

PICTOR DEVELOPMENTS LLP
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 5 APRIL 2009

LLP Number OC311842

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PICTOR DEVELOPMENTS LLP

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MEMBERS' REPORT FOR THE PERIOD ENDED 5 APRIL 2009

PRINCIPAL ACTIVITIES

The principal activity of the Partnership was the trading of carbon dioxide emissions allowances and the management of the Partnership's interest in Environmental Energy Corporation Ltd, a global reforestation company

DESIGNATED MEMBERS

The following designated members have held office during the year

- Carbon Capital Ltd
- P Ropner

On 2 June 2009 P Ropner ceased to be a designated member, being replaced by A Page

On 11 December 2009 Carbon Capital Ltd and Adam Page ceased to be designated members, being replaced by Carbon Trading Investors 1 Ltd (CTI 1 Ltd) and Carbon Trading Investors 2 Ltd (CTI 2 Ltd) respectively

MEMBERS' DRAWINGS AND CAPITAL

All trading profits will be distributed in the accounting period to the members pro rata to their respective subscriptions. Such distributions will be made after allowing for the ongoing requirements of the business shown in the annual budget and after the settlement of any and all historic liabilities previously disclosed as contingent.

MEMBERS' RESPONSIBILITIES

Company law requires the members to prepare financial statements for each financial year which gives a true and fair view of the state of affairs of the partnership and of the profit or loss of the partnership for that period. In preparing those financial statements, the partnership is required to

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

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

POST BALANCE SHEET REVIEW

On 18th December 2008 the partnership, along with the other 37 Carbon Trading Partnerships, entered into a commercial arrangement to combine the majority of their business assets with those of Carbon Positive Trading Limited ("CPTL"). Whilst this was structured as a sale of assets no new material amounts of capital or cash were introduced.

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MEMBERS' REPORT

FOR THE PERIOD ENDED 5 APRIL 2009 (continued)

The intention of the amalgamation was to bring together the interests of the members with certain of the research and development rights and land interests owned by CPTL. The rationale was to create a more manageable business, in a simplified structure that would facilitate its ongoing development. Importantly it also provided for the repayment of members' loans.

In anticipation of these arrangements a new company Environmental Energy Corporation Ltd ("EEC") was formed in Bermuda by Toby Russ and Ron Carlier, to be the holding company of these activities. EEC was a shell company with minimal capitalisation.

The partnerships sold the majority of their assets including various option agreements to EEC. In return each partnership received 490,000 shares in EEC, giving the Partnerships as a whole initially a 49% stake in EEC.

The ongoing research and development agreement entered into between the Carbon Trading Partnerships and either Carbon Positive Trading Limited ("CPTL") or Carbon Positive Projects LP ("CPPLP") were cancelled, with rebates being made by CPTL and CPPLP to EEC in respect of the remaining services not yet provided.

As part of the original structure of setting up the Carbon Trading Partnerships, each member borrowed 80% of his initial capital contribution from EGC, a licensed lender based in the Isle of Man. As part of the sale, inter alia, these loans and accrued interest were repaid.

EEC was granted options over various businesses and land rights that CPTL owned, giving it the right to acquire these assets for equity in EEC. In addition CPTL made available to EEC a working capital facility for up to £25 million, convertible into EEC equity, to fund it through its first year of existence. CPTL and others were initially granted 38% of EEC's equity. This holding would increase as the options were exercised and the working capital facility was drawn. In addition, as part of the commercial arrangements CPTL transferred a small number of its shares in EEC to EGC.

EEC's £25 million working capital facility expired on 15th December 2009. The business is cashflow negative and requires continual short term funding pending it raising long term capital. It negotiated an emergency equity injection of \$1 million from Carbon Positive Limited to fund it through January 2010 and is in ongoing negotiations to obtain a further \$5 million to fund it through to June 2010. If it fails to obtain this extra funding, or if having obtained the funding it fails to raise long term capital by June, then it will likely fail.

In September 2009 Carbon Capital Limited, having failed to raise additional funding from members to fund the ongoing administration, indicated its intention to resign its various roles and positions associated with managing the Carbon Trading Partnerships. A steering committee of members was subsequently formed and a proposal was sent to all members seeking funding and support for members to take over the management role. This proposal received in excess of 91% support from members. The steering committee worked together with Carbon Capital Limited to ensure a smooth transition and by mid December 2009 the change was executed.

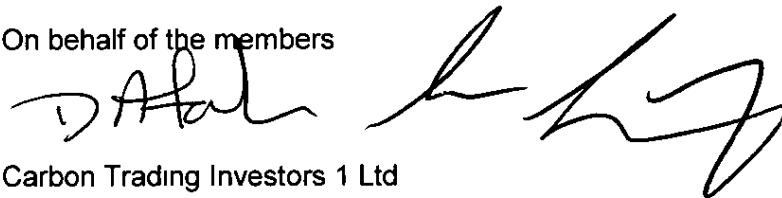
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**MEMBERS' REPORT
FOR THE PERIOD ENDED 5 APRIL 2009 (continued)**

SMALL COMPANY PROVISIONS

This report has been prepared in accordance with the special provisions for small companies under Part VII of the Companies Act 1985 (as applied to limited liability partnerships by regulation 3 of the Limited Liability Partnership Regulations 2001) relating to small limited liability partnerships

On behalf of the members

Two handwritten signatures in black ink. The first signature is on the left and the second is on the right, both appearing to be cursive and stylized.

Carbon Trading Investors 1 Ltd

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**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 5 APRIL 2009**

		2009	2008 (restated)
	Note	£	£
TURNOVER	2	1,119	646
Cost of sales		(727)	(413)
		<hr/>	<hr/>
GROSS PROFIT		392	233
Interest received		52	439
Administration expenses		(736)	(38,985)
Net income from sale of assets		124,254	-
		<hr/>	<hr/>
OPERATING PROFIT (LOSS)		123,962	(38,313)
		<hr/>	<hr/>
PROFIT (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		123,962	(38,313)
Tax on profit on ordinary activities		-	-
		<hr/>	<hr/>
PROFIT (LOSS) FOR THE FINANCIAL PERIOD BEFORE MEMBERS' REMUNERATION CHARGED AS AN EXPENSE		123,962	(38,313)
Members' share of profits (losses) charged as an expense	10	(123,962)	38,313
		<hr/>	<hr/>
PROFIT (LOSS) FOR THE FINANCIAL PERIOD AVAILABLE FOR DISCRETIONARY DIVISION AMONGST MEMBERS		-	-
		<hr/>	<hr/>

The profit and loss account has been prepared on the basis that all operations are continuing operations

There are no recognised gains or losses other than those dealt with in the profit and loss account

The notes on pages 8 to 14 form part of these financial statements

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BALANCE SHEET AT 5 APRIL 2009

		2009		2008 (restated)	
	Note	£	£	£	£
FIXED ASSET INVESTMENTS	5		294,000		-
CURRENT ASSETS					
Stock	6	83		287	
Debtors	7	-		169,797	
Cash at Bank		219		6,328	
			302	176,322	
CREDITORS: Amounts falling due within one year	8	-		5,982	
NET CURRENT ASSETS			302		170,340
NET ASSETS ATTRIBUTABLE TO MEMBERS			294,302		170,340
REPRESENTED BY:					
Equity					
Members' capital	3		1,699,946		1,699,946
Other reserves	3		(1,405,644)		(1,529,606)
TOTAL EQUITY			294,302		170,340
TOTAL MEMBERS' INTERESTS					
Members' other interests			294,302		170,340
Amounts due from Members			-		-
TOTAL MEMBERS' INTERESTS	11		294,302		170,340

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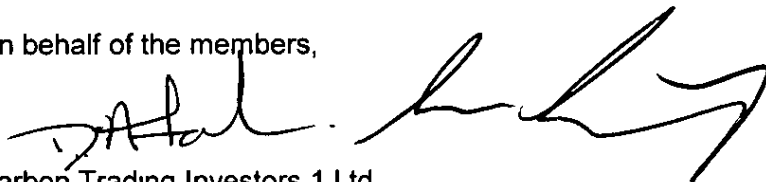
BALANCE SHEET AT 5 APRIL 2009 (continued)

For the year ended 5th April 2009 the limited liability partnership was entitled to exemption under section 249A(1) of the Companies Act 1985 (as applied to limited liability partnerships by regulation 3 of the Limited Liability Partnerships Regulations 2001)

The members acknowledge their responsibility for

- ensuring the limited liability partnership keeps accounting records which comply with section 221, and
- preparing accounts which give a true and fair view of the state of affairs of the limited liability partnership as at the end of the financial year, and of its profit or loss for the financial year, in accordance with the requirements of section 226, and which otherwise comply with the requirements of the Companies Act relating to accounts, so far as applicable to the limited liability partnership

On behalf of the members,



11/2/10

Carbon Trading Investors 1 Ltd

Designated Member

LLP Number OC311842

The notes on pages 8 to 14 form part of these financial statements

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2009

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below and have been consistently applied within the same accounts

(a) Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with the Statement of Recommended Practice Accounting by Limited Liability Partnerships and the Financial Reporting Standard for Smaller Entities (effective January 2007)

(b) Investments

Investments held as fixed assets are stated at cost less provision for any impairment in value

(c) Impairments

The carrying amounts of the partnership's 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 profit and loss account.

(d) Other reserves

To the extent that the partnership has generated trading losses which are not recoverable from members these are carried forward as a debit balance on other reserves. Future profits will be credited against these losses.

(e) Foreign exchange

Transactions in foreign currencies are translated at the rate ruling on the date of the transaction.

(f) Members' participation rights

Members' participation rights are the rights of a member against the partnership that arise under the members' agreement (for example, in respect of amounts subscribed or otherwise contributed, remuneration and profits).

Members' participation rights in the earnings or assets of the partnership are analysed between those that are, from the partnership's perspective, either a financial liability or equity, in accordance with FRS 25 (IAS 32) Financial Instruments: Disclosure and Presentation and UITF abstract 39 Members' shares in co-operative entities and similar instruments. A member's participation right results in a liability unless the right to any payment is discretionary on the part of the partnership.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2009 - continued

Amounts subscribed or otherwise contributed by members, for example members' capital, are classed as equity if the partnership has an unconditional right to refuse payment to members. If the partnership does not have such an unconditional right, such amounts are classified as liabilities.

Where profits are automatically divided as they arise, so the partnership does not have an unconditional right to refuse payment, the amounts arising that are due to members are in the nature of liabilities. They are therefore treated as an expense in the Profit and Loss Account in the relevant year. To the extent that they remain unpaid at the period end, they are shown as liabilities in the Balance Sheet.

Conversely, where profits are divided only after a decision by the partnership or its representative, so that the partnership has an unconditional right to refuse payment, such profits are classed as an appropriation of equity rather than as an expense. They are therefore shown as a residual amount available for discretionary division among members in the Profit and Loss Account and are equity appropriations in the Balance Sheet.

Other amounts applied to members, for example remuneration paid under an employment contract and interest on capital balances, are treated in the same way as all other divisions of profits, as described above, according to whether the partnership has, in each case, an unconditional right to refuse payment.

All amounts due to members that are classified as liabilities are presented in the Balance Sheet within 'Loans and other debts due to members' and are charged to the Profit and Loss Account within 'Members' remuneration charged as an expense'. Amounts due to members that are classified as equity are shown in the Balance Sheet within 'Members' other interests'.

(g) Going concern

The members have prepared the partnership's accounts on a going concern basis, which they believe to be appropriate as they consider that the partnership will be able to meet its liabilities as they fall due at least for the next year.

2. TURNOVER

The limited liability partnership's turnover represents the value, excluding value added tax, of goods and services supplied to customers during the period.

All turnover arose in the United Kingdom.

3. PRIOR PERIOD ADJUSTMENT

CTI 1 Ltd took over the management of the Carbon Trading Partnerships in December 2009 and is responsible for preparing these accounts despite the fact that these accounts relate to a period prior to its appointment. This has inevitably created difficulties in determining all facts and circumstances relating to business transactions during that accounting period and prior periods. Where conflicts exist surrounding transactions and valuations the most conservative interpretation has been adopted.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2009 - continued

In prior years the partnership entered into a contract with CPTL to undertake detailed research into how to maximise the effect of carbon sequestration through reforestation so as to generate carbon credits under the Kyoto Protocol Clean Development mechanism. The partnership entered into an irrevocable contract and thus the full amount committed to under the contract was treated as a deduction in the profit and loss account.

On 5 January 2007 HM Revenue & Customs ("HMRC") issued a closure notice to each of the first generation partnerships which refused tax relief to members of those partnerships for their shares of losses recorded in the partnership's accounts. The partnerships instructed lawyers to dispute the assertions made by HMRC.

In July 2007, HMRC commenced criminal enquiries into the tax affairs of those partnerships (which impacts all 38 partnerships) claiming that fraudulent claims to tax relief for losses had been made. The enquiry is ongoing and certain Directors of Carbon Capital Limited, Carbon Positive Trading Limited, Curzon Capital Limited and others were arrested and have been interviewed. HMRC has indicated that it expects to make a decision over whether to bring charges towards the end of the first quarter of 2010. This criminal enquiry has so far caused the civil tax appeal to be stayed.

During its investigations HMRC has focussed on allegations that the loans taken out by partnership members were part of a circular funding mechanism, so that the monies purported to be lent to members and paid on to Carbon Positive Trading Limited were not available to pay for research and development work. This allegation is strongly resisted by both the Directors of Carbon Capital Limited, who continue to fight HMRC's claims and protest their innocence, and by the Directors of CTI 1 Ltd on behalf of the partnership.

We are conscious, however, that HMRC has not shared the information gathered in its enquiries with CTI 1 Ltd or its advisers. Accordingly, it may have information which substantiates its allegations of which we are not aware. In view of this uncertainty, the Directors of CTI 1 Ltd have decided to take the most prudent course of preparing these accounts on the basis that such additional information exists and that a fundamental accounting error has therefore been made in prior years, such that a prior period adjustment is required. This has been made by removing (i) the Capital which was contributed via the loans (£6,799,777) and (ii) an equal amount of the brought forward losses from prior years (£6,799,777), being those losses relevant to the proportion of capital that was loan financed. If it turns out that HMRC has no new information to substantiate its allegations which we have not previously seen, we will need to review the merits of restating these amounts.

CTI 1 Ltd, on behalf of the partnership, continues to vigorously pursue the civil tax case. However necessarily there is considerable uncertainty regarding timing of its resolution and the final outcome.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 5 APRIL 2009 - continued**

4. FEES PAYABLE TO DESIGNATED MEMBER	2009	2008 (restated)
	£	£
Fees paid under management agreement	-	15,692
	<u> </u>	<u> </u>

5. FIXED ASSET INVESTMENTS

Other investments other than loans

	2009	2008 (restated)
	£	£
Balance brought forward	-	-
Investments made during the period	294,000	-
Less impairment of investment	-	-
Balance carried forward	<u>294,000</u>	<u>-</u>

Investments made during the period comprise unlisted shares in Environmental Energy Corporation Ltd, a company incorporated in Bermuda

6. STOCK	2009	2008 (restated)
	£	£
Carbon credits for resale	83	287
	<u> </u>	<u> </u>

7. DEBTORS	2009	2008 (restated)
	£	£
Trade debtors	-	-
Other debtors	-	169,797
	<u> </u>	<u> </u>
	-	169,797
	<u> </u>	<u> </u>

Other debtors include the following amounts due from members

Balance of initial investment	-	-
	<u> </u>	<u> </u>

Included within other debtors is a balance of £0 (2008 £169,746) due greater than one year

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2009 - continued

8. CREDITORS: Amounts falling due within one year

	2009	2008 (restated)
	£	£
Trade creditors	-	-
Other creditors	-	5,982
Accruals	-	-
	<hr/>	<hr/>
	-	5,982
	<hr/>	<hr/>

9. CONTINGENT LIABILITIES

The partnership has reached an agreement with two of its creditors, Curzon Capital Limited and Carbon Capital Limited, whereby certain balances due from the partnership to them have been made contingent on the partnership receiving sufficient surplus cash out of future income streams and/or VAT recoverable from prior periods to cover those liabilities. The timing and certainty of those cash flows are accepted by all parties to be unknown. At 5 April 2009 the total such contingent liability was £78,454 comprising Curzon Capital Limited £20,339 and Carbon Capital Limited £58,115.

10. MEMBERS' SHARE OF PROFITS (LOSSES) CHARGED AS AN EXPENSE

Members' share of profits (losses) charged as an expense for the year ended 5th April 2009 was £123,962 ((£38,313) restated loss for the year ended 5th April 2008).

There was an average of 46 Members in the year ending 5th April 2009 (46 in the year ending 5th April 2008).

The average Members' share of profits (losses) per Member was, therefore, £2,695 in the year ending 5th April 2009 ((£833) restated average loss in the year ending 5th April 2008).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2009 - continued

11. MEMBERS' INTERESTS

	Members' other interests			Amounts due from Members in debtors	Total
	Members' capital £	Members' other reserves £	Total members' other interests £	£	£
Balance at 6 April 2008 as previously reported	8,499,723	(8,329,383)	170,340	-	170,340
Prior period adjustment	(6,799,777)	6,799,777	-	-	-
Balance at 6 April 2008 as restated	1,699,946	(1,529,606)	170,340	-	170,340
Profit for the year	-	123,962	123,962	-	123,962
Balance at 5 April 2009	1,699,946	(1,405,644)	294,302	-	294,302

12. POST BALANCE SHEET EVENTS

On 18th December 2008 the partnership, along with the other 37 Carbon Trading Partnerships, entered into a commercial arrangement to combine the majority of their business assets with those of Carbon Positive Trading Limited ("CPTL") Whilst this was structured as a sale of assets no new material amounts of capital or cash were introduced. The intention of the amalgamation was to bring together the interests of the members with certain of the research and development rights and land interests owned by CPTL. The rationale was to create a more manageable business, in a simplified structure that would facilitate its ongoing development. Importantly it also provided for the repayment of members' loans.

In anticipation of these arrangements a new company Environmental Energy Corporation Ltd ("EEC") was formed in Bermuda by Toby Russ and Ron Carlier, to be the holding company of these activities. EEC was a shell company with minimal capitalisation.

The partnerships sold the majority of their assets including various option agreements to EEC. In return each partnership received 490,000 shares in EEC, giving the Partnerships as a whole initially a 49% stake in EEC.

The ongoing research and development agreement entered into between the Carbon Trading Partnerships and either Carbon Positive Trading Limited ("CPTL") or Carbon Positive Projects LP ("CPPLP") were cancelled, with rebates being made by CPTL and CPPLP to EEC in respect of the remaining services not yet provided.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2009 - continued

As part of the original structure of setting up the Carbon Trading Partnerships, each member borrowed 80% of his initial capital contribution from EGC, a licensed lender based in the Isle of Man. As part of the sale, inter alia, these loans and accrued interest were repaid.

EEC was granted options over various businesses and land rights that CPTL owned, giving it the right to acquire these assets for equity in EEC. In addition CPTL made available to EEC a working capital facility for up to £25 million, convertible into EEC equity, to fund it through its first year of existence. CPTL and others were initially granted 38% of EEC's equity. This holding would increase as the options were exercised and the working capital facility was drawn. In addition, as part of the commercial arrangements CPTL transferred a small number of its shares in EEC to EGC.

EEC's £25 million working capital facility expired on 15th December 2009. The business is cashflow negative and requires continual short term funding pending it raising long term capital. It negotiated an emergency equity injection of \$1 million from Carbon Positive Limited to fund it through January 2010 and is in ongoing negotiations to obtain a further \$5 million to fund it through to June 2010. If it fails to obtain this extra funding, or if having obtained the funding it fails to raise long term capital by June, then it will likely fail.

In September 2009 Carbon Capital Limited, having failed to raise additional funding from members to fund the ongoing administration, indicated its intention to resign its various roles and positions associated with managing the Carbon Trading Partnerships. A steering committee of members was subsequently formed and a proposal was sent to all members seeking funding and support for members to take over the management role. This proposal received in excess of 91% support from members. The steering committee worked together with Carbon Capital Limited to ensure a smooth transition and by mid December 2009 the change was executed.

13. ULTIMATE CONTROLLING PARTY

No individual Member has overall control of the LLP.