Advanced Plasma Power Limited

Directors' report and financial statements

Registered number 5633910

31 December 2010

Contents

Directors' report

The directors present their directors' report and financial statements for the year ended 31 December 2010

Principal activities and business review

The principal activity of the company during the year was the development of commercial projects and exploitation of its Gasplasma® technology for the process of converting non-recyclable waste into a hydrogen rich syngas which can be converted into energy or for other chemical uses

During the year, £3 1 million of new equity was issued to Leveraged Green Energy LP ("LGE"), a private equity investment fund organised to create, acquire and manage clean and renewable green energy assets in select target countries of Central and Eastern Europe and in Canada

The Company and its associate, Plasma Green Energy, have a number of opportunities which they are currently pursuing, both domestically and internationally These include partnering with major corporations and developing projects on a merchant plant basis

The trading results for the year and the Company's financial position at the end of the year are shown in the attached financial statements

Research and development

Development costs of the Gasplasma® technology are capitalised These costs will be written off over future revenue streams The costs capitalised in the period amount to £1,609,000 *(2009 £2,121,000)*

Proposed dividend

The directors do not recommend the payment of a dividend *(2009 £Nil)*

Policy and practice on payment of creditors

Whilst there is no formal creditor payment policy, it is the policy of the Company to settle the terms of payment with all suppliers when agreeing the terms for the transactions as a whole and to abide by such terms

Principal risks and uncertainties

The company is in the process of developing the Gasplasma® technology and is reliant on shareholder support until it can generate sufficient revenues from the technology The principal risk pertains to the availability of sufficient shareholder support until the technology is commercialised which is expected to be within the next twelve months Other uncertainties are that a supportive regulatory framework will continue for the Gasplasma® technology and the technology will remain a competitive solution in the waste to energy marketplace

Directors

The directors who held office during the period were as follows

P Moayedi (Chairman)
H Lafferty (Non executive)
E Manukian (Non executive)
S Merriweather
CD Chapman
A Morris
R Stein

Disabled employees

In dealing with applications for employment from disabled persons or where individuals become disabled whilst in the employment of the company, every reasonable effort is made to provide opportunities within the potential aptitude and ability of the individuals concerned and to provide training and other facilities as may contribute appropriately to their career development or promotion

Directors' report *(continued)*

Employee involvement

The importance of good communications and relations with all employees is recognised The company attempts to achieve this by a policy of keeping employees informed on matters affecting their interests at meetings with employees or employee elected representatives

Regular meetings are held between local management and employees to allow a free flow of information and ideas

Political and charitable contributions

The Company made no political or charitable donations in the year *(2009 £Nil)*

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed and KPMG LLP will, therefore, continue in office

By order of the board

Andrew Morris

A Morris
Director

7th Floor
52/54 Gracechurch Street
London
EC3V 0EH

11th May 2011

Statement of directors' responsibilities in respect of the directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

KPMG

KPMG LLP

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
United Kingdom

Independent auditor's report to the members of Advanced Plasma Power Limited

We have audited the financial statements of Advanced Plasma Power Limited for the year ended 31 December 2010 set out on pages 6 to 22 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU

This report is made solely to the company's members, 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 members 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 members, 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 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements 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 financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the company's ability to continue as a going concern The company incurred a net loss of £2,880,000 during the period ended 31 December 2010 and currently generates no revenue in advance of the successful development and commercialisation of certain technology This, along with the other matters explained in note 1 to the financial statements, indicates the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern

Independent auditor's report to the members of Advanced Plasma Power Limited *(continued)*

Opinion on other matter prescribed by the Companies Act 2006

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

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

JD Leech (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

13 May 2011

Statement of comprehensive income
for the year ended 31 December 2010

	Note	2010 £000	2009 £000
Revenue	2	**83**	67
Cost of sales		**(37)**	(64)
Gross profit		**46**	3
Share of losses of associates	3	**(184)**	(24)
Other income	4	**262**	260
Administrative expenses	4,5,6	**(2,716)**	(2,788)
Operating loss		**(2,592)**	(2,549)
Finance (expense)/income	7	**(110)**	(86)
Loss before tax		**(2,702)**	(2 635)
Taxation	8	**(178)**	477
Loss for the year		**(2,880)**	(2,158)
Total comprehensive loss for the year		**(2,880)**	(2,158)

The Company has no recognised gains or losses other than the loss for the above financial period

All activities are classed as continuing operations

There is no difference between the above result and that prepared on an historical cost basis

Statement of changes in equity
for the year ended 31 December 2010

	Share capital £000	Share premium £000	Retained earnings £000	Total £000
Balance as at 31 December 2007	1,072	3,519	(1,643)	2,948
Loss for the year	-	-	(1,676)	(1,676)
Transactions with owners, recorded directly in equity				
Issues of shares	17	833	-	850
Share based payment transactions	-	-	774	774
Total transactions with owners	17	833	774	1,624
Balance as at 31 December 2008	1,089	4,352	(2,545)	2,896
Loss for the year	-	-	(2,158)	(2,158)
Transactions with owners, recorded directly in equity				
Issues of shares	189	8,235	-	8,424
Share based payment transactions	-	-	1,391	1,391
Total transactions with owners	189	8,235	1,391	9,815
Balance as at 31 December 2009	**1,278**	**12,587**	**(3,312)**	**10,553**
Loss for the year	-	-	(2,880)	(2,880)
Transactions with owners, recorded directly in equity				
Issues of shares	62	3,064	-	3,126
Share based payment transactions	-	-	1,080	1,080
Total transactions with owners	62	3,064	1,080	4,206
Balance as at 31 December 2010	**1,340**	**15,651**	**(5,112)**	**11,879**

Statement of financial position
at 31 December 2010

	Note	2010 £000	2009 £000
Non-current assets			
Plant and equipment	*9*	**48**	21
Intangible assets	*10*	**9,035**	7,426
Investment in associate	*11*	**2,892**	3,076
Deferred tax assets	*16*	**924**	1,102
		12,899	11,625
Current assets			
Trade and other receivables	*12*	**258**	666
Cash and cash equivalents	*13*	**2,432**	2,063
		2,690	2,729
Total assets		**15,589**	14,354
Non-current liabilities			
Shareholder loan	*14*	**(1,721)**	(1,623)
Current liabilities			
Trade and other payables	*15*	**(1,989)**	(2,178)
Total liabilities		**(3,710)**	(3,801)
Net assets		**11,879**	10,553
Equity			
Share capital	*18*	**1,340**	1,278
Share premium		**15,651**	12,587
Accumulated losses		**(5,112)**	(3,312)
Total equity		**11,879**	10,553

These financial statements were approved by the board of directors on 11th May 2011 and were signed on its behalf by

Andrew Morris

A Morris
Director

Registered number 5633910

Cash flow statement
for the year ended 31 December 2010

	Note	2010 £000	2009 £000
Cash flows from operating activities			
Loss for the year before tax		**(2,702)**	(2,635)
Adjustments for			
Depreciation, amortisation and impairment		**19**	7
Finance costs		**110**	86
Share of loss of associate		**184**	24
Share based payment expenses		**894**	949
Operating loss before changes in working capital and provisions		**(1,495)**	(1,569)
Decrease/(increase) in trade and other receivables		**408**	(71)
Decrease in trade and other payables		**(189)**	(1,390)
Cash generated from the operations		**(1,276)**	(3,030)
Interest received		**18**	18
Interest paid		**(30)**	-
Net cash outflow from operating activities		**(1,288)**	(3,012)
Cash flows from investing activities			
Acquisition of plant and equipment	*9*	**(46)**	(4)
Capitalised development expenditure	*10*	**(1,423)**	(1,678)
Acquisition of other intangible assets	*10*	**-**	(1,160)
Net cash outflow from investing activities		**(1,469)**	(2,842)
Cash flows from financing activities			
Proceeds from the issue of share capital	*18*	**3,126**	6,264
Shareholder loan		**-**	1,520
Net cash inflow from financing activities		**3,126**	7,784
Net increase in cash and cash equivalents		**369**	1,930
Cash and cash equivalents at 31 December	*13*	**2,432**	2,063

Notes
(forming part of the financial statements)

1 Accounting policies

Advanced Plasma Power Limited (the "Company") is a company incorporated in the UK

The company's financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs")

Statement of compliance

The company is preparing its financial statements in accordance with IFRS as adopted for use in the EU

Basis of preparation

The financial statements are prepared on a going concern basis which the directors believe to be appropriate for the following reasons The company has no bank borrowing facilities and meets its day to day fixed and working capital requirements from cash balances and a shareholder loan The company is developing Gasplasma technology for the conversion of non-recyclable waste into a hydrogen rich syngas which can be converted into energy or for other chemical uses and, based upon technical advice received and the directors' market knowledge the directors are confident that this technology can be successfully developed and commercially exploited However, a commercial scale plant has not yet been developed and thus there is significant uncertainty as to the amount and timing of cash flows necessary to commercially exploit the technology and there can be no certainty that profitable revenues will be generated The directors have prepared projected cash flow information for the period ending twelve months from the date of their approval of these financial statements The company has received an undertaking of financial support sufficient to meet its forecast cash requirements for the foreseeable future being at least 12 months from the date of the directors approval of these financial statements from InvestSelect plc, a related party, which in turn has received a confirmation of financial support from its own shareholders sufficient to meet the cash requirements of the company As with any company placing reliance on other entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so

Based on this undertaking and the cash flow forecasts, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis However, the directors consider that these are material uncertainties that may cast significant doubt on the company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2010 and have not been applied in preparing these financial statements None of these are expected to have a significant effect on these financial statements

Functional and presentational currency

These financial statements are presented in Great British Pounds (GBP), which is the company's functional currency All financial information presented in GBP has been rounded to the nearest thousand

Measurement convention

The financial statements are prepared on the historical cost basis

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable

Financial instruments

The Company does not hold or issue derivative financial instruments for trading purposes

Notes *(continued)*

1 Accounting policies *(continued)*

Plant and equipment

Plant and equipment are stated at cost/deemed cost less accumulated depreciation and impairment losses

Where parts of an item of plant and equipment have different useful lives, they are accounted for as separate items of plant and equipment

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of each part of an item of plant and equipment, as follows

Office equipment	-	3 years
Computer equipment	-	3 years
Fixtures and fittings	-	3 years
Plant and machinery	-	5 years
Leasehold improvements	-	5 years

Intangible assets

Expenditure on research activities is recognised in the income statement as an expense as incurred

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company has sufficient resources to complete development The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads Other development expenditure is recognised in the income statement as an expense as incurred Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets

The capitalised development costs and patents, trademarks and licences will be amortised over future revenue streams

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits

Impairment

The carrying amounts of the Company's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment If any such indication exists, the asset's recoverable amount is estimated

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount Impairment losses are recognised in the income statement

Reversals of impairment

An impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised

Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred

Notes *(continued)*

1 Accounting policies *(continued)*

Share-based payment transactions

The share option programme allows Company employees to acquire shares of the Company

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting

Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease Lease incentives received are recognised in the income statement as an integral part of the total lease expense

Net financing costs

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method

Taxation

Tax on the profit or loss for the period comprises current and deferred tax Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes The following temporary differences are not provided for the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses Actual results may differ from these estimates

Estimates and underlying assumptions are reviewed on an ongoing basis Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected

In particular, information about significant areas of estimation, uncertainty and judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes

Note 8 – Taxation
Note 10– Development costs
Note 17 – Share based payments

Notes *(continued)*

1 Accounting policies *(continued)*

Associated entities

Investments in associates are accounted for using the equity method Investments are initially recognised at cost and then adjusted to reflect post-acquisition changes in the Company's share of the net assets of its associates The loss of the company includes its share of the profits or losses of any associates

2 Revenue

Revenue arises from the rendering of services

3 Share of losses of associates

The loss of £184,000 *(2009 £24,000)* arises from the company's 20% holding in Plasma Green Energy LLP

4 Expenses and auditors' remuneration

Included in the loss are the following charges/(credits)

	2010	2009
	£000	£000
Other income – research and development income	**(230)**	(260)
Auditors' remuneration		
Audit of these financial statements	**7**	6
Taxation services	**29**	16

5 Employees

The average number of persons employed by the Company (including directors) during the period, analysed by category, was as follows

	Number of employees	
	2010	2009
Operations and engineering	**14**	6
Commercial and administration	**3**	2
Directors	**3**	3
	20	11

Included in the average numbers above, there are no directors *(2009 1 director)* who were remunerated by Tetronics Limited

At the period end, there were 21 persons *(2009 17)* directly employed by the Company

Notes *(continued)*

5 Employees *(continued)*

The aggregate payroll costs of these persons were as follows

	2010 £000	2009 £000
Wages and salaries	**1,207**	817
Social security costs	**141**	104
Other pension costs	**111**	62
Equity settled share based payment transactions (see note 17)	**152**	456
	1,611	1,439

6 Remuneration of directors

	2010 £000	2009 £000
Directors' emoluments	**443**	542
Company contributions to money purchase pension plans	**48**	44
	491	586

The emoluments of the highest paid director were £183,423 *(2009 £155,000)*, his share options under the long term incentive scheme were worth £113,313 *(2009 Nil)*, and company pension contributions of £18,000 *(2009 £14,000)* were made to a money purchase scheme on his behalf

Retirement benefits are accruing to the following number of directors under

	Number	
	2010	2009
Money purchase schemes	**3**	3

7 Finance expense

	2010 £000	2009 £000
Interest income on bank deposit	**18**	18
Interest expense on bank overdraft	**(10)**	-
Interest expense on shareholder loan	**(118)**	(104)
	(110)	(86)

Notes *(continued)*

8 Taxation

Recognised in the income statement

	2010 £000	2009 £000
Current tax		
Current tax on income for the period	-	-
Total current tax	-	-
Deferred tax		
Origination and reversal of temporary differences	**296**	477
Reduction in tax rate	**(34)**	-
Adjustments for prior years	**(440)**	-
Total deferred tax	**(178)**	477
Total tax (charge)/credit to the income statement	**(178)**	477

Reconciliation of effective tax rate

	2010 £000	2009 £000
Loss before tax	**2,702**	2,635
Tax using the UK corporation tax rate of 28%	**757**	738
Research and development tax credit	**169**	(132)
Non-deductible expenses	**(68)**	42
Non-taxable income	**65**	-
Capital allowances in excess of depreciation	-	(186)
Other timing differences	**(231)**	15
Research and development losses surrendered	**(396)**	-
Prior year adjustment	**(440)**	-
Change in tax rate	**(34)**	-
Total tax in income statement	**(178)**	477

On 22 June 2010 the Chancellor announced that the main rate of UK corporation tax will reduce from 28% to 27% with effect from 1 April 2011 This tax change became substantively enacted in July 2010 and therefore the effect of the rate reduction on the deferred tax balances as at 31 December 2010 has been included in the figures above

On 23 March 2011 the Chancellor announced a further reduction in the main rate of UK corporation tax to 26 per cent with effect from 1 April 2011 This change became substantively enacted on 29 March 2011 and therefore the effect of the rate would create an additional reduction in the deferred tax asset of approximately £34,000 This has not been reflected in the figures above as it was not substantively enacted at the balance sheet date

The Chancellor also proposed changes to further reduce the main rate of corporation tax by one per cent per annum to 23 per cent by 1 April 2014, but these changes have not yet been substantively enacted and therefore are not included in the figures above The overall effect of the further reductions from 27 per cent to 23 per cent, if these applied to the deferred tax balance at 31 December 2010, would be to further reduce the deferred tax asset

Notes *(continued)*

9 Plant and equipment

	Office equipment £000	Computer equipment £000	Fixtures and fittings £000	Plant and machinery £000	Leasehold improvements £000	Total £000
Cost						
At beginning of year	6	20	12	-	6	44
Additions	5	10	-	12	19	46
At end of year	11	30	12	12	25	90
Depreciation and impairment						
At beginning of year	3	10	7	-	3	23
Depreciation charge for the year	4	7	4	1	3	19
At end of year	7	17	11	1	6	42
Net book value						
At 31 December 2010	**4**	**13**	**1**	**11**	**19**	**48**
At 31 December 2009	3	10	5	-	3	21

10 Intangible assets

	Patents and trade- marks £000	Development costs £000	Total £000
Cost			
At beginning of year	1,304	6,122	7,426
Acquisitions – internally developed	-	1,609	1,609
At end of year	1,304	7,731	9,035
Amortisation and impairment			
At beginning of year	-	-	-
Amortisation for the period	-	-	-
At end of year	-	-	-
Net book value			
At 31 December 2010	**1,304**	**7,731**	**9,035**
At 31 December 2009	1 304	6,122	7,426

The capitalised development costs include the development works carried out in relation to the Gasplasma® technology, primarily at the Swindon Plant and associated test works carried out by Tetronics Limited and the verification of the Gasplasma® Process by independent consultants

Included in the internally developed additions are £186,000 *(2009 £443,000)* of capitalised share option costs

Notes *(continued)*

11 Investment in associates

APP took a 20% stake in Plasma Green Energy LLP, a limited liability partnership registered in the UK, on 27 May 2009 and held 20% at 31 December 2010 The summary financial information for the associate is set out below

	2010 £000	2009 £000
Total assets	**1,297**	1,500
Total liabilities	**(838)**	(120)
Net assets	**459**	1,380
Total revenue	-	-
Total loss for the period	**(921)**	(120)
Company's share of loss of associate	**(184)**	(24)
Fair value of share exchange	**1,600**	1,600
Waiver of royalties (see note 15)	**1,500**	1,500
Share of loss	**(208)**	(24)
Investments as at 31 December 2010	**2,892**	3,076

12 Trade and other receivables

	2010 £000	2009 £000
Other receivables and accrued income	**228**	651
Prepayments	**30**	15
	258	666

The directors consider that the carrying amount of other receivables and prepayments approximates to their fair value

13 Cash and cash equivalents

	2010 £000	2009 £000
Cash and cash equivalents per cash flow statements	**2,432**	2,063

Notes *(continued)*

14 Shareholder loan

An unsecured loan of £1,721,000 *(2009 £1,623,000)* has been provided to the company from its shareholders Interest is charged on this loan at the higher of 7% and the UK base rate plus 4% Included in the loan amount at the balance sheet date is £98,000 *(2009 £104,000)* of rolled up interest

15 Trade and other payables

	2010 £000	2009 £000
Trade payables	**178**	107
Trade payables due to related parties	**159**	126
Non-trade payables and accrued expenses	**152**	445
Deferred income	**1,500**	1,500
	1,989	2,178

The directors consider that the carrying amount of other receivables and prepayments approximates to their fair value

The deferred income represents the fair value of the gain on waiving of royalty rights issued to the associate undertaking The income will be recognised when the first plant is operational

16 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

	2010 £000	2009 £000
Intangible and tangible assets	**(1,224)**	(582)
Share based payments	**76**	482
Tax value of loss carry forwards	**2,072**	1,202
Net tax asset recognised	**924**	1,102
Net tax asset not recognised	**-**	-
Total tax asset	**924**	1,102

Notes *(continued)*

17 Employee benefits

Defined contribution plans

The Company operates a number of defined contribution pension plans

The total expense relating to these plans in the current period was £111,021 *(2009 £61,756)*

Share-based payments

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares

Grant date/employees entitled	Number of instruments	Vesting conditions	Contractual life of options
Equity settled award granted to Directors and other employees on 12 December 2006	2,282,500	None	11 December 2016
Equity settled award granted to Directors and other employees on 12 December 2006	4,667,500	Achievement of performance targets for years ending 31 December 2009 -2010	11 December 2016
Equity settled award granted to Directors and other employees on 1 May 2007	537,500	None	30 April 2017
Equity settled award granted to Directors and other employees on 1 May 2007	2,612,500	Achievement of performance targets for years ending 31 December 2009 - 2011	30 April 2017
Equity settled award granted to Directors and other employees on 1 August 2007	148,750	None	31 July 2017
Equity settled award granted to Directors and other employees on 1 August 2007	902,500	Achievement of performance targets for years ending 31 December 2009 - 2011	31 July 2017
Equity settled award granted to Directors and other employees on 1 May 2008	260,000	Achievement of performance targets for years ending 31 December 2009 - 2012	30 April 2018
Equity settled award granted to Directors and other employees on 1 August 2008	1,100,000	Achievement of performance targets for years ending 31 December 2009 - 2012	31 July 2018
Equity settled award granted to Directors and other employees on 1 July 2009	2,000,000	Achievement of performance targets for years ending 31 December 2009 – 2012	30 June 2019
Equity settled award granted to Directors and other employees on 22 October 2010	1,590,000	Achievement of performance targets for years ending 31 December 2010 – 2013	30 September 2020
Equity settled award granted to Directors and other employees on 1 November 2010	60,000	Achievement of performance targets for years ending 31 December 2010 – 2013	31 October 2020

The number and weighted average exercise prices of share options are as follows

	2010 Weighted average exercise price £	**Number of options '000**	2009 Weighted average exercise price £	Number of options '000
Outstanding at 1 January	**0 04**	**4,632**	0 02	11,511
Granted	**0 15**	**1,800**	0 05	2,000
Lapsed	**0.02**	**(585)**	0 01	(6,819)
Exercised	-	-	0 01	(2,060)
Outstanding at 31 December	**0 07**	**5,847**	0 04	4,632
Exercisable at 31 December	**0.02**	**1,230**	0 01	1,250

Notes *(continued)*

17 Employee benefits *(continued)*

Share-based payments *(continued)*

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted, measured based on the Black-Scholes formula Expected volatility is estimated by considering a range of possible volatilities in the share price The inputs used in the measurement of the fair values at grant date are the following

	2010	2009
Fair value at grant date	**44p**	49p
Share price at grant date	**50p**	50p
Exercise price	**6p**	4p
Expected volatility	**37%**	37%
Option life	**2 years**	2 years
Expected dividends	**Nil%**	Nil%
Risk free interest rate	**3 00%**	3 00%

Employee expenses

	2010	2009
	£000	£000
Share options granted in 2010 and prior	**152**	456

In the year there were £186,000 *(2009 £443,000)* of share options capitalised within development costs The Company expensed £742,000 *(2009 £493,000)* relating to share options granted to non-employees

The amount of options expected to vest in 2010 will be decided by the remunerations committee based on the performance of the company in 2010 For purposes of calculating the share option expense, it is assumed that 50% of the available options will vest

18 Share capital

	Ordinary shares	
In thousands of shares	**2010**	2009
On issue at 1 January	**127,748**	108,882
Issued for cash	**6,253**	18,866
On issue at 31 December – fully paid	**134,001**	127,748

	2010	2009
	£000	£000
Allotted, called up and fully paid		
134,000,433 *(2009 127,747,513)* ordinary shares of 1p each	**1,340**	1,278

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company

During the period, the company issued 6,252,920 shares for cash consideration of £3,126,460

Notes *(continued)*

19 Financial instruments and related disclosure

Overview

The company has exposure to the following risks from its use of financial instruments

- credit risk,
- liquidity risk

This note presents information about the company's exposure to each of the above risks, the company's objectives, policies and processes for measuring and managing risk and the company's management of capital Further quantitative disclosures are included throughout these financial statements

The board of directors have overall responsibility for the establishment and oversight of the company's risk management framework

The company's risk management policies are established by the board of directors to identify and analyse the risks faced by the company to set appropriate risk limits and controls and to monitor risks and adherence to limits Risk management policies and systems are reviewed regularly to reflect changes in activities In conjunction with these policies, the company offers training and development to instil a disciplined and constructive control environment in which all employees understand their roles and obligations

Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the company's receivables from customers

Other receivables and amounts due from fellow group undertakings

The company's exposure to credit risk is deemed low because the material receivable balances are deposits paid in advance At the balance sheet date, there are no significant concentrations of credit risk The maximum exposure is represented by the carrying amount of each financial asset in the balance sheet

Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meets its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation

The company regularly reviews its cash flow requirements and ensures sufficient funds are available to meet its liabilities as they fall due See note 1 for information on the company's going concern position

Notes *(continued)*

19 Financial instruments and related disclosure *(continued)*

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements

31 December 2010	**Carrying amount £000**	**Contractual cash flows £000**	**6 months or less £000**	**6-12 months £000**	**More than 1 year £000**
Non-derivative financial liabilities					
Trade and other payables *	489	(489)	(489)	-	-
Shareholder loan	1,721	(1,721)	-	-	(1,721)
	2,210	(2,210)	(489)	-	(1,721)

31 December 2009	**Carrying amount £000**	**Contractual cash flows £000**	**6 months or less £000**	**6-12 months £000**	**More than 1 year £000**
Non-derivative financial liabilities					
Trade and other payables *	678	(678)	(678)	-	-
Shareholder loan	1,623	(1,623)	-	-	(1,623)
	2,301	(2,301)	(678)	-	(1,623)

* Excludes deferred income

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts

Capital management

The capital structure of the company consists of shareholders' equity At 31 December 2010, shareholders' equity amounted to £1,340,000 *(2009 £1,278,000)* The Board's policy is to maintain a strong capital base so as to maintain investor and market confidence and to sustain future development of the business

20 Operating leases

Non-cancellable operating lease rentals are payable as follows

	2010 £000	2009 £000
Between one and five years	-	91

The Company has an operating lease over its office for 1 year During the period ending 31 December 2010, £84,500 *(2009 £61,400)* was recognised as an expense in the income statement in respect of operating leases

Notes *(continued)*

21 Related parties

Identity of related parties

Tetronics Limited is a company controlled by the principal shareholders of the Company In 2010, the Company continued to operate the demonstration plant using Tetronics' technical staff At the balance sheet date, the Company owed Tetronics Limited £2,900 *(2009 £86,228)* in respect of this work and this has been settled during 2011

Tetronics Limited also supplies administration services to the Company, including human resources and Health & Safety support At the balance sheet date, the Company owed Tetronics Limited £15,100 *(2009 £23,371)* in respect of this agreement and this has been settled in the following period

Tetronics Holdings Plc is a company controlled by the principal shareholders of the Company The Company rents its premises from Tetronics Holdings Plc At the balance sheet date the Company owed Tetronics Holdings Plc £68,550 *(2009 £Nil)* in respect of this agreement and this has been settled during 2011

InvestSelect PLC is a company controlled by the principal shareholders of the Company During 2010, the Company continued to contract with InvestSelect PLC for the procurement of financial administration support and the services of the following directors H Lafferty and R Stein During the period, the Company was charged £247,203 *(2009 £169,101)* for these services At the balance sheet date, the Company owed InvestSelect PLC £77,830 *(2009 £17,084)* in respect of these charges and this has been settled in the following period

Bridge Green Limited is a company controlled by P Moayedi and whose charges are for Mr Moayedi's services as Chairman of the Company No amount *(2009 £Nil)* was outstanding as at the balance sheet date

Transactions with key management personnel

As at the balance sheet date, Directors of the Company control 50 4 per cent of the voting shares of the Company