

The logo for Environmental Recycling Technologies plc (ert) is located in the top right corner. It features the lowercase letters 'ert' in a green, sans-serif font, followed by a stylized green leaf icon. Below the 'ert' and icon, the full name 'Environmental Recycling Technologies plc' is written in a smaller, green, sans-serif font. The entire logo is contained within a white, rounded, teardrop-shaped background.

ert
Environmental Recycling
Technologies plc

Annual
Report &
Accounts
2009

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> CHAIRMAN'S STATEMENT

I am very pleased to say that after over two years of very hard work from your Board of Directors, the Company has been transformed.

The virtual model the present Board introduced in 2008 has been implemented although the Company has had to face additional costs relating to concluding several old development projects.

The Company has also been impacted by various claims and litigation. As a result your Board feels that issues arising from previous years have largely been addressed allowing the Board to focus on the future development of the company.

Our showcase licensee is 2K Manufacturing Limited and their lead product "EcoSheet". Progress at their factory at Luton has been slower than planned, but 2K is on course to be in full production this year. After a slow start, 2K's expansion plans have accelerated at pace and the future for them looks very exciting.

By the same token, there are several other development projects underway none of which result in significant costs to the Company. This is our model going forward.

The Board will continue to pursue cost saving opportunities where possible in the future. This may include a share capital reorganisation in order to bring the ongoing plc costs in line with the size of the Company.

In short, having refocused the company, dealt with the issues of the past and heavily cut back on our costs, your Board feels confident about the future of your Company.

In the meantime our colleague Henry Bellingham has now resigned following his appointment to the government. We would like to thank him for all he has done and wish him well in his new role. The process of appointing a replacement Non executive Director has begun but the Board feels it best to make a considered appointment rather than a quick appointment.

It has been a testing period for the Company and I am personally grateful for all the support and assistance given to the Company and myself by so many of you.

KEN BROOKS
Chairman

> MANAGING DIRECTOR'S REVIEW

Despite uncertain economic times, the Company continues to make progress in its ambitions to commercialise the PIM technology and to deliver a viable and sustainable business model.

The long running dispute with the Company's former CEO in Kyrgyzstan has been resolved (see note 26). This problem had not only been a drain on resources but a distraction preventing the Board from focussing on the Company's primary commercial objectives.

A key milestone in our strategy has been to sign the "Master Flat Sheet" License with 2K Manufacturing and marks a commitment from 2K to focus on the roll out of its "EcoSheet" brand worldwide.

Under the "Master Flat Sheet" License, 2K have agreed to give up its rights under the "Master Construction" License and to hand these back to the Company to re-market.

We are already in discussion with a prospective UK Licensee who wishes to use the laboratory PIM rig at Brunel University to develop PIM as a means of production for a construction product which they currently manufacture in substantial quantities using conventional materials.

We can report that the leading global consulting engineers, Arup, continue to be excited by the potential of PIM in the construction sector and we look forward to developing a

closer relationship between them, our licensees (both existing and future) and the Company.

We believe the potential of PIM to be used in anti-ballistic and military applications is likely to be a key element of its commercialisation. Our Nafta licensee, Aeropro, continue to maintain their option to license the technology for such purposes whilst they continue their research and development programme. In the UK a license has been signed with One Delta to develop PIM for a specific anti-ballistic protection system which was exhibited at the recent DVD 2010 military equipment show.

During the year, shareholders have expressed their disappointment at the lack of news announced by the Company. As stated before, the Board only intends to announce specific licences when they have been signed and are material financially, or when we are required to do so for regulatory reasons in relation to existing licences.

In the current economic climate, the need for "green" technologies is as relevant as it has ever been. 2K Manufacturing will be demonstrating this as their first line comes on stream later this summer. Your Board remains confident that the PIM process offers exciting opportunities for companies trying to embrace "green" principles over the coming years.

ROGER BAYNHAM
Managing Director



> FINANCIAL REVIEW

For the year ended 31 December 2009

Results

Revenue together with other income for the year ended 31 December 2009 was £1.21 million (2008: £1.35 million). The loss from operations was £3.55 million compared to losses of £2.75 million in 2008. Losses attributable to equity shareholders were £4.65 million (2008 loss £3.18 million).

Dividends and loss per share

No dividend payment is proposed.

The loss per share was 1.49 pence compared to 1.18 pence in 2008.

Trading

The progress towards profitability is challenging and the group has reported another operating loss for the year. Whilst there are a number of uncertainties as outlined in the Directors' report and in note 23 to the accounts, the outlook is now more promising as 2K Manufacturing moves closer to volume production of its "EcoSheet".

Administrative expenses excluding exceptional items for the period were £2.17 million compared to £2.38 million in the same period in 2008 and include in addition to normal running expenses, corporate finance costs, legal costs associated with the on-going intellectual property rights and additional write down of the moulds.

Exceptional costs were £2.59 million compared to £1.72 million in 2008. They cover additional costs for the final legal and settlement costs associated with a former employee in Krygyzstan and an additional provision in relation to a financial guarantee in respect of the Alpha Line sale & leaseback agreement (see note 18).

Financing

Measures have been implemented to manage cash resources and secure appropriate levels of finance.

Total borrowings amounted to £3.05 million compared to £3.13 million at 31 December 2008.

The Yorkville convertible loan of £1,474k was due to be repaid or converted before 31 December 2009 and has been rolled forward. The Directors do not expect there to be a requirement to repay the loans in cash during the next 12 months. Although no formal commitment has been received, discussions with Yorkville indicate that it will be possible to extend the loan or to request the conversion of the loan into equity. The Directors believe that arrangements to renew the loan facilities or convert debt into equity will be achievable.

As far as the other loans are concerned, written assurance has been received from the lender of £1.325 million that there is no intention to request immediate repayment and that subject to agreement the lender would accept repayment by the issue of shares in the company. The remaining loans are due for repayment by 30 June 2011 at which date the lenders gain conversion rights.

Furthermore there is a £5 million Standby Equity Distribution Agreement ("SEDA") that could be used to facilitate settlement of claims and repayment of loans over time.

Going concern

Based upon forecasts prepared, after making enquiries and the comments made above, the Directors have a reasonable expectation that the Company and the group have adequate resources to meet commitments as they fall due and continue in operational existence for the foreseeable future. The Directors have concluded that due to the ongoing discussions in relation to extending the Company's finance facilities and the reliance on the support from the above lenders, there is an inherent uncertainty in relation to the Group's and Company's ability to continue as a going concern. Nevertheless after making enquiries, and considering the uncertainties described above, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue on operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts (see note 1).

DAVID SHEPLEY-CUTHBERT
Finance Director

> DIRECTORS' REPORT

For the year ended 31 December 2009

The Directors present their report and the financial statements of the Group for the year ended 31 December 2009.

Principal activities and business review

The principal activity of the Company is the licensing of the intellectual property of the plastic Powder Impression Moulding (PIM) system to third parties for specific products and geographical areas of the world in order to generate fees and ongoing royalties. The enhanced review of the business is contained within the Chairman's Statement, Managing Director's Review and Financial Review on pages 1 to 3. The company's subsidiaries do not trade.

Future developments

Once 2K Manufacturing commences volume production at the end of the summer, there will be a showcase demonstrating the commercialisation of the PIM process. As a result, the Company expects the level of enquiries to escalate and in time result in further licences to be granted for specific product areas. There are already a number of applications being considered across a broad spectrum of products.

Results and dividends

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

The Directors have not recommended a dividend.

The Directors and their interests in shares of the Company

The Directors who served the Company during the year together with their beneficial interests in the shares of the Company were as follows:

	Ordinary shares of £0.025 each	
	At 31 December 2009	At 31 December 2008
K W Brooks	1,022,000	1,022,000
R Baynham	500	500
D C Shepley-Cuthbert	122,500	122,500
H C Bellingham	300,000	300,000

Mr H C Bellingham resigned as a Director on 21 May 2010.

The Directors have been granted options to subscribe for ordinary shares of £0.025 in the Company as set out below:

	At 1 January 2009	At 31 December 2009	Exercise price £	Date from which exercisable	Expiry Date
K W Brooks	2,061,000	2,061,000	0.62	30.09.03	29.09.13
	250,000	250,000	0.48	28.09.05	27.09.15
D C Shepley-Cuthbert	200,000	200,000	0.72	13.10.04	12.10.14
	200,000	200,000	0.48	28.09.05	27.09.15

At 31 December 2009 the middle market price of the shares was 1.20p per share, and the range during the year was between 1.00p and 3.75p.

Policy on the payment of creditors

The Company agrees terms and conditions for its business transactions with suppliers. Payment is then made in accordance with those terms, subject to the terms and conditions being met by the supplier.

The Company and the group had 87 days purchases outstanding at 31 December 2009 (2008 – 60 days) based on the average daily amount invoiced by suppliers during the year ended 31 December 2009.



> DIRECTORS' REPORT (continued)

For the year ended 31 December 2009

Principal risks and uncertainties

The Company is exposed to a variety of risk in the conduct of its normal operations. Whilst it is not possible to either completely record or to quantify every material risk that the Company faces, below is a summary of those risks that the directors believe are most significant to the Company's business and could have a material impact on future performance, causing it to differ materially from expected or historic achieved results.

Commercialisation of the PIM process

The Company's prime risk is the on-going commercialisation of the PIM process. All costs of product development are for each customer with the Company facilitating introductions to third parties.

Royalty revenues

The Company hopes to achieve significant royalty revenues in the future which are subject to the successful development of each customers' products being produced under licence from ERT. Future royalty revenues have an inherent uncertainty as they are principally derived from the number of units produced by customers and are subject to variations in patterns of demand.

Treasury function

The Company monitors cash flow as part of its day to day control procedures. The board considers cash flow projections and liquidity risk at its meetings and ensures that appropriate facilities are available to be drawn down upon as necessary.

Credit risk

The Company's credit risk is primarily attributable to its trade debtors. Credit risk is managed by running credit checks on customers and by monitoring payments against contractual agreements.

Customer concentration, programme dependencies and relationships

The loss of, or deterioration in any single customer relationship could have a material impact on the group's results.

Financial guarantee obligations

The Company is exposed to certain financial liabilities as reported in note 18 to the accounts. Inherent uncertainties in measuring the provision relate to estimating the cost that will be incurred in relation to the settlement of the financial guarantee.

Indemnity cover

The Company purchases Directors and Officers insurance cover to protect the Directors from third party claims. Indemnity cover was in force during the year under review and was in force at the date of the directors' report.

Financial Instruments

Details of the use of financial instruments by the Company and its subsidiary undertakings are contained in note 23 of the financial statements.

Events after the reporting period

Details of events after the reporting period are given in note 26.

Directors' responsibilities

The Directors are responsible for preparing the Annual 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 the Directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 group and company and of the profit or loss of the group and company for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;

> DIRECTORS' REPORT (continued)

For the year ended 31 December 2009

- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements:
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The Directors are responsible for keeping 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 requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The director's responsibility also extends to the ongoing integrity of the financial statements contained therein.

Corporate governance

The Company's shares are traded on the Alternative Investment Market of the London Stock Exchange and the Company is therefore not required to report on compliance with the "Combined Code" ('the Code'). However the Directors support the highest standards of corporate governance and intend to comply with the Code as far as practicable having regard to the Company's size, stage of development and resources.

The Company has established Audit and Remuneration Committees comprising Mr Brooks and Mr Baynham.

Company details

The Company is incorporated in England as a public limited company and has its registered office at Regent House, 316 Beulah Hill, London, SE19 3HF.

Auditors

All of the current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purpose of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

A resolution to re-appoint BDO LLP as auditors for the ensuing year will be proposed at the annual general meeting.

Signed by order of the Directors

R E SIMS
Joint Company Secretary
Oxford Corporate Services Ltd.

Approved by the Directors on 28 June 2010



> INDEPENDENT AUDITORS' REPORT

To the members of Environmental Recycling Technologies plc

We have audited the financial statements of Environmental Recycling Technologies plc for the year ended 31 December 2009 which comprise the Group Statement of Comprehensive Income, the Group and Company Statement of Financial Position, the Group and Company Statement of Changes in Equity, the Group and Company Statement of Cash Flow and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 auditors

As explained more fully in the statement of directors' responsibilities, 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 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2009 and of the group loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the 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 by the parent company, or returns adequate for our audit have been received from branches not visited by us: or
- the parent company financial statements are not in agreement with 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.

Stephen Ward (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor

Birmingham

28 June 2010

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

> GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

		Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Continuing operations	note		
Revenue	3	1,101	1,089
Other income		106	262
Administrative expenses			
Exceptional	5	(2,586)	(1,724)
Other		(2,167)	(2,379)
Total administrative expenses		(4,753)	(4,103)
Loss on operations	4	(3,546)	(2,752)
Finance costs	8	(948)	(424)
Loss for the year before income tax		(4,494)	(3,176)
Tax charge/(credit) on loss on ordinary activities	9	—	—
Loss for the year from continuing operations attributable to equity shareholders of the company		(4,494)	(3,176)
Other comprehensive income			
Available-for-sale financial assets			
– losses in year		(154)	—
Tax charge/(credit) on other comprehensive income		—	—
Other comprehensive income (net of tax)		(154)	—
Total comprehensive loss for the year attributable to equity shareholders of the company		(4,648)	(3,176)
Loss per share (pence)			
Basic and diluted loss per share	11	(1.49p)	(1.18p)

Notes on pages 13 to 34 form part of these financial statements.



> GROUP STATEMENT OF FINANCIAL POSITION

At 31 December 2009

Assets	note	£'000	31 December 2009 £'000	£'000	31 December 2008 £'000
Non-Current Assets					
Intangible assets	12		9,791		10,685
Plant & equipment	13		—		296
Available-for-sale financial assets	14		701		855
Total non-current assets			10,492		11,836
Current assets					
Trade and other receivables	15	804		228	
Cash and cash equivalents		204		17	
Total current assets			1,008		245
Total assets			11,500		12,081
Liabilities					
Current liabilities					
Trade and other payables	16	2,247		1,224	
Borrowings	17	3,050		3,128	
Provisions	18	2,433		563	
Total current liabilities			7,730		4,915
Total liabilities			7,730		4,915
Net assets			3,770		7,166
Equity attributable to the shareholders of the parent					
Share capital	21		8,412		7,160
Share premium reserve	22		35,500		35,500
Warrant reserve	22		945		1,021
Available-for-sale reserve	22		(154)		—
Retained earnings	22		(40,933)		(36,515)
Total equity			3,770		7,166

The financial statements on pages 8 to 34 were approved and authorised for issue by the Board on 28 June 2010 and were signed on its behalf by:

K W BROOKS
Chairman

The notes on pages 13 to 34 form part of these financial statements.

> COMPANY STATEMENT OF FINANCIAL POSITION

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Total equity			3,770		7,166

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K W BROOKS
Chairman

The notes on pages 13 to 34 form part of these financial statements.



> GROUP AND COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

	Share Capital £'000	Share Premium £'000	Warrant Reserves £'000	Available for sale Reserve £'000	Retained earnings £'000	Total £'000
Loss for year	—	—	—	—	(4,494)	(4,494)
Available for sale reserve	—	—	—	(154)	—	(154)
Total comprehensive loss for the year	—	—	—	(154)	(4,494)	(4,648)
Issue of share capital	1,252	—	—	—	—	1,252
Warrants and options lapsed	—	—	(76)	—	76	—
Movement for the year	1,252	—	(76)	(154)	(4,418)	(3,396)
Balance at 1 January 2009	7,160	35,500	1,021	—	(36,515)	7,166
Balance at 31 December 2009	8,412	35,500	945	(154)	(40,933)	3,770

Year ended 31 December 2008

	Share Capital £'000	Share Premium £'000	Warrant Reserves £'000	Available for sale Reserve £'000	Retained earnings £'000	Total £'000
Loss for year	—	—	—	—	(3,176)	(3,176)
Total recognised income and expense for the year	—	—	—	—	(3,176)	(3,176)
Issue of share capital	850	53	—	—	—	903
Warrants adjustments	—	—	26	—	(26)	—
Options lapsed	—	—	(372)	—	372	—
Movement for the year	850	53	(346)	—	(2,830)	(2,273)
Balance at 1 January 2008	6,310	35,447	1,367	—	(33,685)	9,439
Balance at 31 December 2008	7,160	35,500	1,021	—	(36,515)	7,166

The group consists of the parent company and two dormant subsidiaries as detailed in note 14. In that context the change in equity is the same for both the group and parent company.

The notes on pages 13 to 34 form part of these financial statements.

> GROUP AND COMPANY STATEMENT OF CASH FLOW

For the year ended 31 December 2009

	note	31 December 2009 £'000	31 December 2008 £'000
Continuing Activities			
Loss before tax		(4,494)	(3,176)
Adjusted for:			
Depreciation on plant and equipment		296	312
Amortisation of intangible assets		894	894
Accrued interest costs		368	351
Debt issue costs		546	—
Adjusted loss from operations		(2,390)	(1,619)
(Increase)/decrease in trade and other receivables		(576)	48
Increase/(decrease) in trade and other payables		861	(520)
Increase in provisions		1,870	18
Cash used by operations		(235)	(2,073)
Tax receipt		—	—
Net cash outflow from operations		(235)	(2,073)
Cash flows from investing activities			
Purchase of plant and machinery		—	(2)
Net cash used in investing activities		—	(2)
Cash flows from financing activities			
Inception of loans		543	2,272
Repayment of loans		(121)	(325)
Interest paid		—	(1)
Net increase in cash from financing activities		422	1,946
Net increase/(decrease) in cash		187	(129)
Cash and cash equivalents at beginning of period		17	146
Cash and cash equivalents at end of period	27	204	17

The group consists of the parent company and two dormant subsidiaries as detailed in note 14. In that context the cash flow statement is the same for both the group and parent company.

The notes on pages 13 to 34 form part of these financial statements.



> NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. ACCOUNTING POLICIES

Basis of accounting

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRS's"). The financial statements have also been prepared in accordance with those parts of the Companies Act 2006 applicable to companies preparing financial statements in accordance with IFRS.

IFRS 8 Operating Segments (effective for periods beginning on or after 1 January 2009) replaces IAS 14 Segmental reporting. Further details are provided below.

The Group has adopted the revised IAS1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

As permitted under the revised IAS1, the Group has elected to present one statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard.

The Group has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7) effective for the year ending 31 December 2009. This amendment requires enhanced disclosures about fair value measurements and liquidity risk which have been provided in note 23. The amendment does not change the recognition or measurements of transactions and balances in the financial statements.

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Reviews on pages 1 to 3. The financial position of the group, its borrowings and borrowing facilities are described in the Financial Review on page 3. In addition note 23 to the financial statements includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

As described in the Financial Review on page 3 the progress towards profitability is challenging and the group has reported another operating loss for the year. Whilst there are a number of uncertainties, the Directors' consider that the outlook is now more promising. The Directors have instituted measures to manage cash resources and secure appropriate levels of finance. At the date of approving these accounts the company's debt to Yorkville is £1.9 million including interest and debts to other lenders amount to £1.8 million. All these debts are due for repayment before 31 December 2011.

As explained on page 3, the Directors are in discussions with Yorkville concerning extending the loan term and the conversion of more loan into equity and with the other lenders to settle the outstanding loans by the issue of shares in the company rather than settling in cash. During the year, other lenders converted £796,000 into shares. No formal agreements have been reached but discussions with Yorkville indicate that existing facilities will remain available or could be settled in shares rather than cash. In addition a written assurance has been received from one lender covering £1.325 million that there is no intention to request immediate repayment and that subject to agreement the lender would accept repayment by the issue of shares in the company. Similarly the expectations arising from the terms of the remaining loan arrangements are that lenders would take settlement in shares if the company was unable to repay the loans. If appropriate, draw downs from the Standby Equity Distribution Agreement ("SEDA") may be made available to facilitate settlement of claims and repayment of loans over time, however this would be dependant upon the company's share price returning to greater than par. There is sufficient headroom to issue shares to convert the total debt and interest outstanding following the consent of shareholders at the Annual General Meeting held in September 2009.

The Standby Equity Distribution Agreement (SEDA) with Yorkville to the value of £5 million expires in September 2010. Funding facilities, underwritten by the Yorkville facility, have been organised to cover the company's normal overheads for the rest of the year. The company has had commercial discussions with lenders to ensure that existing facilities remain available or will be settled in shares rather than cash. There are currently no reasons to believe that arrangements cannot be made on acceptable terms.

Based upon forecasts prepared, after making enquiries and the comments made above, the Directors have a reasonable expectation that the company and the group have adequate resources to meet commitments as they fall due and continue in operational existence for the foreseeable future. The Directors have concluded that due to the ongoing discussions in relation to extending the company's finance facilities and the reliance on the support from the above lenders, there is an inherent uncertainty in relation to the group's and company's ability to continue as a going concern. Nevertheless after making enquiries, and considering the uncertainties described above, the Directors have a reasonable expectation that the group and the company have adequate resources to continue on operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

1. ACCOUNTING POLICIES (continued)

Basis of consolidation

The financial statements consolidate the accounts of Environmental Recycling Technologies plc and its non-trading subsidiary undertakings. Intercompany transactions and balances between companies are eliminated in full.

Revenue

Revenue arises from licences and royalty agreements which incorporate the transfer of technology. It comprises the fair value of the consideration receivable by the Group, exclusive of Value Added Tax. The fair value of the consideration is normally the terms negotiated between the company and its licensee. Where the negotiated terms are weighted toward one aspect of the contract the revenue may be spread to reflect performance under the contract based on the directors' estimate of fair value.

Licence income is recognised on a straight line basis over the shorter of the cancellation period or the term of the contract. Minimum annual and any overriding royalties earned during the year are accounted for on an accruals basis.

Income from pre-production work is also included in revenue and is recognised on delivery of the product.

Research and development

Expenditure is capitalised if it can be demonstrated that it is technically feasible to develop the product for it to be sold; adequate resources are available to complete the development; there is an intention to complete and sell the product; the group is able to sell the product; sale of the product will generate future economic benefits; and expenditure on the project can be measured reliably. Capitalised development costs are amortised over the periods the group expects to benefit from selling the products developed. The amortisation expense is included within administrative expenses in the consolidated statement of comprehensive income. Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the consolidated statement of comprehensive income as incurred.

Exceptional items

Exceptional items are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the group's performance.

Externally acquired intangible assets

Externally acquired intangible assets, such as intellectual property and licences are initially recognised at cost. Intellectual property is amortised over the useful economic life of 20 years aligned to the life of the underlying patents that have been granted. Licences are amortised over their useful economic life.

The amortisation expense is included within administrative expenses in the statement of comprehensive income.

Plant and equipment

Items of plant and equipment are initially recognised at cost and stated at cost less accumulated depreciation (cost comprising the acquisition cost of the asset along with any other attributable costs at the date of acquisition).

Depreciation is provided to write off the cost of plant and equipment less any estimated current residual values, over their estimated useful lives. The rates used on a reducing balance basis are as follows:

Plant & machinery – 15 to 50%

Computer equipment – 33%

Impairment tests on the carrying value of plant and equipment are undertaken at the end of each year if events or changes in circumstances indicate that the carrying value may not be recoverable.



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

1. ACCOUNTING POLICIES (continued)

Leased assets and obligations

Where a Group Company enters into a lease which entails taking substantially all the risk and rewards of ownership of an asset, the lease is treated as a "finance lease". The asset is recorded in the statement of financial position as property, plant and equipment, and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included in creditors. Rentals payable are apportioned between the finance element, which is charged to the statement of comprehensive income, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as "operating leases" and the rental charges are charged to the statement of comprehensive income on a straight line basis over the life of the lease.

Government grants

Income from government grants is taken to other income and the associated expenditure is taken to administrative expenses when the company has satisfied the principal conditions of the project. When retention of a government grant is dependant on the group satisfying certain criteria, it is initially recognised as deferred income. When the criteria have been satisfied, the deferred income balance is released to the consolidated statement of comprehensive income.

Provisions

Provisions are recognised for liabilities of uncertain timing or amount that have arisen as a result of past transactions.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs to its tax base, except for differences arising on:

- the initial recognition of goodwill;
- goodwill for which amortisation is not tax deductible;
- investments in subsidiaries where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either :

- the same taxable group company; or
- different group entities which intend either to settle current tax liabilities on a net basis, or to realise the assets and settle the tax liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Current tax is calculated using rates that have been enacted or substantively enacted at the reporting date.

Foreign currencies

Transactions entered into by group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the consolidated statement of comprehensive income.

Operating Segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the board of directors. The board reviews the Group's internal reporting in order to assess performance. Management has determined the operating segments on these reports.

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

1. ACCOUNTING POLICIES (continued)

Financial assets

The Group's financial assets fall into the categories discussed below, with the allocation depending to an extent on the purpose for which the asset was acquired. The Group has not classified any of its financial assets as held to maturity.

Unless otherwise indicated, the carrying amounts of the Group's financial assets are a reasonable approximation of their fair values.

Available-for-sale financial assets

Non-derivative financial assets not included in the above categories are classified as available for sale and comprise principally the group's strategic investments in entities not qualifying as subsidiaries. They are carried at fair value with changes in fair value recognised directly in a separate component of equity (available for sale reserve). Where there is a significant or prolonged decline in the fair value of an available for sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously charged to equity, is recognised in the statement of comprehensive income. Purchases and sales of available for sale financial assets are recognised on the date of the transaction. On sale, the amount held in the available for sale reserve associated with that asset is removed from equity and recognised in the statement of comprehensive.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables) and deposits held at banks, but may also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue and subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The effect of discounting on these financial instruments is not considered to be material.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits at call with banks, and other short term highly liquid investments with original maturity of three months or less that are readily convertible to a known amount of cash and are considered to be subject to insignificant risk of changes in value. Bank overdrafts are shown within borrowings as current liabilities.

Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Group does not use derivative financial instruments in economic hedges of currency risk.

Unless otherwise indicated, the carrying amounts of the Group's financial liabilities are a reasonable approximation of their fair values. Financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.
- Bank borrowings and other loans are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding. Interest is recognised as a finance expense in the statement of comprehensive income.

Fair value is calculated discounting estimated future cash flows using a market rate of interest.

Financial instruments are recognised when the Group becomes party to the contractual terms of the instrument and derecognised on expiry of the contractual terms or conditions attaching to the instrument.



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

1. ACCOUNTING POLICIES (continued)

Convertible loans

The proceeds received on issue of the group's convertible debt are allocated into their liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that does not include an option to convert. Subsequently, the debt component is accounted for as a financial liability measured at amortised cost. Where the contractual terms of the convertible loan contain an agreement for the issue of a fixed number of warrants, as well as an option to convert, and when such warrants can be transferred, cancelled, or redeemed independently of the loan instrument, the fair value of the warrants at the date of issue of the loan is removed from the liability component of the loan and is credited to a warrant reserve. Any remaining difference between the fair value of the convertible loan as a whole and the amount allocated to the debt component of the convertible loan is credited direct to equity and is not subsequently re-measured. On conversion, the debt and equity elements are credited to share capital and share premium as appropriate.

Simultaneous issue of shares and warrants

Where shares and warrants are issued simultaneously and the warrants can be transferred, cancelled or redeemed independently of the shares, then the related proceeds are apportioned to the shares and warrants. This apportionment is based upon the fair value of the warrants at the date of issue. The proceeds allocated to the warrants are credited to a warrant reserve. On the exercise of the warrants a transfer is made from the warrant reserve to the share premium account.

Share capital

The Group's ordinary shares are classified as equity instruments. The Group is not subject to any externally imposed capital requirements. Share capital includes the nominal value of the shares and any share premium attaching to the shares.

Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive income over the vesting period. Non market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of the options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive income over the vesting period.

Share options granted in respect of external services have been measured by reference to the fair value of the service received.

Parent company – cost of investment in subsidiaries

The company's investments in its subsidiary companies are carried at cost less any provisions for impairment

Finance Guarantee Obligation

To the extent that it becomes probable at the end of the financial year that a finance guarantee obligation will require settlement the liability arising is measured at the directors' best estimate of the obligation arising.

Future accounting developments

Standards, amendments and interpretations to published standards not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning after 1 January 2010 or later periods and which have not been adopted early. Those considered relevant to the group include:

– Revised IFRS 3, *Business Combinations and complementary Amendments to IAS 27 Consolidated and separate financial statements* (both effective for accounting periods beginning on or after 1 July 2009). Management will assess the impact of revised IFRS 3 and amendments to IAS 27 on the accounts.

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

1. ACCOUNTING POLICIES (continued)

– *IFRIC 17 Distributions of Non-cash Assets to Owners* (effective for accounting periods beginning on or after 1 July 2009). Prior to this interpretation, IFRSs did not address how an entity should measure distributions of assets other than cash when it pays dividends. Dividends payable were sometimes recognised at the carrying amount of the assets to be distributed and sometimes at their fair value. The Interpretation clarifies that: a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; that an entity should measure the dividend payable at the fair value of the net assets to be distributed; and, that an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions. It does not have to be applied retrospectively.

– *IFRIC 18 Transfer of Assets from Customers Owners* (effective for accounting periods beginning on or after 1 July 2009). The interpretation clarifies the treatment of agreements in which an entity receives from a customer an item of property, plant and equipment (or cash which must be used only to acquire or construct an item of property, plant and equipment) that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The interpretation clarifies whether and when an asset should be recognised, and how it should be measured. It also clarifies how revenue arising from such a transaction should be recognised.

– *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments* (effective for accounting periods beginning on or after 1 April 2010). The interpretation addresses transactions in which an entity issues equity instruments to a creditor in return for the extinguishment of all or part of a financial liability. Broadly, it applies to transactions where the two parties are acting only in their capacity as lender and borrower. It does not address the appropriate treatment for the creditor and does not apply to arrangements in which liabilities are extinguished in return for equity instruments in accordance with the original terms of the financial liability. For transactions within its scope, where the whole liability is extinguished, the interpretation requires the equity instrument issued to be measured at their fair value and the difference between that fair value and the carrying value of the financial extinguished to be recognised in profit and loss. Where only part of the financial liability is extinguished, some allocation of the consideration between the extinguished portion of the liability and the part of the liability that remains outstanding may be required.

– *Revised IAS 24 Related Party Transactions* (effective for accounting periods beginning on or after 1 January 2011). The revision of IAS 24 is in response to concerns that the previous disclosure requirements and the definition of a related party were too complex and difficult to apply in practice, especially in environments where government control is pervasive. The revised standard addresses these concerns.

– *IFRS 9 Financial Instruments* (effective from accounting periods beginning 1 January 2013) IFRS 9 will eventually replace IAS 39 in its entirety. However, the process has been divided into three main components: Classification and measurement; impairment; and, hedge accounting. As each phase is completed, it will delete the relevant portions of IAS 39 and create new chapters in IFRS 9.

IFRS 9 addresses the classification and measurement of financial assets only.

– *Improvements to IFRSs (2010)* (generally effective for accounting periods beginning on or after 1 January 2010). The improvements in this Amendment clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards.

The changes include the clarification that: The disclosure requirements of other IFRSs do not generally apply to non-current assets (or disposal groups) classified as held for sale; total assets for each reportable segment need only be disclosed when such information is regularly provided to the chief operating decision maker; that the terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not effect its classification, and; that only expenditures that result in a recognised asset can be classified as a cash flow from investing activities. It also confirms that the combination of entities or businesses under common control and the contribution of a business on the formation of a joint venture are outside of the scope of IFRS 2 and that IFRIC 9 also does not apply to embedded derivatives in contracts acquired in such transactions.

The Amendment changes IAS 38 to bring the guidance on the treatment of intangible assets acquired as part of a business combination in line with the requirements of IFRS 3(R) and to clarify the description of valuation techniques used in the absence of an active market. It introduces changes to IAS 17 that eliminate the inconsistencies between the general lease classification guidance and the guidance applicable to the classification of the land element in long-term leases of land and buildings. The latter changes may lead to an increased number of instances when the land element of a lease of land and buildings is classified as a finance lease.

Finally, Improvements to IFRSs (2010) introduces a number of changes to IAS 39. These changes restrict the scope exemption in IAS 39.2(g) to forward contracts between an acquirer and a selling shareholder to buy or sell an acquiree in a business combination at a future acquisition date (i.e. removing the scope exemption for option contracts whether or not currently exercisable, that on exercise will result in control of an entity). It also clarifies when embedded prepayment options can be considered closely related to a host contract, the timing of reclassification adjustments in designated cash flow hedging relationships and, the use of internal contracts in hedging relationships.



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Judgements

(a) Impairment of intangible assets

The group monitors market conditions to assess indications of impairment. When an impairment review is performed the recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. The estimates of future cash flows assume that licensees will not cancel license and royalty agreements, if cancellations occur there would be a risk that future cash flows would be less than estimated. The estimated discount rate is to reflect current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Actual outcomes may vary. Intangible assets are shown in note 12, no impairment charge has been made.

(b) Legal proceedings and finance guarantee obligations

In accordance with IFRS the group recognises a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognised or disclosed in the financial statements, could have a material effect on the group's financial position. Application of these accounting principles to legal cases requires the group's management to make determinations about various factual and legal matters beyond its control. The group reviews outstanding legal cases following developments in the legal proceedings and at each reporting date, in order to assess the need for provisions and disclosures in its financial statements. Among factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before the statements are issued), the opinion or views of legal advisers, experience on similar cases and any decision of the group's management as to how it will respond to the litigation, claim or assessment. Provisions are disclosed in note 18.

(c) Revenue recognition

The directors exercise judgement in determining the fair value and performance requirements of license and royalty agreements. Estimates are reviewed based on the performance obligation of each contract and the estimates affect reported revenue.

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

3. REVENUE AND SEGMENT INFORMATION

The revenue and loss before tax are attributable to the principal activities of the Group being the licensing of the intellectual property of the plastic Powder Impression Moulding system to generate licence fees and ongoing royalties.

In the opinion of the Directors, the only operating segment is the exploitation of the group's intellectual property. Whilst customers may be operating in different economic environments the group operates from the United Kingdom and all business is subject to English law.

All assets are held in the UK.

Reporting of external revenue by location of customer is as follows:

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
United Kingdom	801	203
Rest of Europe	—	14
North America	300	872
	1,101	1,089

Revenue arises from:

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Licence income	517	1,038
Royalties	583	—
Pre-production sales	1	51
	1,101	1,089

Revenues of £800,000 related to customer A, £300,000 to customer B and £1,470 to customer C of the group's total revenue respectively.



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

4. LOSS ON OPERATIONS BEFORE INTEREST AND FINANCE

Loss on operations is stated after charging/(crediting):

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Depreciation of plant and equipment	296	312
Amortisation of intangible fixed assets	894	894
Fees payable to the Group's auditor in respect of –		
– Audit of the Group's annual accounts	48	48
– Tax services	7	7
– All other services	—	20
Hire of other assets – operating leases	—	18
Net loss/(gain) on foreign currency translation	74	(17)
Equity settled share based payments	456	—
Grant income	(106)	(262)

Grant income is of a revenue nature.

Amounts paid to the company's auditor in respect of services to the company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

5. EXCEPTIONAL ITEMS

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Legal and settlement costs	749	642
Product development work	7	1,082
Finance guarantee obligations	1,830	—
	2,586	1,724

The legal and settlement costs are associated with the claim from a former employee in Kyrgyzstan and settlement costs of a legal dispute in Asia in 2008. The product development work relates to fulfilling contractual obligations for product development for Mediwall and pre production work for Contour. Finance guarantee obligations relates to a financial guarantee dated August 2006, which guaranteed the Alpha Line finance agreement that was transferred to Enviro Polytek (formerly Environmental Polymer Technologies Limited) on the sale of 3DM Europe and 3DM Group Limited on 30 November 2006 (see note 18).

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

6. PARTICULARS OF EMPLOYEES

The average number of staff employed by the Group during the year amounted to:

	Group & Company Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Administrative staff	1	1
Management staff	4	4
	5	5

The aggregate staff costs (including directors) were:

	Group & Company Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Wages and salaries	186	227
Social security costs	21	23
	207	250

7. DIRECTORS' EMOLUMENTS

The Directors' aggregate emoluments in respect of qualifying services were:

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Emoluments receivable	120	170
Amounts paid to third parties in respect of directors' services	60	63
	180	233

Emoluments of the highest paid director was £60,000 (2008: £60,000). See note 20 for details of related party transactions. No contributions were paid on behalf of directors to pension schemes (2008: £Nil).

The directors are the key management personnel for the purposes of IAS 24. Their compensation comprised of payroll costs of £120,000 (2008: £170,000) and fees paid to third party companies controlled by the individual directors of £60,000 (2008: £63,000)

8. FINANCE COSTS

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Loan interest	367	221
Bank interest	1	1
Stock lending costs	489	—
Amortisation of finance costs	91	202
Total finance costs	948	424



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

9. INCOME TAX ON LOSS ON OPERATIONS

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Current tax charge/(credit) for the year	—	—

In 2009, the tax assessed for the the period is higher than the standard rate of corporation tax in the UK applied to loss before tax. The differences are explained below:

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Loss before tax from continuing operations:	(4,494)	(3,176)
Loss from continuing operations at the standard rate of Corporation tax in the UK of 28% (2008 – 28%)	(1,258)	(889)
Effect of:		
Expenses not deductible for tax purposes	510	319
Depreciation in excess of capital allowances	83	87
Tax losses carried forward (net)	665	483
Current tax charge/(credit) for the year	—	—

10. LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The company has taken advantage of the exemption allowed under Section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements.

The retained loss dealt with in the financial statements of the parent Company was £4,648,271 (2008: £3,175,485).

11. EARNINGS PER SHARE

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
Numerator		
Loss used for calculation of basic and diluted EPS	(4,648)	(3,176)
	Year ended 31 December 2009 number	Year ended 31 December 2008 number
Denominator		
Weighted average number of shares used in basic and diluted EPS	311,557,369	270,112,435

At 31 December 2009, there were 12,896,785 (2008: 21,041,785) of potentially issuable shares which are anti-dilutive; such shares may become dilutive in future periods.

Since the year end, the Company has issued additional shares (see note 26) which would have impacted on the earnings per share calculation if they had occurred before 31 December 2009.

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

12. INTANGIBLE ASSETS

	Licences £'000	Intellectual property £'000	Total £'000
GROUP AND COMPANY			
Cost			
At 1 January 2009	1,250	15,247	16,497
At 31 December 2009	1,250	15,247	16,497
Amortisation			
At 1 January 2009	140	5,672	5,812
Charge for the year	70	824	894
At 31 December 2009	210	6,496	6,706
Net book value			
At 31 December 2009	1,040	8,751	9,791
At 31 December 2008	1,110	9,575	10,685
GROUP AND COMPANY			
Cost			
At 1 January 2008	1,250	15,247	16,497
At 31 December 2008	1,250	15,247	16,497
Amortisation			
At 1 January 2008	70	4,848	4,918
Charge for the year	70	824	894
At 31 December 2008	140	5,672	5,812
Net book value			
At 31 December 2008	1,110	9,575	10,685
At 31 December 2007	1,180	10,339	11,579

Licence fees are initially recognised at cost and are amortised over their useful economic life of 20 years. At 31 December 2009, the remaining amortisation period is 17 years.

Intellectual property is initially recognised at cost and is amortised over its estimated useful economic life of 20 years aligned to the underlying patents that have been granted. At 31 December 2009, the remaining amortisation period is 11 years.



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

13. PLANT AND EQUIPMENT

	Plant & machinery £'000	Total £'000
GROUP AND COMPANY		
Cost		
At 1 January 2009	891	891
At 31 December 2009	891	891
Depreciation		
At 1 January 2009	595	595
Charge for the year	296	296
At 31 December 2009	891	891
Net book value		
At 31 December 2009	—	—
At 31 December 2008	296	296

	Computer equipment £'000	Plant & machinery £'000	Total £'000
GROUP AND COMPANY			
Cost			
At 1 January 2008	8	558	566
Additions	3	333	336
Disposals	(11)	—	(11)
At 31 December 2008	—	891	891
Depreciation			
At 1 January 2008	3	286	289
Charge for the year	3	309	312
Disposals	(6)	—	(6)
At 31 December 2008	—	595	595
Net book value			
At 31 December 2008	—	296	296
At 31 December 2007	5	272	277

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Listed Shares £'000	Unlisted Shares £'000	Total £'000
GROUP AND COMPANY			
Cost			
At 1 January 2009	410	445	855
Equity swap	445	(445)	—
Unrealised foreign exchange losses	(74)	—	(74)
Net losses transferred to equity	(80)	—	(80)
At 31 December 2009	701	—	701

	Listed Shares £'000	Unlisted Shares £'000	Total £'000
GROUP AND COMPANY			
Cost			
At 1 January 2008	—	—	—
Additions	410	445	855
At 31 December 2008	410	445	855

During 2008, 500,000 shares in Longborough Capital Corp Inc. (LBOC), a company with shares traded on pink sheets in New York, were received in settlement of licence fees amounting to US\$625,000 due from LBOC. In addition GTI Inc. a subsidiary of LBOC has paid licence fees due amounting to US\$650,000 by issuing 1,083,333 shares. These GTI Inc. shares were exchanged for 520,000 shares in LBOC on 30 March 2009.

Listed shares are carried at fair value based on quoted market prices (level 1).

COMPANY

The Company's investment in the capital of unlisted subsidiary undertakings is less than £1,000 in total and it represents:

	Nature of business	Shareholding	Incorporated
3DM Product Developments Limited	Dormant	100%	England
Camco Corporation Limited	Dormant	100%	England

The total cost of these investments is £602 against which there is an impairment provision of £600.



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

15. TRADE AND OTHER RECEIVABLES

	Group		Company	
	31 December 2009 £'000	31 December 2008 £'000	31 December 2009 £'000	31 December 2008 £'000
Current – due within one year				
Trade receivables	335	134	335	134
VAT recoverable	4	1	4	1
Other debtors and prepayments	465	93	465	93
	804	228	804	228

All receivable balances are in sterling. As at 31 December 2009 trade receivables of £150,000 (2008: £nil) were past due but not impaired. They relate to customers with no default history.

The ageing analysis of these receivables is as follows:

	Group		Company	
	31 December 2009 £'000	31 December 2008 £'000	31 December 2009 £'000	31 December 2008 £'000
Up to 3 months	185	134	185	134
6 to 12 months	150	—	150	—
	335	134	335	134

The Group's main income is from licence and royalty fees. Accrued income and receivables are regularly reviewed by the Board of Directors to assess the recoverability of amounts due.

16. TRADE AND OTHER PAYABLES – CURRENT

	Group		Company	
	31 December 2009 £'000	31 December 2008 £'000	31 December 2009 £'000	31 December 2008 £'000
Trade payables	1,272	839	1,272	839
Social security and other taxes	39	9	39	9
Accruals and deferred income	936	376	936	376
	2,247	1,224	2,247	1,224

Book value is a fair approximation for fair value and debts are due for repayment under normal trading terms.

The ageing analysis of these payables is as follows:

	Group		Company	
	31 December 2009 £'000	31 December 2008 £'000	31 December 2009 £'000	31 December 2008 £'000
Up to 3 months	1,528	873	1,528	873
6 to 12 months	719	351	719	351
	2,247	1,224	2,247	1,224

> **NOTES TO THE FINANCIAL STATEMENTS** (continued)

For the year ended 31 December 2009

17. BORROWINGS

	Group		Company	
	31 December 2009 £'000	31 December 2008 £'000	31 December 2009 £'000	31 December 2008 £'000
Current – due within one year				
Short term borrowings	1,576	1,479	1,576	1,479
Current portion of long term borrowings	1,474	1,649	1,474	1,649
Total borrowings	3,050	3,128	3,050	3,128

The carrying value (which is a reasonable approximation to fair value) of borrowings analysed by lender is as follows:

	Group		Company	
	31 December 2009 £'000	31 December 2008 £'000	31 December 2009 £'000	31 December 2008 £'000
YA Global Investment Limited — current	1,474	1,649	1,474	1,649
Other loans	1,576	1,479	1,576	1,479
Total borrowings	3,050	3,128	3,050	3,128

The amounts due to YA Global Investments Limited (“Yorkville”) are stated net of unamortised finance costs. This convertible loan was unsecured and denominated in Sterling. Pursuant to an agreement dated 27 March 2008 Yorkville borrowings are secured by a debenture over the assets of the undertaking. The loan was due for repayment on 31 December 2009. As explained on page 3, the Directors are in discussions with Yorkville concerning extending the loan term. Interest is being charged at 12% per annum. Subject to certain conditions Yorkville may convert their loan to ordinary shares of the company.

Other loans advanced during the year totalled £499,158. A further £495,925 costs were incurred for stock lending and arrangement fees. Loans totalling £121,000 were repaid or transferred and £796,000 was converted during the year into ordinary shares. These loans carry interest at rates varying from 7.5% to 15% and conversion rights into ordinary shares.

The company has no other borrowing facilities except for the SEDA referred to in the Financial Review on page 3.



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

18. PROVISIONS

	Group		Company	
	31 December 2009 £'000	31 December 2008 £'000	31 December 2009 £'000	31 December 2008 £'000
Legal claims				
At 1 January 2009	563	545	563	545
Increase in provision	601	179	601	179
Utilised in year	(148)	(161)	(148)	(161)
At 31 December 2009	1,016	563	1,016	563

	Group		Company	
	31 December 2009 £'000	31 December 2008 £'000	31 December 2009 £'000	31 December 2008 £'000
Finance guarantee obligations				
At 1 January 2009	—	—	—	—
Increase in provision	1,417	—	1,417	—
At 31 December 2009	1,417	—	1,417	—

	Group		Company	
	31 December 2009 £'000	31 December 2008 £'000	31 December 2009 £'000	31 December 2008 £'000
Current	1,079	563	1,079	563
Non-current	1,354	—	1,354	—
Total provisions	2,433	563	2,433	563

Provisions cover claims for legal and settlement costs associated with a former employee in Kyrgyzstan. The provision was increased to cover further legal costs incurred during the year, interest accruing on the court judgment and the terms of the settlement reached in February 2010 which are set out in note 26. Amounts paid during the year to the former employee and legal advisors were offset against the provision.

Finance guarantee obligations relates to a financial guarantee dated August 2006, which guaranteed the Alpha Line finance agreement that was transferred to Enviro Polytek Limited (formerly Environmental Polymer Technologies Limited) on the sale of 3DM Europe Limited and 3DM Group Limited on 30 November 2006. On 15 January 2010, Enviro Polytek Limited went into administration. The finance guarantee obligation provision represents the Directors' best estimate of the outstanding financial obligation in respect of the Alpha Line finance agreement.

19. COMMITMENTS UNDER OPERATING LEASES

The Group had total contracted lease payments under non-cancellable operating leases as set out below.

	Lease commitments	
	2009 Motor vehicles £'000	2008 Motor vehicles £'000
Within one year	—	4

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

20. RELATED PARTY TRANSACTIONS

Invoices totalling £59,710 (2008: £27,746) were received from the A H Brooks Partnership for services rendered and recoverable expenses. The partners are K W Brooks and Mrs N Brooks, wife of K W Brooks. The amount outstanding at the year end was £54,592 (2008: £10,781), which was due to the A H Brooks Partnership.

Invoices totalling £nil (2008: £8,333) were received from Oxford Corporate Services Limited for recoverable expenses. This Company is controlled by Mrs N Brooks, wife of K W Brooks. The amount outstanding at the year end was £nil (2008: £nil).

Aston Hall Limited invoiced £46,362 (2008: £49,288) to the Group in respect of director's fees for D C Shepley-Cuthbert who is also a director and controlling party of Aston Hall Limited. The amount outstanding at the year end was £26,018 (2008: £13,448).

Oakridge Business Services Limited, of which Mrs A Baynham wife of R Baynham is a director, invoiced £15,000 (2008: £30,000) in the year for director's fees. The amount outstanding at the year end was £11,250 (2008: £7,500).

Philip Tyler Polymers Limited, a company that K W Brooks and R Baynham are directors of, invoiced £29,536 (2008: £29,945) to the Group in respect of support services. The amount outstanding at the year end was £29,719 (2008: £14,872).

21. SHARE CAPITAL

	31 December 2009 £'000	31 December 2008 £'000
Authorised share capital:		
600,000,000 Ordinary shares of £0.025 each	15,000	10,000
(2008: 400,000,000 Ordinary shares of £0.25 each)		

On 15 September 2009 the Company, by way of Ordinary Resolution, increased its authorised share capital by the creation of 200,000,000 Ordinary shares of £0.25 each ranking pari passu in all respects with the existing Ordinary shares in the Capital of the company.

Allotted, called up and fully paid:

	31 December 2009		31 December 2008	
	No.	£'000	No.	£'000
Ordinary share capital brought forward	286,417,319	7,160	252,401,622	6,310
Issue of ordinary shares	50,067,254	1,252	34,015,697	850
	336,484,573	8,412	286,417,319	7,160

During the year, the consideration received for the allotment of ordinary shares of £0.025 each was £1,251,681 (2008: £903,000).

Capital management

The Group considers its capital to be the ordinary share capital, share premium, warrant and equity reserves and retained earnings. The Group monitors its gearing to balance risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and investment needs. In making decisions to adjust its capital structure the Group considers not only its short-term position but also its long-term objectives.



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

21. SHARE CAPITAL (continued)

Warrants and Options

The following Deed of Warrant Grants were outstanding at 31 December 2009:

Number	Exercise price	Exercisable until
1,650,000	£0.05	31 December 2009
212,600	£0.03	6 February 2010
150,000	£0.88	15 February 2010
750,000	£0.06	1 April 2010
625,000	£0.05	4 May 2010
200,000	£0.05	16 September 2010
5,000,000	£0.05	31 December 2010
1,000,000	Variable	31 December 2010
488,185	£0.50	28 January 2013

10,075,785

The following options were outstanding at 31 December 2009:

Number	Exercise price	Exercisable until
2,061,000	£0.62	29 September 2013
200,000	£0.72	12 October 2014
450,000	£0.48	27 September 2015
10,000	£0.42	31 October 2010
100,000	£0.68	22 November 2011

2,821,000

22. RESERVES

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Share capital	Amount subscribed for share capital at nominal value
Share premium	Amount subscribed for share capital in excess of nominal value
Warrant reserves	Amount representing the fair value of warrants issued with convertible loans or shares
Retained earnings	Cumulative gains and losses through the statement of comprehensive income other than amounts transferred to the available for sale reserve, and amounts transferred directly from the other reserves where required or permitted.
Available-for-sale	Gains and losses arising from changes in fair value of financial assets classified as available-for-sale

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

23. FINANCIAL INSTRUMENTS**Financial instrument risk exposure and management**

The Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- trade and other receivables
- cash and cash equivalents
- trade and other payables
- borrowings
- listed and unlisted investments
- Finance guarantee obligation

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's Finance Director. The Board receives reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Categories of Financial assets and financial liabilities

Group and Company	31 December 2009 £'000	31 December 2008 £'000
Non-current financial assets		
Available-for-sale investments carried at fair value	701	855
Current financial assets		
Trade and other receivables	799	288
Cash and cash equivalents	204	17
Financial assets carried at amortised cost	1,003	245
Current financial liabilities		
Trade and other payables	2,063	1,215
Current portion of borrowings	3,050	3,128
Financial liabilities at amortised cost	5,113	4,325

Credit risk

Credit risk arises principally from the Group's trade receivables. It is the risk that the counterparty fails to discharge its obligation in respect of the instrument. Credit risk also arises from cash and cash equivalents and deposits with banks, where only independently rated parties with a minimum rating of AAA are accepted. The maximum exposure to credit risk at 31 December 2009 was £1,003,000 (2008 - £245,000).

Trade receivables

Credit risk is managed locally by the Directors. Prior to accepting new customers, a credit assessment is made using trade industry knowledge and credit scoring database services as appropriate. Based on this information, payment terms are established and set out in a legal agreement. The Board receives periodic reports analysed by trade receivable balance and ageing profile.



> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

23. FINANCIAL INSTRUMENTS (continued)

No major renegotiation of terms has taken place during the year. There are no customers with restricted accounts. The credit quality of the year end trade and other receivables is considered to be adequate.

Liquidity Risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they fall due and to maintain a standby facility. The Board monitors annual cash budgets against actual cash position on a monthly basis. At the reporting date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

Market risk

Market risk arises from the Group's use of interest bearing financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

Interest rate risk

All current and short term borrowings are at fixed interest rates. As a result the Group has no significant exposure to cashflow interest rate risks.

Currency risk

Foreign exchange risk arises when the Group enters into transactions denominated in a currency other than their functional currency. It is the Group's policy to convert all non functional currency to sterling at the first opportunity after allowing for similar functional currency outlays. It does not consider that the use of hedging facilities would significantly minimize this risk. This has not been a material risk in the current or previous period.

Equity risk

The group is affected by conditions in the financial markets through its holdings in equity instruments. Equity risk arises from the exposure of these holdings to changes in prices and volatilities of equity prices. It is the Group's policy to review the fair value of the holdings and monitor the volatility of equity prices. This has not been a material risk to the Group in the current period.

24. DEFERRED TAX

The company has the following unrecognised deferred tax assets:

	2009 £'000	2008 £'000
Decelerated capital allowances	499	416
Short term timing differences	1,693	1,693
Losses	3,594	3,154
	5,786	5,263

Tax losses carried forward are subject to agreement with HM Revenue and Customs.

> NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

25. SHARE BASED PAYMENTS

Environmental Recycling Technologies plc operates an unapproved option scheme for Executive Directors, senior management and certain employees.

	Weighted average exercise price (pence)	2009 number	Weighted average exercise price (pence)	2008 number
Outstanding at the beginning of the year	59	2,821,000	59	3,863,000
Lapsed during the year	—	—	(61)	(1,042,000)
	59	2,821,000	59	2,821,000

The exercise price of options outstanding at the end of the year ranged between 6p and 72p (2008: 6p and 72p) and their weighted average contractual life was 3.8 years (2008: 4.8 years)

The weighted average share price (at the date of exercise) of options exercised during the year was nil p (2008: nil p)

The weighted average fair value of each option granted during the year was nil p (2008: nil p)

Environmental Recycling Technologies plc issues warrants to third parties for the provision of services rendered and the provision of finance.

	Weighted average exercise price (pence)	2009 number	Weighted average exercise price (pence)	2008 number
Outstanding at the beginning of the year	7	18,220,785	11	20,115,785
Exercised during the year	-	-	8	(125,000)
Lapsed during the year	7	(8,145,000)	24	(1,770,000)
	7	10,075,785	7	18,220,785

The exercise price of warrants outstanding at the end of the year ranged between 2.5p and 88p (2008: 2.5p and 88p) and their weighted average contractual life was 0.9 years (2008: 1.6 years)

The weighted average share price (at the date of exercise) of warrants exercised during the year was nil p (2008: 8p)

The weighted average fair value of each warrant granted during the year was nil p (2008: nil p)

26. EVENTS AFTER BALANCE SHEET DATE

The settlement by agreement of a series of disputes and litigation with Mr Sean Daley ("Mr Daley"), the former director of Camco Corporation Limited and CEO of the group's Central Asian operations was announced on 2 February 2010. The settlement will be paid over three years, with £400,000 of the settlement in cash and with £554,849 to be satisfied in shares. Full provision has been made in the 2009 accounts.

Creditors have been reduced since the year end by £868,070 with the issue of ordinary shares at par.

27. NOTES SUPPORTING THE CASH FLOW STATEMENT

	2009 £'000	2008 £'000
Significant non-cash transactions are as follows:		
Investing activities		
Purchase of available-for-sale financial assets	—	855
Purchases of plant and equipment	—	333
Financing activities		
Debt converted into equity	796	903
Other non-cash items	456	60



> OFFICERS AND PROFESSIONAL ADVISERS

THE BOARD OF DIRECTORS

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R Baynham
D C Shepley-Cuthbert

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