | Salary | | Fees | | Total | |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2008 £'000 | 2007 £'000 | 2008 £'000 | 2007 £'000 | 2008 £'000 | 2007 £'000 |
| S Hargrave (Chairman) | 45 | 34 | – | – | 45 | 34 |
| P Earl (Chief Executive) | 53 | 39 | – | – | 53 | 39 |
| N Bryson | – | – | 31 | 15 | 31 | 15 |
| M Cox | 20 | – | – | – | 20 | – |
| J Eyre | 53 | 39 | – | – | 53 | 39 |
| R Sampson | – | – | 10 | – | 10 | – |
| E Shaw | 53 | 39 | – | – | 53 | 39 |
| J West | 3 | 3 | 22 | 15 | 25 | 18 |
| Total | 227 | 154 | 63 | 30 | 290 | 184 |

Fees include £30,500 (2007 – £15,000) paid to Balmyle Ltd, a company controlled by N Bryson and £22,000 (2007 – £15,000) paid to James West Associates Ltd, a company controlled by J West.

The average number of employees in the Group, including directors, was 22. At 30 September 2008, the total number of employees in the Group was 24.

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