

GEOHERMAL INTERNATIONAL LIMITED
ACCOUNTS
FOR
30TH JUNE 2011

TUESDAY



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GEO THERMAL INTERNATIONAL LIMITED

ACCOUNTS

YEAR ENDED 30TH JUNE 2011

CONTENTS	PAGE
Officers and professional advisers	1
The directors' report	2
Independent auditor's report to the shareholders	5
Profit and loss account	7
Group statement of total recognised gains and losses	8
Group balance sheet	9
Balance sheet	10
Group cash flow statement	11
Notes to the accounts	14
The following pages do not form part of the accounts	
Detailed company profit and loss account	31
Notes to the detailed company profit and loss account	32

GEOTHERMAL INTERNATIONAL LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

The board of directors

Mr B Davidson
Mr C Davidson
Mr T D Chadwick
Mr K J Drage
Mr J P G Sherriff
Mr A A Hobday
Mr M W Mathieson

Company secretary

Mr A A Hobday

Registered office

143 Albany Road
Coventry
West Midlands
CV5 6ND

Auditor

Keens Shay Keens Limited
Chartered Accountants
& Statutory Auditor
Christchurch House
Upper George Street
Luton
Beds
LU1 2RS

Bankers

Yorkshire Bank plc
Ricoh Arena
Phoenix Way
Coventry
West Midlands
CV6 6GE

GEOTHERMAL INTERNATIONAL LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 30TH JUNE 2011

The directors present their report and the accounts of the group for the year ended 30th June 2011

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company during the period was the design and installation of geothermal heating and cooling systems

Management Focus

The principal activity of the Group continued to be that of the design and installation of geothermal heating and cooling systems. Management has focused on laying the foundations for future growth, recognising that we have a very strong service offering and an unrivalled position in our key markets. While these activities have generated losses in the financial year we believe we have moved the business to a new level in terms of our market potential.

Management have successfully prioritised bringing new financial partners into the business. The strong fundamentals of our sector and the unrivalled operational track record of Geothermal International Limited have allowed us to raise over £10.5mn of new money at the time of signing these accounts, with a further £2.7mn expected to come by way of a follow on investment in the coming weeks.

This sizeable new investment has allowed us to eliminate our borrowing and provide funding for our core UK business, our US expansion and our Spanish venture with Gas Natural. As part of the fund raising process the management team agreed that we would write off some costs previously held on the balance sheet associated with the US (£374,553) and Spain (£723,910). Furthermore, we had previously adopted an accounting policy of capitalising development costs associated with some of our market leading products. We have decided to reverse this policy and this has resulted in a prior year adjustment of £833,625. Readers of these accounts should consider the scale of the group losses in 2011 in light of these adjustments.

Operational Performance

The profit and loss account shows Group turnover down by 3.8% year on year reflecting continued challenging macroeconomic conditions in our markets. In the UK, turnover was down 6.5%, but international sales were up by 18% at over £1,000,000. Despite the announcement of the Renewable Heat Incentive (RHI) in March 2011 sales activity has been slow to respond, but enquiry levels have risen sharply since 30th June as evidenced by our tender activity. The average monthly value of tenders in the financial year 2011 was £1.2mn, but in the first four months of the current year this was up 40%.

GEOTHERMAL INTERNATIONAL LIMITED**THE DIRECTORS' REPORT** *(continued)***YEAR ENDED 30TH JUNE 2011**

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW *(continued)***Balance Sheet**

The balance sheet shows that the group's financial position in year end net asset terms is £(416,103), compared to £3,916,157 in the prior year. The net assets of the UK parent company were reduced from £4,291,105 to £776,585. Following the capital injection and conversion of some existing loan notes the net asset position of the group will still be negative because the new capital comes in the form of redeemable convertible preference shares. We differentiate between this class of convertible debt and other borrowing on the basis that the convertible shares are expected to become ordinary shares at some point in the future when our new private equity investor decides to convert.

Outlook

Following our successful funding round we look forward to exploiting an increasingly favourable market place for heat pump systems. In particular we have established a funding model that allows us to offer our customers all the benefits of heat pump technology with none of the upfront costs. This should serve us well, especially in the UK retrofit market. In the US we have acquired a Combined Heat and Power (CHP) business called Endurant Energy LLC and this has been merged with GI North America LLC (GINA), our existing business. GINA is mid way through our first major heat pump installation project in the US and we are hopeful that US activity will accelerate from our much enhanced platform. The ability to offer customers a hybrid system of CHP and GSHP technology is at this stage almost unique in the renewable energy market.

RESULTS AND DIVIDENDS

The loss for the year amounted to £4,373,120. The directors have not recommended a dividend.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The directors do not consider that the financial risk management objectives and policies are material for the assessment of the assets, liabilities, financial position and profit or loss of the group.

DIRECTORS

The directors who served the company during the year were as follows

Mr B Davidson
Mr C Davidson
Mr T D Chadwick
Mr K J Drage
Mr J P G Sherriff
Mr A A Hobday
Mr J C Raeburn
Mr M W Mathieson

Mr J C Raeburn retired as a director on 17th February 2011

GEOTHERMAL INTERNATIONAL LIMITED**THE DIRECTORS' REPORT** *(continued)***YEAR ENDED 30TH JUNE 2011**

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and the accounts in accordance with applicable law and regulations

Company law requires the directors to prepare accounts for each financial year. Under that law the directors have elected to prepare the accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that year. In preparing those accounts, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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

In so far as the directors are aware

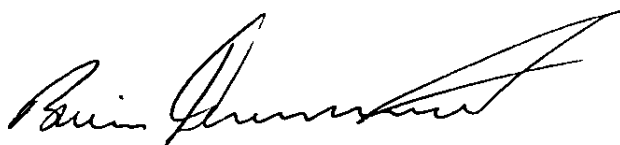
- there is no relevant audit information of which the group's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

AUDITOR

Keens Shay Keens Limited are deemed to be re-appointed under section 487(2) of the Companies Act 2006.

Registered office
143 Albany Road
Coventry
West Midlands
CV5 6ND

Signed by order of the directors



Mr B Davidson
Director

Approved by the directors on 05/12/2011

GEOHERMAL INTERNATIONAL LIMITED**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
GEOHERMAL INTERNATIONAL LIMITED****YEAR ENDED 30TH JUNE 2011**

We have audited the group and parent company accounts ("the accounts") of Geothermal International Limited for the year ended 30th June 2011 on pages 7 to 30. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE ACCOUNTS

A description of the scope of an audit of accounts is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

OPINION ON ACCOUNTS

In our opinion the accounts

- give a true and fair view of the state of the group's and parent company's affairs as at 30th June 2011 and of the group's loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

GEOTHERMAL INTERNATIONAL LIMITED

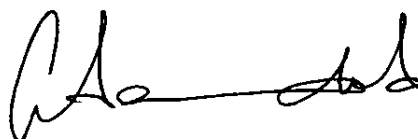
INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GEOTHERMAL INTERNATIONAL LIMITED *(continued)*

YEAR ENDED 30TH JUNE 2011

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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



Mr G P C Saunders (Senior Statutory Auditor)
For and on behalf of
KEENS SHAY KEENS LIMITED
Chartered Accountants
& Statutory Auditor

Christchurch House
Upper George Street
Luton
Beds
LU1 2RS

5 December 2011

GEOHERMAL INTERNATIONAL LIMITED**PROFIT AND LOSS ACCOUNT****YEAR ENDED 30TH JUNE 2011**

	Note	2011 £	2010 (restated) £
GROUP TURNOVER (including share of associate)	2	8,238,797	8,691,835
Less share of associate turnover		(2,481)	(129,020)
Group Turnover		<u>8,236,316</u>	<u>8,562,815</u>
Cost of sales		6,767,060	6,760,967
GROSS PROFIT		<u>1,469,256</u>	<u>1,801,848</u>
Distribution costs		71,414	57,865
Administrative expenses		5,950,767	3,917,735
Other operating income		(1,477)	(3,012)
OPERATING LOSS	3	(4,551,448)	(2,170,740)
Share of associate operating loss/profit		(40,901)	4,705
TOTAL OPERATING LOSS: GROUP AND SHARE OF ASSOCIATES		<u>(4,592,349)</u>	<u>(2,166,035)</u>
Interest receivable		125	29
Interest payable and similar charges	6	(242,157)	(150,494)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(4,834,381)</u>	<u>(2,316,500)</u>
Tax on loss on ordinary activities	7	(19,969)	(153,820)
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		<u>(4,814,412)</u>	<u>(2,162,680)</u>
Minority interests		(441,292)	—
LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY	8	(4,373,120)	(2,162,680)
LOSS FOR THE FINANCIAL YEAR		<u>(4,373,120)</u>	<u>(2,162,680)</u>

All of the activities of the group are classed as continuing

The company has taken advantage of section 408 of the Companies Act 2006
not to publish its own Profit and Loss Account

The notes on pages 14 to 30 form part of these accounts

GEOHERMAL INTERNATIONAL LIMITED**GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES****YEAR ENDED 30TH JUNE 2011**

	2011	2010 <i>(restated)</i>
	£	£
Loss for the financial year excluding share of (loss)/profit of associate	(4,332,219)	(2,167,385)
Share of associate (loss)/profit for the year	(40,901)	4,705
Loss attributable to shareholders of the parent company	(4,373,120)	(2,162,680)
 Total recognised gains and losses relating to the year	 (4,373,120)	 (2,162,680)
Prior year adjustment (see note 9)	(833,625)	—
Total gains and losses recognised since the last annual report	<u>(5,206,745)</u>	<u>(2,162,680)</u>

The notes on pages 14 to 30 form part of these accounts

GEOTHERMAL INTERNATIONAL LIMITED

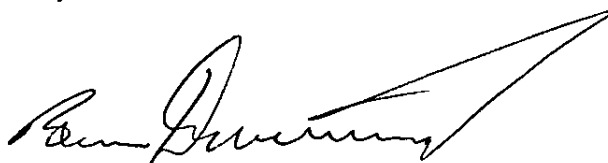
GROUP BALANCE SHEET

30TH JUNE 2011

		2011		2010 (restated)	
	Note	£	£	£	£
FIXED ASSETS					
Intangible assets	10		3,488,276		3,715,591
Tangible assets	11		435,582		743,989
Investments in associates	12		(29,476)		4,364
			<u>3,894,382</u>		<u>4,463,944</u>
CURRENT ASSETS					
Stocks	13	492,481		465,097	
Debtors	14	4,895,647		6,587,576	
Cash at bank		35,761		48,864	
		<u>5,423,889</u>		<u>7,101,537</u>	
CREDITORS: amounts falling due within one year	15	<u>6,389,177</u>		<u>3,813,891</u>	
NET CURRENT (LIABILITIES)/ASSETS			<u>(965,288)</u>		<u>3,287,646</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>2,929,094</u>		<u>7,751,590</u>
CREDITORS: amounts falling due after more than one year	16		<u>3,776,939</u>		<u>3,835,433</u>
			<u>(847,845)</u>		<u>3,916,157</u>
MINORITY INTERESTS			<u>(431,742)</u>		<u>—</u>
			<u>(416,103)</u>		<u>3,916,157</u>
CAPITAL AND RESERVES					
Called-up equity share capital	19		25,731		25,731
Share premium account	20		3,528,654		3,528,654
Profit and loss account	20		<u>(3,970,488)</u>		<u>361,772</u>
(DEFICIT)/SHAREHOLDERS' FUNDS	21		<u>(416,103)</u>		<u>3,916,157</u>

These accounts were approved by the directors and authorised for issue on 05/12/2011, and are signed on their behalf by

Mr B Davidson
Director



The notes on pages 14 to 30 form part of these accounts

GEOTHERMAL INTERNATIONAL LIMITED

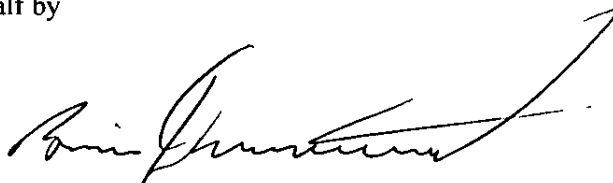
BALANCE SHEET

30TH JUNE 2011

		2011		2010 (restated)	
	Note	£	£	£	£
FIXED ASSETS					
Intangible assets	10		3,295,553		3,530,949
Tangible assets	11		402,936		721,248
Investments	12		628,202		392,027
			<u>4,326,691</u>		<u>4,644,224</u>
CURRENT ASSETS					
Stocks	13	481,243		463,379	
Debtors	14	5,812,198		6,674,543	
Cash at bank		373		493	
		<u>6,293,814</u>		<u>7,138,415</u>	
CREDITORS: amounts falling due within one year	15	<u>6,072,000</u>		<u>3,656,101</u>	
NET CURRENT ASSETS			<u>221,814</u>		<u>3,482,314</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>4,548,505</u>		<u>8,126,538</u>
CREDITORS: amounts falling due after more than one year	16		<u>3,771,920</u>		<u>3,835,433</u>
			<u>776,585</u>		<u>4,291,105</u>
CAPITAL AND RESERVES					
Called-up equity share capital	19		25,731		25,731
Share premium account	20		3,528,654		3,528,654
Profit and loss account	20		(2,777,800)		736,720
SHAREHOLDERS' FUNDS			<u>776,585</u>		<u>4,291,105</u>

These accounts were approved by the directors and authorised for issue on 05/12/2011, and are signed on their behalf by

Mr B Davidson
Director



Company Registration Number 5397984

GEO THERMAL INTERNATIONAL LIMITED**GROUP CASH FLOW STATEMENT****YEAR ENDED 30TH JUNE 2011**

	Note	2011		2010 (restated)	
		£	£	£	£
NET CASH OUTFLOW FROM OPERATING ACTIVITIES			(1,622,007)		(832,791)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received		125		29	
Interest paid		(216,693)		(121,840)	
Interest element of hire purchase and finance lease		(25,464)		(28,654)	
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			(242,032)		(150,465)
TAXATION					
Taxation			142,814		(130,779)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT					
Acquisition of tangible fixed assets		(22,634)		(155,615)	
Receipts from sale of fixed assets		6,673		—	
NET CASH OUTFLOW FOR CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			(15,961)		(155,615)
ACQUISITIONS AND DISPOSALS					
Acquisition of shares in group undertakings		(9,725)		—	
NET CASH OUTFLOW FROM ACQUISITIONS AND DISPOSALS			(9,725)		—
CASH OUTFLOW BEFORE USE OF FINANCING			(1,746,911)		(1,269,650)
FINANCING					
Issue of equity share capital		—		731	
Share premium on issue of equity share capital		—		499,269	
Net Increase/(Decrease) from short-term creditors		1,550,000		—	
Capital element of hire purchase and finance leases		(217,142)		(235,173)	
Net Increase/(Decrease) from long term creditors		—		350,000	
NET CASH INFLOW FROM FINANCING			1,332,858		614,827
DECREASE IN CASH			(414,053)		(654,823)

The notes on pages 14 to 30 form part of these accounts

GEOHERMAL INTERNATIONAL LIMITED**GROUP CASH FLOW STATEMENT****YEAR ENDED 30TH JUNE 2011****RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	2011	2010
	£	(restated) £
Operating profit	(4,551,448)	(2,170,740)
Amortisation of intangible assets	243,115	242,325
Depreciation of tangible fixed assets	336,892	356,337
(Profit)/Loss on disposal of fixed assets	(3,288)	—
(Increase)/Decrease in stocks	(27,384)	406,222
(Increase)/Decrease in debtors	1,569,084	(235,670)
Increase/(Decrease) in creditors	811,022	568,735
Net cash outflow from operating activities	<u>(1,622,007)</u>	<u>(832,791)</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2011	2010
	£	(restated) £
Decrease in cash in the period	(414,053)	(654,823)
Cash outflow in respect of hire purchase	217,142	235,173
Net Increase/(Decrease) from long term creditors	<u>—</u>	<u>(350,000)</u>
Change in net debt resulting from cash flows	(196,911)	(769,650)
New finance leases	(11,117)	(109,449)
Changes in net debt from non cash flows	<u>—</u>	<u>(1,296,309)</u>
Movement in net debt in the period	(208,028)	(2,175,408)
Net debt at 1st July 2010	(5,671,104)	(6,088,311)
Net debt at 30th June 2011	<u>(5,879,132)</u>	<u>(5,671,104)</u>

GEOHERMAL INTERNATIONAL LIMITED**GROUP CASH FLOW STATEMENT****YEAR ENDED 30TH JUNE 2011****ANALYSIS OF CHANGES IN NET DEBT**

	At 1 Jul 2010 £	Cash flows £	Non-cash changes £	At 30 Jun 2011 £
Net cash				
Cash in hand and at bank	48,864	(13,103)	–	35,761
Overdrafts	(1,669,941)	(400,950)	–	(2,070,891)
	<u>(1,621,077)</u>	<u>(414,053)</u>	<u>–</u>	<u>(2,035,130)</u>
Debt				
Debt due after 1 year	(3,750,000)	–	–	(3,750,000)
Hire purchase and finance lease agreements	(300,027)	217,142	(11,117)	(94,002)
	<u>(4,050,027)</u>	<u>217,142</u>	<u>(11,117)</u>	<u>(3,844,002)</u>
Net Debt	<u>(5,671,104)</u>	<u>(196,911)</u>	<u>(11,117)</u>	<u>(5,879,132)</u>

The notes on pages 14 to 30 form part of these accounts

GEOTHERMAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 30TH JUNE 2011

1. ACCOUNTING POLICIES

Basis of accounting

The accounts have been prepared under the historical cost convention

Basis of consolidation

The consolidated accounts incorporate the accounts of the company and all group undertakings. These are adjusted, where appropriate, to conform to group accounting policies. Acquisitions are accounted for under the acquisition method and goodwill on consolidation is capitalised and written off over 20 years following acquisition. The results of the companies acquired or disposed of are included in the profit and loss account after or up to the date that control passes respectively. As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group accounts by virtue of section 408 of the Companies Act 2006.

Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the year, exclusive of Value Added Tax.

In respect of long-term contracts and contracts for on-going services, turnover represents the value of work done in the year, including estimates of amounts not invoiced. Turnover in respect of long-term contracts and contracts for on-going services is recognised by reference to the stage of completion.

Development cost

Development costs are written off to the profit and loss account as incurred in accordance with SSAP 13.

This is a change in accounting policy, the implications of which are described in note 9 and 20.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Plant and machinery

Works plant and machinery	- 33 33% per annum on cost
Drilling rigs	- 20% per annum on cost
Motor vehicles	- 30% per annum on cost

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

GEOTHERMAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 30TH JUNE 2011

1. ACCOUNTING POLICIES *(continued)*

Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account on a straight line basis.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Foreign currencies

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

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

2. TURNOVER

The turnover and loss before tax are attributable to the one principal activity of the group. An analysis of turnover is given below.

	2011	2010 <i>(restated)</i>
	£	£
United Kingdom	7,170,014	7,661,749
Overseas	1,066,302	901,066
	<u>8,236,316</u>	<u>8,562,815</u>

GEOTHERMAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 30TH JUNE 2011

3. OPERATING LOSS

Operating loss is stated after charging/(crediting)

	2011	2010 (restated)
	£	£
Amortisation of intangible assets	243,115	242,325
Depreciation of owned fixed assets	221,442	203,532
Depreciation of assets held under hire purchase agreements	115,450	152,805
Profit on disposal of fixed assets	(3,288)	—
Auditor's remuneration		
- as auditor	29,500	13,875
- for other services	11,860	16,300
Net profit on foreign currency translation	<u>(101,433)</u>	<u>(7,467)</u>

4 PARTICULARS OF EMPLOYEES

The average number of staff employed by the group during the financial year amounted to

	2011	2010 (restated)
	No	No
Number of production staff	38	41
Number of administrative staff	36	14
Number of management staff	17	13
	<u>91</u>	<u>68</u>

The aggregate payroll costs of the above were

	2011	2010 (restated)
	£	£
Wages and salaries	3,645,653	2,875,546
Social security costs	409,182	303,126
	<u>4,054,835</u>	<u>3,178,672</u>

5. DIRECTORS' REMUNERATION

The directors' aggregate remuneration in respect of qualifying services were

	2011	2010 (restated)
	£	£
Remuneration receivable	<u>610,000</u>	<u>528,507</u>

GEOTHERMAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 30TH JUNE 2011

5. DIRECTORS' REMUNERATION *(continued)*

Remuneration of highest paid director:

	2011	2010 <i>(restated)</i>
	£	£
Total remuneration (excluding pension contributions)	<u>130,000</u>	<u>120,000</u>

	2011	2010 <i>(restated)</i>
	£	£
Number of directors in respect of whose qualifying services shares were receivable under long term incentive schemes	<u>5</u>	<u>5</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2011	2010 <i>(restated)</i>
	£	£
Interest payable on bank borrowing	72,322	26,858
Finance charges	25,464	28,654
Other similar charges payable	144,371	94,982
	<u>242,157</u>	<u>150,494</u>

7. TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of charge in the year

	2011	2010 <i>(restated)</i>
	£	£
Current tax		
UK Corporation tax based on the results for the year at 26% (2010 - 28%)	(19,969)	(150,000)
(Over)/under provision in prior year	-	(3,820)
Total current tax	<u>(19,969)</u>	<u>(153,820)</u>

GEOTHERMAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 30TH JUNE 2011

7. TAXATION ON ORDINARY ACTIVITIES *(continued)*

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 26% (2010 - 28%)

	2011	2010 <i>(restated)</i>
	£	£
Loss on ordinary activities before taxation	<u>(4,834,381)</u>	<u>(2,316,500)</u>
Loss on ordinary activities by rate of tax	(1,256,939)	(648,620)
Expenses not deductible for tax purposes	72,978	73,836
Capital allowances for period in excess of depreciation	(42,423)	18,412
Unrelieved tax losses	1,206,415	419,981
Adjustments to tax charge in respect of previous periods	-	(3,820)
Effects of other rates	-	2,593
Sundry tax adjusting items	-	(16,202)
Total current tax (note 7(a))	<u>(19,969)</u>	<u>(153,820)</u>

8. LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The loss dealt with in the accounts of the parent company was £3,514,520 (2010 - £2,078,239)

9. PRIOR YEAR ADJUSTMENT

The prior year adjustment arises from a change in the group's accounting policy relating to development costs. Previously development costs were capitalised and deferred over future periods to which they were expected to produce economic benefits. Development costs are now written off to the profit and loss account as they are incurred.

GEOTHERMAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 30TH JUNE 2011

10. INTANGIBLE FIXED ASSETS

Group	Goodwill £	Development costs £	Total £
COST			
At 1st July 2010	4,846,500	53,000	4,899,500
Additions	15,800	–	15,800
At 30th June 2011	4,862,300	53,000	4,915,300
AMORTISATION			
At 1st July 2010	1,183,909	–	1,183,909
Charge for the year	243,115	–	243,115
At 30th June 2011	1,427,024	–	1,427,024
NET BOOK VALUE			
At 30th June 2011	3,435,276	53,000	3,488,276
At 30th June 2010	3,662,591	53,000	3,715,591
Company			Goodwill £
COST			
At 1st July 2010 and 30th June 2011			4,707,929
AMORTISATION			
At 1st July 2010			1,176,980
Charge for the year			235,396
At 30th June 2011			1,412,376
NET BOOK VALUE			
At 30th June 2011			3,295,553
At 30th June 2010			3,530,949

GEOTHERMAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 30TH JUNE 2011

11. TANGIBLE FIXED ASSETS

Group	Plant and machinery £	Motor Vehicles £	Total £
COST			
At 1st July 2010	1,261,789	474,037	1,735,826
Additions	22,636	11,117	33,753
Disposals	(1,500)	(15,850)	(17,350)
Foreign currency adjustment	(3,574)	(175)	(3,749)
At 30th June 2011	1,279,351	469,129	1,748,480
DEPRECIATION			
At 1st July 2010	695,070	296,767	991,837
Charge for the year	245,821	91,071	336,892
On disposals	(1,166)	(12,797)	(13,963)
Foreign currency adjustment	(1,792)	(76)	(1,868)
At 30th June 2011	937,933	374,965	1,312,898
NET BOOK VALUE			
At 30th June 2011	341,418	94,164	435,582
At 30th June 2010	566,719	177,270	743,989

Hire purchase agreements

Included within the net book value of £435,582 is £207,495 (2010 - £448,071) relating to assets held under hire purchase agreements. The depreciation charged to the accounts in the year in respect of such assets amounted to £115,450 (2010 - £152,805).

GEOTHERMAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 30TH JUNE 2011

11. TANGIBLE FIXED ASSETS *(continued)*

Company	Plant and machinery £	Motor Vehicles £	Total £
COST			
At 1st July 2010	1,219,812	474,037	1,693,849
Additions	16,117	—	16,117
Disposals	(1,500)	(15,850)	(17,350)
At 30th June 2011	<u>1,234,429</u>	<u>458,187</u>	<u>1,692,616</u>
DEPRECIATION			
At 1st July 2010	676,554	296,047	972,601
Charge for the year	241,305	89,737	331,042
On disposals	(1,166)	(12,797)	(13,963)
At 30th June 2011	<u>916,693</u>	<u>372,987</u>	<u>1,289,680</u>
NET BOOK VALUE			
At 30th June 2011	<u>317,736</u>	<u>85,200</u>	<u>402,936</u>
At 30th June 2010	<u>543,258</u>	<u>177,990</u>	<u>721,248</u>

Hire purchase agreements

Included within the net book value of £402,936 is £196,449 (2010 - £448,071) relating to assets held under hire purchase agreements. The depreciation charged to the accounts in the year in respect of such assets amounted to £114,223 (2010 - £152,805).

GEOTHERMAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 30TH JUNE 2011

12. INVESTMENTS

Group share of associates:	£	£
Share of turnover		<u>2,481</u>
Share of loss before taxation	(40,901)	
Taxation	<u>-</u>	
Profit after taxation		<u>(40,901)</u>
Share of assets		
Fixed assets	4,596	
Current assets	<u>30,142</u>	
		34,738
Share of liabilities		
Due within one year of less	64,214	
Due after more than one year	<u>-</u>	
		<u>64,214</u>
Share of net assets		<u>(29,476)</u>

Company	Group companies £	Associated undertakings £	Total £
COST			
At 1st July 2010	2,563,088	66,804	2,629,892
Additions	236,175	-	236,175
Transfer	44,668	(44,668)	-
At 30th June 2011	<u>2,843,931</u>	<u>22,136</u>	<u>2,866,067</u>
AMOUNTS WRITTEN OFF			
At 1st July 2010 and 30th June 2011	<u>2,237,865</u>	<u>-</u>	<u>2,237,865</u>
NET BOOK VALUE			
At 30th June 2011	<u>606,066</u>	<u>22,136</u>	<u>628,202</u>
At 30th June 2010	<u>325,223</u>	<u>66,804</u>	<u>392,027</u>

GEOTHERMAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 30TH JUNE 2011

12. INVESTMENTS *(continued)*

Subsidiary undertakings	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
All held by the company				
Geothermal International Espana	Spain	Ordinary shares	100%	Installation of geothermal heating and cooling systems
Cirrus Energi Limited	England	Ordinary shares	100%	Promote installation of Geothermal ground source heat pumps
Geothermal Heating (International) Limited	England	Ordinary shares	100%	Dormant
G H I Installations Limited	England	Ordinary shares	100%	Dormant
Geothermal Limited	England	Ordinary shares	100%	Dormant
Waterfurnance Europe Limited	England	Ordinary shares	100%	Dormant
Geothermal International (Ireland) Limited	England	Ordinary shares	100%	Dormant
Geothermal International Energy Management Solutions Limited	England	Ordinary shares	100%	Dormant
Geothermal International Polska Sp Z o o	Poland	Ordinary shares	90%	Dormant
Geothermal International Holdings North America Inc	America	Ordinary shares	100%	Dormant
Geothermal International North America LLC	America	Voting rights	51%	Installation of geothermal heating and cooling systems
Geothermal International Asia Limited	Hong Kong	Ordinary shares	100%	Dormant

GEOTHERMAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 30TH JUNE 2011

12. INVESTMENTS *(continued)*

	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
Associate undertakings				
All held by the company				
Geothermal International Italia S R L	Italy	Ordinary shares	20%	Installation of geothermal heating and cooling systems
Geothermal International (Magyarország)	Hungary	Ordinary shares	40%	Dormant
Geothermal International Hrvatski (Croatia) d o o	Croatia	Ordinary shares	10%	Dormant
General Geo Services Inc (North America)	America	Ordinary shares	20%	Dormant

13. STOCKS

	Group		Company	
	2011	2010 <i>(restated)</i>	2011	2010 <i>(restated)</i>
	£	£	£	£
Stock	<u>492,481</u>	<u>465,097</u>	<u>481,243</u>	<u>463,379</u>

14. DEBTORS

	Group		Company	
	2011	2010 <i>(restated)</i>	2011	2010 <i>(restated)</i>
	£	£	£	£
Trade debtors	1,441,080	1,258,985	1,473,343	1,389,204
Amounts owed by group undertakings	—	17,619	977,403	703,106
Corporation tax repayable	54,858	177,703	—	150,000
Amounts receivable on contracts	3,246,367	4,336,965	3,246,367	3,921,013
Other debtors	153,342	796,304	115,085	511,220
	<u>4,895,647</u>	<u>6,587,576</u>	<u>5,812,198</u>	<u>6,674,543</u>

GEOTHERMAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 30TH JUNE 2011

14. DEBTORS *(continued)*

The debtors above include the following amounts falling due after more than one year

	Group		Company	
	2011	2010 (restated)	2011	2010 (restated)
	£	£	£	£
Trade debtors	601,436	756,675	580,184	756,675
Other debtors	—	27,690	—	—
	<u>601,436</u>	<u>784,365</u>	<u>580,184</u>	<u>756,675</u>

15. CREDITORS: amounts falling due within one year

	Group		Company	
	2011	2010 (restated)	2011	2010 (restated)
	£	£	£	£
Overdrafts	2,070,891	1,669,941	2,065,262	1,669,941
Trade creditors	1,731,895	1,256,397	1,698,487	1,188,941
Amounts owed to group undertakings	—	—	128,006	128,006
Hire purchase agreements	67,063	214,594	63,513	214,594
Other creditors including taxation and social security				
Corporation tax	—	—	5,269	—
PAYE and social security	154,360	136,050	138,228	123,332
VAT	138,632	162,397	137,368	169,018
Other creditors	1,821,287	—	1,550,000	—
Accruals and deferred income	405,049	374,512	285,867	162,269
	<u>6,389,177</u>	<u>3,813,891</u>	<u>6,072,000</u>	<u>3,656,101</u>

Convertible loans

Contained within the other creditors balance are convertible loans in the sum of £1,040,000 that the company issued during the year. Of the loans issued £380,000 are convertible into ordinary shares at £406 per share or such lesser price as may be decided by the directors. £660,000 are convertible into ordinary shares at £406 per share or such lesser price as may be decided by the director or if the holder does not exercise the option to convert the loans will be redeemed at par.

The loans carry a fixed interest rate of 15% per annum which is payable quarterly. Those loans that contain the option not to convert to equity carry a fixed interest rate of 12% per annum which is payable quarterly.

The repayment date can be fixed at the discretion of the directors.

GEOTHERMAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 30TH JUNE 2011

15. CREDITORS: amounts falling due within one year *(continued)*

The following liabilities disclosed under creditors falling due within one year are secured

	Group		Company	
	2011	2010 (restated)	2011	2010 (restated)
	£	£	£	£
Overdrafts	<u>2,065,262</u>	<u>1,669,941</u>	<u>2,065,262</u>	<u>1,669,941</u>

16. CREDITORS: amounts falling due after more than one year

	Group		Company	
	2011	2010 (restated)	2011	2010 (restated)
	£	£	£	£
Hire purchase agreements	26,939	85,433	21,920	85,433
Other creditors	<u>3,750,000</u>	<u>3,750,000</u>	<u>3,750,000</u>	<u>3,750,000</u>
	<u>3,776,939</u>	<u>3,835,433</u>	<u>3,771,920</u>	<u>3,835,433</u>

17. COMMITMENTS UNDER HIRE PURCHASE AGREEMENTS

Future commitments under hire purchase agreements are as follows

	Group		Company	
	2011	2010 (restated)	2011	2010 (restated)
	£	£	£	£
Amounts payable within 1 year	67,063	214,594	63,513	214,594
Amounts payable between 1 and 2 years	26,939	63,513	21,920	63,513
Amounts payable between 3 and 5 years	-	21,920	-	21,920
	<u>94,002</u>	<u>300,027</u>	<u>85,433</u>	<u>300,027</u>

GEOTHERMAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 30TH JUNE 2011

18. RELATED PARTY TRANSACTIONS

Material transactions with related parties required to be disclosed under FRS 8 are as follows -

	2011 £	2010 (restated) £
Speymill OOD Pension Fund		
(Company under the common influence of Brian Davidson, a director)		
Expenditure		
Rent and service charges	<u>140,000</u>	<u>195,870</u>

At 30th June 2011 the amount owed to Speymill OOD Pension Fund was £122,757 (2010 - £82,250)

Speymill OOD Limited

(Company under the common influence of Brian Davidson, a director)

Income	<u>24,075</u>	<u>—</u>
Expenditure		
Management and installation charges, rent charges	<u>84,332</u>	<u>102,121</u>

At 30th June 2011 the amount owed to Speymill OOD Limited was £2,229 (2010 - £433)

At 30th June 2011 the amount owed by Speymill OOD Limited was £4,735 (2010 - £nil)

SSE Contracting Limited (previously Southern Electric Contracting Limited)

(Company under common influence of Mark Mathieson, a director)

Income	<u>474,349</u>	<u>—</u>
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At 30th June 2011 the amount owed by SSE Contracting Limited was £nil (2010 - £nil)

The company was under the control of Mr B Davidson throughout the year

During the year the company paid £26,400 (2010 - £25,963) rent to Mr B Davidson and Mr B Davidson loaned the company £160,000 (2010 - £60,000) Interest was payable on the loans at 8% per annum and amounted to £33,204 At 30th June 2011 the amount owed to Mr B Davidson was £393,095 (2010 - £211,742)

During the year the company paid £10,071 (£11,623) professional service fees to Mr A Hobday At 30th June 2011 the amount owed to Mr A Hobday was £4,645 (2010 - £2,750)

During the year Mr K Drage loaned the company £nil (2010 - £40,000) Interest was payable on the loan at 8% per annum and amounted to £3,200 At 30th June 2011 the amount owed to Mr K Drage was £41,920 (2010 - £40,000)

GEOTHERMAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 30TH JUNE 2011

18. RELATED PARTY TRANSACTIONS *(continued)*

During the year the company undertook a number of transactions with Geothermal International North America LLC a subsidiary company incorporated in the year in which it controlled 51% of the voting rights and 60% of the distribution rights. These transactions represent costs incurred by the company on behalf of its subsidiary and amounted to £845,908.

At 30th June 2011 the amount owed by Geothermal International North America LLC was £845,908.

During the year SSE Venture Capital a class 'A' shareholder increased their loan to the company by £350,000. Interest was payable on the balance of the loan in excess of £3,000,000 at 8% per annum and amounted to £20,000.

At 30th June 2011 the amount owed to SSE Venture Capital Limited was £3,620,000.

19. SHARE CAPITAL

Authorised share capital:

	2011	2010 (restated)
	£	£
112,000 Ordinary 'A' shares of £0.125 each	14,000	14,000
58,000 Ordinary 'B' shares of £0.125 each	7,250	7,250
30,000 Ordinary 'C' shares of £0.125 each	3,750	3,750
36,000 (2010 - 30,000) Ordinary 'D' non-voting shares of £0.125 each	4,500	3,750
40,000 Ordinary 'E' shares of £0.125 each	5,000	-
	<u>34,500</u>	<u>28,750</u>

Allotted and called up:

	2011		2010 (restated)	
	No	£	No	£
112,000 Ordinary 'A' shares fully paid of £0.125 each	112,000	14,000	112,000	14,000
58,000 Ordinary 'B' shares fully paid of £0.125 each	58,000	7,250	58,000	7,250
30,000 Ordinary 'C' shares fully paid of £0.125 each	30,000	3,750	30,000	3,750
5,851 Ordinary 'D' non-voting shares fully paid of £0.125 each	5,851	731	5,851	731
	<u>205,851</u>	<u>25,731</u>	<u>205,851</u>	<u>25,731</u>

GEOTHERMAL INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

YEAR ENDED 30TH JUNE 2011

20. RESERVES

Group	Share premium account £	Profit and loss account (restated) £
Balance brought forward as previously reported	3,528,654	1,195,397
Prior year adjustment (note 9)	—	(833,625)
Restated balance as at 1 July 2010	3,528,654	361,772
Loss for the year	—	(4,373,120)
Foreign currency retranslation	—	40,860
Balance carried forward	<u>3,528,654</u>	<u>(3,970,488)</u>

Company	Share premium account £	Profit and loss account (restated) £
Balance brought forward as previously reported	3,528,654	1,570,345
Prior year adjustment (note 9)	—	(833,625)
Restated balance as at 1 July 2010	3,528,654	736,720
Loss for the year	—	(3,514,520)
Balance carried forward	<u>3,528,654</u>	<u>(2,777,800)</u>

21. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2011 £	2010 (restated) £
Loss for the financial year	(4,373,120)	(2,162,680)
New equity share capital subscribed	—	731
Premium on new share capital subscribed	—	<u>2,045,575</u>
	—	2,046,306
Foreign currency retranslation	40,860	(31,588)
Net reduction to shareholders' funds	(4,332,260)	(147,962)
Opening shareholders' funds	4,749,782	4,064,119
Prior year adjustment (see note 9)	(833,625)	—
Closing shareholders' (deficit)/funds	<u>(416,103)</u>	<u>3,916,157</u>

GEOHERMAL INTERNATIONAL LIMITED**NOTES TO THE ACCOUNTS****YEAR ENDED 30TH JUNE 2011**

22. SHARE BASED PAYMENTS

The company has a share option scheme for certain employees. Currently there are 39 scheme members. Options are exercisable at a price of £10 or £33 depending on the date of grant. The vesting period is dependant on a number of criteria being satisfied and as such cannot be ascertained. As a result there is no definitive exercise date. The exercise of options is dependant on the relevant employees meeting length of service criteria. In addition the options may not be exercised until the company reaches a specific value, obtains a listing on a recognised stock exchange or receives an acceptable takeover offer. Options are forfeited if the employee leaves the company before the options vest. The options are settled in equity once exercised.

In the years ended 30 June 2011 and 30 June 2010 no employee share options were granted. There were 19,800 employee share options outstanding at the end of the year (30 June 2010 - 19,975) as 175 had lapsed during the year. As the value of the options at the date of grant was less than or equal to that of the exercise price there is no value to be apportioned to the profit and loss account.

No options were exercised in the year.

In addition to the above share options Scottish and Southern Energy plc were issued 6,000 share options on 3 April 2008. These options have an exercise price of £300. The options may not be exercised until the company reaches a specific value. The options are settled in equity once exercised. As the value of the options at the date of grant was less than that of the exercise price there is no value to be added to the investment made in the company by Scottish and Southern Energy plc.

23. POST BALANCE SHEET EVENTS

On 1st December 2011 Geothermal International Limited raised an investment of €9.9m in the form of redeemable convertible preferred shares. Additionally holders of loans in the amount of £1.735m have converted their loans into redeemable convertible preferred shares.