



17 September 2007
Strictly Embargoed Until 0700

Freeplay Energy plc
("Freeplay", "the Group" or "the Company")

Interim Results for the six months ended 30 June 2007

Freeplay Energy plc, the original and leading global brand of clean, dependable energy products, announces interim results for the six months ended 30 June 2007.

- Satisfactory progress made during the first half of 2007, particularly in the UK, where the Group has won a number of new customers, along with good progress from the Aid & Humanitarian business:
 - Total Group turnover for the period was US \$21.0 million (2006: US \$3.0 million), including a contribution of US \$18.9 million from Dixie Sales Company, acquired in July 2006
 - Gross profit increased to US \$5.8 million (2006: US \$0.1 million), with Dixie division contributing US \$5.2 million to the total
 - Loss before tax was US \$4.5 million (2006: US \$2.4 million) and the corresponding loss per share was US \$0.09 (2006: loss of US \$0.08)
- Restructuring programme announced in August to improve the performance of the Group is already making good progress; key focus is to:
 - Increase revenue in Freeplay Energy division
 - Improve profitability and margin on existing sales in Dixie sales
 - To drive these changes, David Floyd, currently Vice President Global Sales, has been appointed Managing Director of the Freeplay Energy division and has joined the Board, and Harold Reiter has become Chief Executive Officer of Dixie Sales
- Promising early signs from joint-venture with Narang Group in India with orders received from India's largest company and third largest mobile phone network, and IFFCO, the Indian farmers' cooperative. Both orders are expected to contribute significantly to sales in the 2008 financial year
- Number of orders received since the period end is significantly above the same period last year; orders received from the Freeplay Foundation include:
 - South Sudan order for 85,000 radios shipped from July 2007 onwards
 - Orders for Malawi and Tanzania to ship during September
- Freeplay Energy division has had continued success in signing new retail partners in the UK and North America:
 - In the UK, Marks and Spencer, ASDA and Comet to stock products in the final quarter of 2007, and Dixons/Currys placed a significant opening order
 - In North America, Eddie Bauer, LL Bean and Bass Pro will all stock products during 2008 and Canadian Tire Company is a new retailer for Q4 2007

Commenting on the outlook for the remainder of 2007, Rory Stear, Chairman, said:

"Freeplay has enjoyed a steady start to the year and I am confident that the restructuring measures that have been undertaken and the new leadership, which has been put in place, will enable the Group to maximise our full potential and give us greater focus and control in our two divisions.

"The Group enters the second half of 2007 with confidence and the Board remains encouraged by the number of opportunities opening up to the Group, particularly in new markets such as India. As we have previously indicated, the markets in which we operate remain challenging but, despite this, we are seeing good progress in most areas of our business and the Board believes that both Freeplay Energy and Dixie Sales will make a significant improvement in revenue over the second half of the year, which we expect to continue into 2008".

- ends -

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Notes to Editors

Freeplay Energy plc is the original and leading global brand of clean, dependable energy products. Freeplay Energy's clean, patented technology harnesses human, solar and rechargeable energy and converts it into electricity to power unique portable, consumer products replacing conventional disposable battery-powered systems that are environmentally toxic and expensive. The current product range includes radios, torches, lanterns, mobile phone chargers and standalone foot powered generators. Freeplay Energy's "Lifeline" radio is distributed throughout the developing world by The Freeplay Foundation (www.freeplayfoundation.org) and other AID and Humanitarian organisations such as Unicef and other United Nations' agencies. Further information about Freeplay Energy plc and its products can be found at www.freeplayenergy.com.



Freeplay Energy – Best in the World, Best for the World



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Freeplay Energy plc
("Freeplay", "the Group" or "the Company")

Interim Results for the six months ended 30 June 2007

CHAIRMAN'S STATEMENT

I am pleased to present the interim results for Freeplay Energy plc for the period ended 30 June 2007.

Freeplay has continued to make satisfactory progress during the first half of 2007, particularly in the UK, where we are pleased that we have signed a number of new customers, and in our Aid & Humanitarian business which was underpinned by strong orders from the Freeplay Foundation. We are also beginning to see early promising signs from our joint-venture with Narang Group in India.

On 2 August 2007, we announced a Group restructuring programme to improve the performance of the Group and better position it for 2008 and beyond. The restructuring programme is focusing on maximising the benefits of the acquisition of Dixie Sales and exploiting the synergies between the two operating divisions of Freeplay to reduce costs throughout the business. The restructuring programme will also see the Group exit certain non-core areas and consolidate sales operations where appropriate.

The planned changes will have no negative effect on the future growth of the business, with manufacturing, product development and sales functions remaining unchanged.

In the announcement on 2 August, we indicated that good progress had been made in the following areas:

- Approximately US \$1.5 million of cost-savings have been achieved to date, with the total reduction in Group overhead expected to be up to US \$4 million annually;
- Dixie Sales discontinued its motorcycle business unit, the distribution of Husaberg and Gas Gas products, with effect from 1 September 2007; and
- Dixie Sales has consolidated its warehousing locations in the US from three to two with no impact on customer service levels.

As part of the restructuring programme, we have further refined our approach to our two divisions, Freeplay Energy and Dixie Sales. Based on the complexities of the different business models, the key focus is to increase revenue in the Freeplay Energy division and improve profitability and margin on existing sales in Dixie Sales.

As we announced on 13 September 2007, in order to drive this approach, David Floyd, currently Vice President Global Sales, has been appointed Managing Director of the Freeplay Energy division and has joined the Board, and Harold Reiter, who was appointed to the Board as an Executive Director in August 2006, has become Chief Executive Officer of Dixie Sales. Mike Rounsavall remains as President of Dixie Sales, reporting directly to Harold Reiter.

David joined Freeplay in January 2006 from Motorola, where he spent 15 years in a number of senior management roles, most recently as Director of Wireless Enterprise Solutions Europe, Middle East and Africa. He has significant leadership experience following his positions at Motorola, and the Board believes he is the most appropriate person to be driving the Freeplay Energy division forward. Harold Reiter joined Freeplay as a non-executive director following the acquisition of Dixie Sales in July 2006, and was subsequently appointed an Executive Director. His considerable experience whilst at Barrett Corporation places him in an ideal situation to lead Dixie Sales into the next stage of its development.

Peter Porteous, currently Chief Executive Officer, has resigned from the Board of Freeplay, with effect from 12 September 2007. Peter will remain with Freeplay for a short while to enable a smooth handover. His position of Chief Executive of the Freeplay Energy Group will not be replaced.

Financial Review

Total Group turnover for the period was US \$21.0 million (2006: US \$3.0 million), including a contribution of US \$18.9 million from Dixie Sales Company, which was acquired in July 2006.

Gross profit increased to US \$5.8 million (2006: US \$0.1 million), with the Dixie division contributing US \$5.2 million to the total. Loss before tax was US \$4.5 million (2006: US \$2.4 million) and the corresponding loss per share was US \$0.09 (2006: loss of US \$0.08).

Administration and distribution expenses increased to US \$9.5 million (half year 2006: US \$3.0 million), due to the inclusion of US \$6.3 million of Dixie administration and distribution expenses.

During the period, net debt increased by US \$3.4 million to US \$14.5 million (year end 2006: US \$11.1 million, half year 2006: US \$ 5.1 million). This was largely attributable to losses from the first six months operations (US \$4.5 million), with the remaining losses funded by an increase in trade payables. At 30 June 2007, Freeplay had a net overdraft of US \$13.2 million.

We are currently renegotiating our five year overdraft with HSBC to a five year term loan facility to assist in funding working capital requirements.

Review of Operations

Freeplay Energy (“Freeplay Energy”)

During the first six months of the year, this division has made steady progress, particularly in the UK and Aid & Humanitarian, which are both performing strongly in line with expectations, and we are seeing good early-stage momentum from our joint-venture with Narang Group in India.

We have been successful in the period in signing new retail partners in the UK, with Marks & Spencer, ASDA and Comet stocking a number of Freeplay Energy products in the final quarter of 2007, with Dixons/Currys placing a significant opening order. In addition, we have received verbal confirmation from several of the other major high street retailers that they will stock our products in early 2008. We are pleased with this increasing momentum and the prospects for further new retail partners are looking encouraging.

We have seen good momentum in Aid & Humanitarian, underpinned by orders from the Freeplay Foundation. The order received for South Sudan in late May for delivery in the second half is the largest ever from the Foundation.

We have made good progress with the One Laptop Per Child programme, where we are supplying the human power generators for each laptop, and we are pleased to have received a firm order, with the first shipment to Peru expected in late November. The Freeplay logo is displayed on the wind-up handle of each laptop, creating brand awareness in this important developing market. As the full roll-out of the One Laptop Per Child programme is scheduled to be shipped in early 2008, this programme will not contribute to sales until the first part of the next financial year.

However, the One Laptop Per Child programme is extremely important to the Group as it is a real endorsement of Freeplay Energy's technology by the technology professionals at MIT, emphasising the quality of our product and our leadership in human powered energy.

The Board is disappointed with the slower than anticipated progress in the North American market and expects that revenue will be flat for the full year. However, we are already beginning to see encouraging signs for 2008 and this market is a key focus for the Group going forward.

David Floyd, Vice President, Global Sales, has recently spent considerable time in the United States working with the sales team to improve processes and focus on building on the recent success we have had in the UK in securing new retail partners. We have seen a good performance from REI, the premium outdoor goods retailer, where there has been significant success in the lantern category, and we have signed Eddie Bauer, LL Bean and Bass Pro, all major US retailers, which will stock products during 2008, and in Canada, Canadian Tire Company is a new retailer for the fourth quarter 2007, and we have shipped product to Mountain Equipment Co-op.

In Africa, where progress has continued to be modest, we have been focusing on the transition of our distribution process, particularly in South Africa and Kenya. Operationally, we have moved responsibility closer to the factories in China from South Africa and appointed Sonny Ma as Operations Manager China. We have also appointed Malibuye Monyoro as Business Development Manager for Africa and the Middle East and have been successful in securing new distributors in Nigeria and Ethiopia. Malibuye joined us in July 2007 from Mars, the FMCG group, where he has significant experience in the African market.

On the product development side, during the first half of the year we have concentrated primarily on developing the technology for the One Laptop Per Child programme and we are extremely pleased with the progress made there, where the tooling for the Freeplay Energy product has now been completed. We have also developed a lantern specifically for the Indian market, where we are seeing good potential for this type of product, as well as in other developing world markets.

Dixie Sales ("Dixie Sales")

Overall, sales for the Dixie division were largely in line with expectations, albeit down by 3% compared to the same period last year. The performance of the Outdoor Power Equipment parts line of business met expectations for the first half of the year, largely through strong performance in the first quarter.

The sector came under significant pressure during the latter part of the second quarter of the period due to severe drought conditions in the south eastern United States commencing in May and which have continued throughout the summer. The impact on Dixie Sales is consistent with the adverse effects experienced by our manufacturer and other channel partners.

Results were also adversely impacted by lower than anticipated revenue from the power sports division due to lower consumer discretionary spending resulting from difficult economic conditions throughout the United States.

Given the difficult market conditions, Dixie Sales has adjusted its operating costs as much as possible without negatively impacting the overall business. The cost adjustment strategy enabled the division to focus on its core competencies by exiting marginal product lines and pursuing higher value-added product lines and services. In August 2007, Freeplay announced that Dixie Sales was exiting the low margin motorcycle business and is reviewing certain other business activities. In addition to the cost savings noted above Dixie Sales has commenced a detailed review of its other service offerings with the view of reducing its cost to provide. The results of these activities will likely impact the 2008 results.

Dixie Sales is aggressively pursuing new business opportunities with a particular focus on providing high value added services leveraging its core strengths. In July 2007 Dixie entered into an exclusive distribution and services agreement with Bye Bye Standby Inc to market, sell and provide fulfillment support for its recently introduced energy savings solution, designed in the UK, to reduce daily energy consumption of electrical devices. In addition Dixie Sales has entered into three other new long-term distribution or services agreements that will take effect during the second half of the year. The new business wins are expected to produce in the order of US \$3 million in new revenue on an annual basis.

Trading Update

As we announced on 2 August, we have terminated the five-year agreement with World Phones to distribute the FreeCharge Mobile Phone Charger in Africa and the Caribbean region, signed in May 2006, as World Phones had not fulfilled its contractual obligations to Freeplay. Termination of this exclusive agreement will give Freeplay the opportunity to engage directly with these important markets, which it was precluded from doing under the terms of the World Phones agreement.

Since the period end we have continued to see strong momentum in all areas of our business.

In late May 2007, the Freeplay Energy division received a significant order for 85,000 radios from the Freeplay Foundation for South Sudan. We are pleased that the first deliveries were shipped during July and August, after the period end, with the final delivery being shipped in October. Post the period end we have received new orders for Lifeline radios from the Freeplay Foundation for Malawi and Tanzania, which will ship during September.

In early September the joint-venture with Narang Group, Freeplay Energy India, received its first order for FreeCharge mobile phone charges from Reliance Industries, India's largest company and third largest mobile phone network. Freeplay Energy has had an initial order for the FreeCharge, Weza and the lantern specifically developed for this market from IFFCO, the Indian farmers' cooperative, which has 55 million members and consequently excellent influence and distribution channels to the all-important rural areas. We expect these orders from the important business to business market to gain momentum during the year and contribute significantly to sales in the 2008 financial year.

As part of our drive to increase the number of outlets selling the Freeplay Energy product range, in September we appointed Dalesman International to distribute products to the outdoor market in the UK. Dalesman is the leading distributor of outdoor accessory brands, including market leaders such as Garmin, Memory Map, Timex and LaCrosse.

Our People

Following the Annual General Meeting on 20 July 2007, Leonard Fassler retired as a Non-Executive Director and from the Board. Mr Fassler has had a 10 year relationship with Freeplay and served as a director of Freeplay Energy plc for over six years and has played an important role in the development of Group. We would like wish Mr Fassler well in his retirement.

Stuart Kinney has resigned as a Non-Executive Director and from the Board. This is to ensure a good balance between representatives of the Barrett Corporation and the other members of the Freeplay Board. Mr Kinney joined Freeplay following the acquisition of Barrett Marketing Group Inc in July 2006. Mr Kinney is currently General Counsel at Barrett Corporation.

As indicated above, Peter Porteous has resigned as Chief Executive Officer of the Group and the Board with effect from 17 September 2007. The Board would like to take this opportunity of wishing Peter well in the future.

David Floyd has been appointed Managing Director of the Freeplay Energy division and to the Board of Freeplay, and Harold Reiter, already an Executive Director of the Group has been appointed Chief Executive Officer of Dixie Sales. Both these appointments took effect from 13 September 2007.

In May 2007, we appointed Rahul Sharma as Vice President, Marketing and Internet Channel. In this newly created role, Rahul will oversee worldwide marketing including brand development, product management, e-commerce, and the internet. Rahul has an eclectic skill set blending marketing, technology, and operations. One of Rahul's first tasks was to improve the Freeplay website, www.freeplayenergy.com, and we are pleased that from the 17 September 2007, for the first time the website will have a fully functional online sales capability, using Dixie Sales' call centre and distribution function. In March 2007, Rory Stear was selected as one of CNN/Time/Fortune's Principal Voices, highlighting how innovation and sustainable energy technology can help address energy poverty in the developing world. Principal Voices is an international project aimed at stimulating discussion on some of the challenges confronting the world today.

Outlook

The Board and key shareholders are optimistic about the steady progress made during the first half of the year and are encouraged by the number of opportunities opening up to the Group, particularly in new markets such as India. In addition, we have a strongly increasing franchise in the important Aid & Humanitarian market, which has already translated into sales. At Dixie Sales, we are excited by the orders coming through and are making good progress in moving the product range to fit in with Freeplay's culture.

As we have indicated above, the markets in which we operate remain challenging but, despite this, we are seeing progress in most areas of our business, even though it may not always be at the pace we would like to enable Freeplay to become the leading global brand of clean, dependable energy products. The Board believes that both Freeplay Energy and Dixie Sales will make a significant improvement in revenue over the second half of the year, which we expect to continue into 2008.

Freeplay Energy plc

Consolidated Balance sheet			
As at 30 June 2007	30 June 2007	30 June 2006	31 December 2006
	(Unaudited)	(Unaudited)	(Unaudited)
Assets	US \$000's	US \$000's	US \$000's
Non current assets			
Goodwill	8,198	-	8,198
Other intangible assets	258	97	211
Property, plant and equipment	1,329	561	1,386
Investment in joint venture	21	-	-
Total non-current assets	9,806	658	9,795
Current Assets			
Inventory	11,110	1,094	10,203
Trade and other receivables	6,686	2,952	8,217
Other financial assets	85	-	-
Other assets	661	179	900
Cash at bank and in hand	626	25	353
Total current assets	19,168	4,250	19,673
Total assets	28,974	4,908	29,468
Equity and liabilities			
Capital and reserves			
Issued Capital	6,608	3,936	6,608
Share premium	29,028	17,052	29,028
Reserves	4,057	3,015	3,572
Retained earnings	(33,149)	(26,503)	(28,638)
Total equity	6,544	(2,500)	10,570
Non-current liabilities			
Borrowings	1,054	32	1,101
Deferred tax liability	200	-	200
Total non-current liabilities	1,254	32	1,301
Current liabilities			
Trade and other payables	7,091	2,184	6,360
Borrowings	14,085	5,082	10,418
Provisions	-	110	819
Total current liabilities	21,176	7,376	17,597
Total Liabilities	22,430	7,408	18,898
Total equity and liabilities	28,974	4,908	29,468

Freeplay Energy plc

Consolidated Income Statement for 6 months ended 30 June 2007			
	6 months ended 30 June 2007 (Unaudited) US \$000's	6 months ended 30 June 2006 (Unaudited) US \$000's	12 months ended 31 December 2006 (Unaudited) US \$000's
Revenue	21,017	3,001	26,108
Cost of sales	(15,234)	(2,074)	(18,939)
Gross profit	5,783	927	7,169
Administration expenses	(7,967)	(2,453)	(9,934)
Distribution expenses	(1,500)	(532)	(1,782)
Other gains/(losses)	171	(153)	(253)
Other income/(expenses)	(485)	(129)	294
Investment revenue	-	-	2
Finance costs	(496)	(128)	(491)
Share of loss of joint venture	(46)	-	-
Loss before taxation	(4,540)	(2,468)	(4,995)
Income tax refund	-	58	365
Loss after taxation	(4,540)	(2,410)	(4,630)
Basic and diluted loss per 5p ordinary share (in US\$)	(0.09)	(0.08)	(0.11)

Freeplay Energy plc

Consolidated statement of changes in equity								
for the period ended 30 June 2007								
Attributable to equity holders of the Group								
	Share capital	Share premium	Merger reserve	Other reserve	FCTR	Share based payments	Retained earnings	Total
	US \$000's	US \$000's	US \$000's	US \$000's	US \$000's	US \$000's	US \$000's	US \$000's
Balance at 31 December 2005	3,936	17,052	1,947	60	-	893	(24,063)	(175)
Exchange differences arising on translation of foreign operations	-	-	-	-	(30)	-	-	(30)
Share based compensation	-	-	-	-	-	115	-	115
Loss for the 6 months	-	-	-	-	-	-	(2,410)	(2,410)
Balance at 30 June 2006	3,936	17,052	1,947	60	(30)	1,008	(26,473)	(2,500)
Exchange differences arising on translation of foreign operations	-	-	-	-	85	-	-	85
Share based compensation	-	-	-	-	-	557	-	557
Issue of shares	2,672	12,826	-	-	-	-	-	15,498
Share issue costs	-	(850)	-	-	-	-	-	(850)
Loss for the 6 months	-	-	-	-	-	-	(2,220)	(2,220)
Balance at 31 December 2006	6,608	29,028	1,947	60	55	1,565	(28,693)	10,570
Exchange differences arising on translation of foreign operations	-	-	-	-	29	-	-	29
Share based compensation	-	-	-	-	-	485	-	485
Loss for the 6 months	-	-	-	-	-	-	(4,540)	(4,540)
Balance at 30 June 2007	6,608	29,028	1,947	60	84	2,050	(33,233)	6,544

Freeplay Energy plc

Consolidated cash flow statement			
30 June 2007			
	For the 6 months ended	For the 6 months ended	For the 12 months ended
	30 June 2007 (Unaudited) US \$000's	30 June 2006 (Unaudited) US \$000's	31 December 2006 (Unaudited) US \$000's
Cash flows from operating activities			
Cash used in operations	Note 1 (2,522)	(2,657)	(6,501)
Interest paid	(496)	(106)	(490)
Taxation refund	-	58	321
Cash used in by operating activities	(3,018)	(2,705)	(6,670)
Investing activities			
Interest received	-	-	2
Payments for property, plant and equipment	(177)	(51)	(213)
Proceeds from disposal of property, plant and equipment	8	-	-
Payments for intangible assets	(19)	(1)	-
Development costs paid	(74)	(24)	(79)
Acquisition of subsidiary undertakings	-	-	(6,709)
Acquisition of joint venture	(67)	-	-
Cash used in investing activities	(329)	(76)	(6,999)
Financing			
Proceeds from issue of equity shares	-	-	6,074
Payment for share issue costs	-	-	(850)
Proceeds from borrowings	198	20	-
Repayments of borrowings	(331)	(4)	(93)
Cash (used in)/generated from financing activities	(133)	16	5,131
Net decrease in cash and cash equivalents	(3,480)	(2,765)	(8,538)
Cash and cash equivalents at the beginning of the period	(9,746)	(1,208)	(1,208)
Cash and cash equivalents at the end of the period	(13,226)	(3,973)	(9,746)

Freeplay Energy plc

Note 1

	For the 6 months ended	For the 6 months ended	For the period ended
	30 June 2007 (Unaudited) US \$000's	30 June 2006 (Unaudited) US \$000's	31 December 2006 (Unaudited) US \$000's
Cash generated from operations			
Loss for the period	(4,540)	(2,410)	(4,630)
Adjustments for:			
Depreciation	227	119	336
Amortisation	49	14	36
Write back of legal obligation	-	-	(999)
Loss on sale of property, plant and equipment	(4)	-	-
Net movements in provisions	819	-	50
Interest income	-	-	(2)
Taxation	-	(58)	(365)
Interest expense	496	128	490
Share of loss from joint venture	46	-	-
Share based compensation	485	115	672
Exchange gains/losses on borrowings	-	184	-
Changes in working capital:			
Inventory	(907)	(257)	(218)
Trade and other receivables	1,010	(488)	650
Trade and other payables	(203)	(4)	(2,521)
Cash used in operations	(2,522)	(2,657)	(6,501)

Freeplay Energy plc

Notes to the interim financial statements

1. Basis of preparation

The Group's previous financial statements have been prepared under UK Generally Accepted Accounting Principles (UK GAAP). For the financial year ended 31 December 2007, the Group will prepare its annual consolidated financial statements in accordance with IFRS as adopted by the European Union (EU) and implemented in the UK.

The Group's date of transition to IFRS was 31 December 2005 at which date the Group prepared its opening IFRS balance sheet. The financial information for the 6 months ended 30 June 2007 is unaudited and has been prepared in accordance with the Group's accounting policies based on IFRS standards that are expected to apply for the financial year 2007. The financial information for the 6 months ended 30 June 2006 is also unaudited and has been restated under IFRS. The Group has not applied IAS 34, Interim Financial Reporting, which is not mandatory for UK Groups, in the preparation of these interim financial statements.

The presentation of financial information under IFRS is governed by IFRS 1 'First-time Adoption of IFRS', because they are part of the period covered by the Group's first IFRS financial statement for the year ended 31 December 2007. In some cases this will require the presentation of an item in a different position, or the use of a different description in the financial statements to that adopted in the UK GAAP financial statements. These reclassifications have been described in the explanatory notes.

An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial statements for the periods ended 31 December 2006 and 30 June 2006 is set out in note 5.

The interim financial information has not been audited and does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The Group's statutory accounts for the year ended 31 December 2006, prepared under UK GAAP have been delivered to the Registrar of Companies. The report of the auditors on these accounts was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

The principal accounting policies adopted in the preparation of these interim financial statements are set out below. These policies have been consistently applied to all periods presented.

2. Summary of significant accounting policies

Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Joint ventures

The Group's interests in jointly controlled entities are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's investment in its jointly controlled entity includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and the jointly controlled entity are eliminated to the extent of the Group's interest in the jointly controlled entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Jointly controlled entities' accounting policies have been changed where necessary to ensure consistency of the policies adopted by the Group.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates. The Group's financial statements are presented in United States Dollars, which is the Group's functional and presentation currency.

(b) Transactions and balances

In preparing the financial statements of the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of the monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains or losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

(c) Group companies

The results and financial position of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) Income and expenses for each income statement are translated at the average rates (unless the average is not an approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) All resulting exchange differences are recognised as a separate component of equity (cumulative transition adjustment).

Exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such instruments, are taken to shareholders' equity on consolidation. When a foreign operation is sold, such exchange adjustments are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Property, plant and equipment

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful lives.

All significant assets' residual values and remaining useful lives are reviewed, and estimated useful lives are adjusted if appropriate, at each balance sheet date. The following estimated useful lives used the preparation of these accounts:

Leasehold improvements	Over shorter of lease term and	10% - 33% straight line
Plant and machinery, moulds and tooling		20% - 50% straight line
Office furniture and equipment		10% - 20% straight line
Motor vehicles		20% straight line

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the respective carrying amounts and are included in profit from operations.

Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

(c) Research and development

Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditures are recognised as an expense as incurred.

Development costs previously expensed are not recognised as an asset in a subsequent period. The estimated life of the development is seen as finite and is amortised using a straight line method over its estimated useful life, not exceeding five years.

Research expenditure is recognised as an expense as incurred.

Impairment of tangible and definite lived intangible assets

At each balance sheet date, the Group reviews the carrying amounts 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, 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 amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The 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 (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.

Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments 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. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

Appropriate allowance for estimated irrecoverable amounts are recognised in income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Inventories

Inventories are stated at the lower of cost incurred in bringing each product to its present location, and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal and also includes provisions made for obsolete and slow moving inventory.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transactions costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Taxation

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Employee benefits

(a) Retirement benefit costs

Certain companies in the Group operate defined contribution pension schemes. The Group pays fixed contributions into a separate entity. The Group's contribution to the defined contribution provident plan is charged to the income statement in the period to which the contribution relates. No legal or constructive obligations exist to pay further contributions.

(b) Share-based plans

The Group's management awards high-performing employees bonuses in the form of share options, from time-to-time, on a discretionary basis. The options are subject to one or two-year service vesting condition, and their fair value is recognised as an employee benefits expense with a corresponding increase in other reserve equity over the vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability to the employees for annual leave up to the balance sheet date. This provision has been included in the accruals balance in the balance sheet.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Revenue recognition

Revenue comprises the fair value of the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised upon delivery to the customer, when there are no significant vendor obligations remaining, and the collection of the related receivables is considered probable.

(b) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction, assessed on the basis of the actual service provided as a proportion of total services to be provided.

(c) Royalty income

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

Leases

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long term payables. The interest element of the finance charge is charged to the income statement over the lease period. Plant and equipment acquired under finance leasing contracts are depreciated over the useful lives of the assets.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

3. Segmental reporting

The analysis of the group's revenue by geographical destination and the group's revenue, loss before tax and net assets / (liabilities) by geographical origin is set out below:

Revenue	6 months ended 30 June 2007 US \$'000	6 months ended 30 June 2006 US \$'000	12 months ended 31 December 2006 US \$'000
Geographical analysis by destination			
United Kingdom and Continental Europe	577	571	1,565
North America	19,864	885	21,380
Africa and Rest of World	576	1,545	3,163
	21,017	3,001	26,108
Revenue			
	6 months ended 30 June 2007 US \$'000	6 months ended 30 June 2006 US \$'000	12 months ended 31 December 2006 US \$'000
Geographical analysis by origin			
United Kingdom and Continental Europe	1,435	-	900
North America	16,856	-	16,429
Africa and Rest of World	2,726	3,001	8,779
	21,017	3,001	26,108

Loss before tax	6 months ended 30 June 2007 US \$'000	6 months ended 30 June 2006 US \$'000	12 months ended 31 December 2006 US \$'000
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Geographical analysis by origin

United Kingdom and Continental Europe	(3,224)	(2,356)	(4,179)
North America	(1,154)	-	(503)
Africa and Rest of World	(162)	(112)	(322)
	(4,540)	(2,468)	(4,995)

Net assets / (liabilities)	6 months ended 30 June 2007 US \$'000	6 months ended 30 June 2006 US \$'000	12 months ended 31 December 2006 US \$'000
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Geographical analysis by origin

United Kingdom and Continental Europe	5,308	(1,794)	8,046
North America	2,193	-	3,354
Africa and Rest of World	(964)	(706)	(830)
Net assets / (liabilities)	6,544	(2,500)	10,570

4. Loss per ordinary share

The calculation of loss per share is based on the loss of US \$4.54 million (for the six months ended 30 June 2006: US \$2.41 million; for the twelve months ended 31 December 2006: US \$4.63 million) and on 49,801,868 Ordinary shares (for the six months ended 30 June 2006: 29,110,647; for the twelve months ended 31 December 2006: 43,157,101) in issue.

5. Explanation of transition to IFRS

For all periods up to and including the year ended 31 December 2006 the Group prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practices (UK GAAP).

In preparing these interim financial statements, the Group has started from an opening balance sheet as at 31 December 2006, the Group's date of transition to IFRS, and made those changes in accounting policies and other restatements required by IFRS.

IFRS 1 allows first time adopters certain exemptions from the general requirements to retrospectively apply IFRS as effective for the 31 December 2005 year end. The optional exemptions taken by the Group are as follows:

(a) Business combinations exemption

Business combinations prior to 31 December 2005, the Group's date of transition to IFRS have not been restated to comply with IFRS 3 'Business Combinations'.

(b) Cumulative translation differences exemption

Cumulative translation differences on foreign operations are deemed to be nil at 31 December 2005. Any gains or losses recognized in the consolidated income statement on subsequent disposal of foreign operations will exclude translation differences arising prior to the transition date.

(c) Share based payment transactions

Only share based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2006 are recognized in the financial statements.

Freeplay Energy Plc has applied the following mandatory exemptions from retrospective application.

(a) Estimates exemption

Estimates under IFRS at 31 December 2005 should be consistent with estimates made for the same date under previous UK GAAP, unless there is evidence that those estimates were in error.

(b) Assets held for sale and discontinued operations exception

Management applies IFRS 5 prospectively from 1 January 2007. Any assets held for sale or discontinued operations are recognised in accordance with IFRS 5 only from 1 January 2007. Freeplay Energy Plc did not have any assets that met the held-for-sale criteria during the period presented. No adjustment was required.

(c) Derecognition of financial assets and liabilities exception

Financial assets and liabilities derecognised before 31 December 2005 are not re-recognised under IFRS. Freeplay Energy Plc did not have any financial assets and liabilities that met these criteria. No adjustment was required.

(d) Hedge accounting exception

Management has claimed hedge accounting from 1 January 2007 only if the hedge relationship meets the entire hedge accounting criteria under IAS 39.

Reconciliations between IFRS and UK GAAP

The following reconciliations provide a quantification of the effect of the transition to IFRS. The first reconciliation provides an overview of the impact on equity of the transition at 31 December 2005, 30 June 2006 and 31 December 2006. The following reconciliations provide details of the impact of the transition on:

- Equity at 31 December 2005, 30 June 2006 and 31 December 2006
- Balance sheets as at 31 December 2005, 30 June 2006 and 31 December 2006
- Net income for 6 months ended 30 June 2006 and year ended 31 December 2006
- Consolidated cash flow statement for the 6 months ended 30 June 2006 and year ended 31 December 2006

		31 December 2005	30 June 2006	31 December 2006
		US \$000's	US \$000's	US \$000's
Reconciliation of equity				
Total Equity under UK GAAP	Notes	(249)	(2,584)	10,086
Reversal of goodwill amortization	1	-	-	364
Development capitalization	2	74	84	120
Total Equity under IFRS		<u>(175)</u>	<u>(2,500)</u>	<u>10,570</u>

Note 1 - Reversal of goodwill amortisation

Under UK GAAP, goodwill was amortised over the estimated useful life and assessed for an indication of impairment at each balance sheet date. Under IFRS goodwill is initially recognised as an asset at cost and is tested annually for impairment, as well as when there are indications of impairment.

Note 2 - Development capitalisation

Per IAS 38 Intangible assets, if development expenditure meets the definition of an intangible asset then it may be capitalised. Costs that were directly related to development of products were capitalised and amortised over their useful life. Under UK GAAP these were expensed as incurred.

Reconciliation of balance sheet as at 31 December 2005

Assets	Notes	UK GAAP US \$'000's	Effect US \$000's	IFRS US \$'000's
Non current assets				
Other intangible Assets	(A) & (B)	-	91	91
Property, plant and equipment	(B)	651	(17)	634
		<hr/>	<hr/>	<hr/>
Total non-current assets		651	74	725
Current Assets				
Inventory		838	-	838
Trade and other receivables		2,391	-	2,391
Other assets		252	-	252
Cash at bank and in hand		325	-	325
		<hr/>	<hr/>	<hr/>
Total current assets		3,806	-	3,806
		<hr/>	<hr/>	<hr/>
Total assets		4,457	74	4,531
Equity and liabilities				
Capital and reserves				
Issued Capital		3,936	-	3,936
Share premium		17,052	-	17,052
Reserves	(C)	2,007	893	2,900
Retained earnings		(23,244)	(819)	(24,063)
		<hr/>	<hr/>	<hr/>
Total equity		(249)	74	(175)
Non-current liabilities				
Borrowings		45	-	45
		<hr/>	<hr/>	<hr/>
Total non-current liabilities		45	-	45
Current liabilities				
Trade and other payables		1,949	-	1,949
Borrowings		2,571	-	2,571
Provisions		141	-	141
		<hr/>	<hr/>	<hr/>
Total current liabilities		4,661	-	4,661
		<hr/>	<hr/>	<hr/>
Total liabilities		4,706	-	4,706
Total equity and liabilities		4,457	74	4,531

Reconciliation of balance sheet as at 30 June 2006

Assets	Notes	UK GAAP US \$000's	Effect US \$000's	IFRS US \$000's
Non current assets				
Other intangible Assets	(A) & (B)	-	97	97
Property, plant and equipment	(B)	574	(13)	561
Total non-current assets		574	84	658
Current Assets				
Inventory		1,094	-	1,094
Trade and other receivables		2,952	-	2,952
Other assets		179	-	179
Cash at bank and in hand		25	-	25
Total current assets		4,250	-	4,250
Total assets		4,824	84	4,908
Equity and liabilities				
Capital and reserves				
Issued Capital		3,936	-	3,936
Share premium		17,052	-	17,052
Reserves	(C)	2,007	1,008	3,015
Retained earnings		(25,579)	(924)	(26,503)
Total equity		(2,584)	84	(2,500)
Non-current liabilities				
Borrowings		32	-	32
Total non-current liabilities		32	-	32
Current liabilities				
Trade and other payables		2,184	-	2,184
Borrowings		5,082	-	5,082
Provisions		110	-	110
Total current liabilities		7,376	-	7,376
Total liabilities		7,408	-	7,408
Total equity and liabilities		4,824	84	4,908

Reconciliation of balance sheet as at 31 December 2006

Assets	Notes	UK GAAP US \$000's	Effect US \$000's	IFRS US \$000's
Non current assets				
Goodwill	(D)	7,834	364	8,198
Other intangible Assets	(A) & (B)	-	(211)	211
Property, plant and equipment	(B)	1,477	(91)	1,386
Total non-current assets		9,311	484	9,795
Current Assets				
Inventory		10,203	-	10,203
Trade and other receivables		8,217	-	8,217
Other assets		900	-	900
Cash at bank and in hand		353	-	353
Total current assets		19,673	-	19,673
Total assets		28,984	484	29,468
Equity and liabilities				
Capital and reserves				
Issued Capital		6,608	-	6,608
Share premium		29,028	-	29,028
Reserves	(C)	2,007	1,565	3,572
Retained earnings		(27,557)	(1,081)	(28,638)
Total equity		10,086	484	10,570
Non-current liabilities				
Borrowings		1,101	-	1,101
Deferred tax liability		200	-	200
Total non-current liabilities		1,301	-	1,301
Current liabilities				
Trade and other payables		6,360	-	6,360
Borrowings		10,418	-	10,418
Provisions		819	-	819
Total current liabilities		17,597	-	17,597
Total Liabilities		18,898	-	18,898
Total equity and liabilities		28,984	484	29,468

Notes

(A) Other intangible assets

	31-Dec- 2005	30-Jun- 2006	31-Dec- 2006
	US \$000's	US \$000's	US \$000's
(i) Capitalization of intangible asset	77	101	156
(ii) Amortization of intangible asset	<u>(3)</u>	<u>(17)</u>	<u>(36)</u>
Net impact on intangible assets and equity	<u>74</u>	<u>84</u>	<u>120</u>

(i) + (ii) Per IAS 38, Intangible assets, if development expenditure meets the definition of an intangible asset then it must be capitalized. Costs that were directly related to development of products were capitalized and amortized over their useful life. Under UK GAAP these were expensed as incurred.

(B) Other intangible assets/tangible assets

	31-Dec- 2005	30-Jun- 2006	31-Dec- 2006
	US \$000's	US \$000's	US \$000's
(i) Reclassification of computer software to other intangible assets	17	13	91
(ii) Reclassification of computer software from property, plant and equipment	<u>(17)</u>	<u>(13)</u>	<u>(91)</u>
Net impact on intangible assets and equity	<u>-</u>	<u>-</u>	<u>-</u>

(i) + (ii) Under UK GAAP, computer software was disclosed under "Tangible Assets" which fell under "Fixed Assets". Under IFRS, this must be disclosed under Other Intangible Assets. This has no effect on equity. It is merely a balance sheet reclassification.

(C) Share based compensation

	31-Dec- 2005	30-Jun- 2006	31-Dec- 2006
	US \$000's	US \$000's	US \$000's
(i) Share option expense	<u>(893)</u>	<u>(1,008)</u>	<u>(1,565)</u>

(i) Recognition of share options issued. IFRS 2 'Share Based Payments' requires that an expense is recognized over the vesting period in respect of all equity instruments that have been granted, based on their fair value at the date of grant, in order to reflect the cost of issuing these share options. The Group has applied the Black-Scholes method of valuing the fair value of the relevant share options

(D) Goodwill

	31-Dec- 2005	30-Jun- 2006	31-Dec- 2006
	US \$000's	US \$000's	US \$000's
(i) Reversal of goodwill amortisation	<u>-</u>	<u>-</u>	<u>364</u>

(i) Under UK GAAP, goodwill was amortized over the estimated useful life and assessed for an indication of impairment at each balance sheet date.. Under IFRS, goodwill is initially recognized as an asset at cost and is tested annually for impairment, as well as when there are indications of impairment.

Income Statement for 6 months ended 30 June 2006

	Notes	Per UK GAAP US \$000's	Effect US \$000's	IFRS US \$000's
Revenue		3,001	-	3,001
Cost of sales		<u>(2,074)</u>	<u>-</u>	<u>(2,074)</u>
Gross profit		927	-	927
Administration expenses	(A)	(2,477)	24	(2,453)
Distribution expenses		(532)	-	(532)
Other losses		(153)	-	(153)
Other expenses	(B)	-	(129)	(129)
Finance costs		<u>(128)</u>	<u>-</u>	<u>(128)</u>
Loss before taxation		(2,363)	(105)	(2,468)
Income tax expense		58	-	58
Loss after taxation		<u>(2,305)</u>	<u>(105)</u>	<u>(2,410)</u>

Income Statement for 12 months ended 31 December 2006

	Notes	Per UK GAAP US \$000's	Effect US \$000's	IFRS US \$000's
Revenue		26,108	-	26,108
Cost of sales		<u>(18,939)</u>	<u>-</u>	<u>(18,939)</u>
Gross profit		7,169	-	7,169
Administration expenses	(A)	(10,013)	79	(9,934)
Distribution expenses		(1,782)	-	(1,782)
Other losses		(253)	-	(253)
Other expenses	(B)	999	(705)	294
Investment revenue		2	-	2
Finance costs		(491)	-	(491)
Goodwill amortisation	(C)	<u>(364)</u>	<u>364</u>	<u>-</u>
Loss before taxation		(4,733)	(262)	(4,995)
Income tax expense		365	-	365
Loss after taxation		<u>(4,368)</u>	<u>(262)</u>	<u>(4,630)</u>

Notes

(A) Administration expenses

	30-Jun- 2006 \$000's	31-Dec- 2006 \$000's
(i) Reversal of previously expensed development costs that have been capitalised	<u>24</u>	<u>79</u>

(i) Per IAS 38, Intangible assets, if development expenditure meets the definition of an intangible asset then it must be capitalized. Costs that were directly related to development of products were capitalized. Under UK GAAP these were expensed as incurred. This results in a reversal of previously recognised expenses.

(B) Other income/expenses

	30-Jun- 2006 \$000's	31-Dec- 2006 \$000's
(i) Share option expense	(115)	(672)
(ii) Amortisation of intangible assets – Development capitalised	<u>(14)</u>	<u>(33)</u>
	<u>(129)</u>	<u>(705)</u>

(i) Recognition of share options issued. IFRS 2 'Share Based Payments' requires that an expense is recognised over the vesting period in respect of all equity instruments that have been granted, based on their fair value at the date of grant, in order to reflect the cost of issuing these share options. The Group has applied the Black-Scholes method of valuing the fair value of the relevant share option

(ii) Per IAS 38, Intangible assets, if development expenditure meets the definition of an intangible asset then it must be capitalised. Costs that were directly related to development of products were capitalised and amortised. Under UK GAAP these were expensed as incurred.

(C) Goodwill amortisation

	30-Jun- 2006 \$000's	31-Dec- 2006 \$000's
(i) Reversal of goodwill amortisation	<u>-</u>	<u>364</u>

Under UK GAAP, goodwill was amortised over the estimated useful life and assessed for an indication of impairment at each balance sheet date. Under IFRS goodwill is initially recognised as an asset at cost and is tested annually for impairment, as well as when there are indications of impairment.

Consolidated cash flow statement

	Per UK GAAP	Effect of transition to IFRS	IFRS
	For the 6 months ended	For the 6 months ended	For the 6 months ended
	30-Jun-06	30-Jun-06	30-Jun-06
	US \$000's	US \$000's	US \$000's
Cash flows from operating activities			
Cash used in operations	(2,681)	24	(2,657)
Interest paid	(106)	-	(106)
Taxation refund	58	-	58
Cash used in operating activities	(2,729)	24	(2,705)
Investing activities			
Payments for property, plant and equipment	(52)	1	(51)
Proceeds from disposal of property, plant and equipment	-	-	-
Payments for intangible assets	-	(1)	(1)
Development costs paid	-	(24)	(24)
Cash used in investing activities	(52)	(24)	(76)
Financing			
Proceeds from borrowings	20	-	20
Repayments of borrowings	(4)	-	(4)
Cash used in financing activities	16	-	16
Net increase in cash and cash equivalents	(2,765)	-	(2,765)
Cash and cash equivalents at the beginning of the period	(1,208)	-	(1,208)
Cash and cash equivalents at the end of the period	(3,973)	-	(3,973)

Consolidated cash flow statement

	Per UK GAAP	Effect of transition to IFRS	IFRS
	For the 12 months ended	For the 12 months ended	For the 12 months ended
	31-Dec-06	31-Dec-06	31-Dec-06
	US \$000's	US \$000's	US \$000's
Cash flows from operating activities			
Cash generated from operations	(6,580)	79	(6,501)
Interest paid	(490)	-	(490)
Taxation refund	321	-	321
Cash used in operating activities	(6,749)	79	(6,670)
Investing activities			
Interest received	2	-	2
Payments for property, plant and equipment	(213)	-	(213)
Development costs paid	-	(79)	(79)
Acquisition of subsidiaries	(6,709)	-	(6,709)
Proceeds from disposal of business	-	-	-
Cash used in investing activities	(6,920)	(79)	(6,999)
Financing			
Proceeds from issue of equity shares	6,074	-	6,074
Payment for share issue costs	(850)	-	(850)
Repayments of borrowings	(93)	-	(93)
Cash used in financing activities	5,131	-	5,131
Net increase in cash and cash equivalents	(8,538)	-	(8,538)
Cash and cash equivalents at the beginning of the period	(1,208)	-	(1,208)
Cash and cash equivalents at the end of the period	(9,746)	-	(9,746)

6. Movement in net debt

	1 January 2007 US \$'000	Cash flow US \$'000	30 June 2007 US \$'000
Cash at bank and in hand	353	273	626
Bank overdraft	(10,099)	(3,753)	(13,852)
Net overdraft	(9,746)	(3,480)	(13,226)
Debt due within one year:			
- Current portion: long term debt	(105)	(5)	(110)
- Other loans	(122)	93	(29)
- Finance leases	(92)	(2)	(94)
Debt due over one year:			
- Promissory note	(1,027)	112	(915)
- Finance leases	(74)	(65)	(139)
	(1,420)	133	(1,287)
	(11,166)	(3,347)	(14,513)

7. Reconciliation of net cash flow to movement in net debt

	6 months ended 30 June 2007 US \$'000	12 months ended 31 December 2006 US \$'000
(Decrease) / increase in cash in year	(3,480)	(8,538)
Movement in borrowings	200	77
Finance lease payments	131	16
Change in net debt resulting from cash flows	(3,149)	(8,445)
Loans and finance leases acquired with subsidiary	-	(339)
New finance leases	(198)	(6)
Other non-cash changes	-	(86)
Net debt at beginning of period	(11,166)	(2,290)
Net debt at end of period	(14,513)	(11,166)

8. The Board of Directors approved the interim report on 14 September 2007.

This statement will be made available online at www.freeplayenergy.com and copies will be made available at the Company's registered office, 2 Stone Buildings, Lincoln's Inn, London WC2A 3TH.