AwesomeEnergy
(DALRIADA) LIMITED

MEETING MINUTES

Date: 16/04/19 @ 7.30

Present:
Sheila Clark (Chair)
Peter Thomas (Director)
Carol Thomas (Director)
Chrissie Sugden (Director)
Irene McLounnan (DIG representative)
Libby Foy (Director)

Via conference call:
Sam Marshall (Company Secretary)
Andrew Swann (Finance Director)
Cath Auty (DIG representative)

Meeting Details: Board Meeting #29 covering March 2019
Location: The Old School, Dalavich & via Zoom Conferencing

MINUTES

1. **Apologies:**
   Adrian Shaw (Director) - (ASh)
   Agnes Fleming (DIG representative)
   Michael Odumosu (Director)

2. **Approval** of previous minutes. SM proposed, IM seconded.

3. **Board decisions made by email:**

- 8 votes in favour of the 12 month lock in of PPA price with New Stream Renewables

4. **Matters** arising from previous meetings:
   None.

5. **Chair's report SC:**

- SC read the Brexit notes from HMRC, SM sat in on a Brexit webinar, and CT watched another one run by Scottish Enterprise. No issues for AED apparent.
- We had a letter of support from Mike Russell MSP. ACTION SC to respond.
- SC asked the Board to consider alternative meeting dates so as not to clash with AKCC meetings. ACTION IM to find out AKCC meeting dates.

6. **Secretary's report – SM**
   Lots of reading to understand AED financials. Started work on the AGM.

7. **Finance report: AS**

- Discussions have taken place with the accountants regarding the restatement of the accounts to end November 2017 reducing the statutory loss to around £22,000. (See explanatory notes attached that were prepared by AS 10th April – attached – and those

emailed to directors on 16th April). Prior year losses having been restated so the depreciation going forward will also now change.

- AS recommended that the Board accept the restated accounts, as signed off by the accountants, and present them to the AGM. The Board all agreed.
- We discussed the 16th April note. AS recommended that we recommend to the AGM that interest is paid on shares. CT reminded us that in 2020 shareholders can request repayment of shares, so non-payment of interest may well have adverse consequences. The Board agreed unanimously to recommend to the AGM that shareholder interest is paid.

8. **Open Share Offer:** Postponed until after the AGM.

9. **Recent Communications**

- New Stream Renewables Triad warnings
- Generation updates
- Finance updates
- Confirmation of CARES loan repayment by SIS
- HIE - Support to help your business prepare for Brexit
- PPA contract
- Board Memorandum: Shareholder interest, CBF payments and restated Accounts
- Understanding Social Investment report
- Letter from Mike Russell

10. **Operational Report PT:**

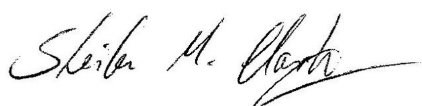
- Output for March was excellent and well above plan at 185286KWHrs. Operationally it was a quiet month with water running well but no difficulties in terms of leaves or stoppages.
- The UPS at Braevallich has been replaced under warranty, taken to site and installed in conjunction with the Innogy team. One of the modem connections does not seem to be connected so another visit is needed but the kit is working ok.
- CINK are confirmed to be onsite for the annual servicing on May 14 or 16 and operations refresher training is to be carried out on this date.

11. **AOB**: None

12. **Date of next meeting: 21st May 7.30**

Meeting closed at 8.45 pm

Minutes approved at Board Meeting #030 on 21st May 2019.



Signed by Sheila Clark: Chair

Accounting Treatments

Companies tend to have three different sets of accounts as discussed below.

Management Accounts which monitor the figures important for the day to day operation of the company. In our case (as with many companies) this is essentially the cashflow. For a business such as Awesome cashflow is particularly important since we have expended a great deal of money to create an asset (the Hydro Scheme) which has no real value other than the cash it is capable of generating by way of electricity sales and FiT. (i.e. there is nothing that we could sell off to create cash by selling off assets and there is virtually nothing that we can do to increase income or reduce costs substantially.) Cash generated then needs to be allocated to cover our running costs (relatively minimal apart from ANM and lease rental), interest payments, capital repayments and share interest and also to create reserves for future requirements (turbine repair, share repurchases etc.) before we can decide whether or not there is a balance available to be distributed to the community.

One point which is worth noting is the treatment of interest. During the construction period we incurred interest costs but since our lenders allowed us to roll this up into the capital amount of the loans this did not impact on our cashflow. Our loan with SIS is now in repayment mode and, as noted above, we now have to allow for interest payments in our management accounts.

Statutory Accounts which present the assets, liabilities, income and expenses of the company in a manner as required by company law and accounting standards and Statements of Recommended Practise from the accountancy profession. (n.b. Statements of Recommended Practice ("SORPs") are developed in the public interest and set out current best accounting practice. SORPS, issued by 'SORP-making bodies' are intended to supplement accounting standards and other legal and regulatory requirements to reflect transactions or circumstances that are unique within specialised industries or sectors.) These accounts differ greatly from the management accounts and, in particular, in our case all of the expenditure on the creation of the Hydro scheme has to categorised as either current year expenditure (written off immediately in the year incurred), prepayments for future services etc. or considered as being expenditure creating fixed assets which then have to be written off (depreciated) over their useful lives. We have categorised this expenditure as falling into three pots – the ANM system to be written off over 10 years, the Turbine and associated works to be written off over 20 years and the Civil works to be written off over 40 years.

In deciding what value should be attributed to our Civil works, we assumed that this should be the sum of the amounts actually paid to the contractors plus the interest rolled up on loans during the construction period. (To see why this makes sense, one can imagine an alternative scenario where we entered into a contract with the suppliers to pay nothing until the project was completed. The price for this would obviously be higher by an amount equal to the interest costs incurred by the contractor).

Tax Accounts which determine how much tax is payable to HMRC. These accounts reflect the position as set out in various Finance Acts and categorise our expenditure in very different ways to that required for the statutory accounts. Some expenditure which is written off in the first year in the statutory accounts, will be fully allowable against tax in the year (with surplus losses carried forward to future years) but some will either be not allowable (e.g. entertainment costs) or will be considered as a prepayment for future expenses or something that should be capitalised. Fixed assets may or may not be allowable to be written off against tax over their useful lives but the determination of the useful life and the rate of depreciation may be very different to that assumed in the Statutory Accounts. This difference between the Tax and Statutory accounts can lead to the requirement to recognise deferred tax – i.e. tax that is not payable in the short term but which will fall to be paid in the future as a result of income that has already been received.

In theory, tax accounts should be determined by simply applying the rules set out in legislation but in practice there is plenty of scope for disagreement between tax payers and HMRC and it is for this reason that we have retained Cavetta to use their experience to advise us on what our submission to HMRC should be as regards capital allowances on our fixed assets.

Restatement of 2016/17 Accounts

In addition to items which we believe qualify for capital allowances, we have incurred other expenditure (e.g. consultancy costs) which should be capable of being written off against taxable income in year one. In an attempt to simplify our accounts, our accountants drew up the 2016/17 Statutory Accounts on the basis of exercising options available under the SORP to write off in year one items which they believed would be fully allowable for tax. Bringing the tax accounts and the statutory accounts in to line in this way would have the benefit of reducing (but not eliminating) deferred tax but it also had the effect of creating

an apparent large statutory loss which would take many years for us to work off before we would be in a position to make payments to the community - which can only be made out of retained earnings. The prior year adjustments now made to our 2016/17 accounts reverse this position and reclassify profit and loss expenditure, totalling £134,275, previously included in Consultancy, Finance costs and Legal & professional to Tangible assets and Prepayments to more accurately reflect the nature of the expenditure. (n.b. the accountants have also reclassified £26,700 of ANM service costs erroneously treated as capital in 2016/17 as a prepayment for service costs.)
These changes mean that reducing the statutory loss to zero will happen several years sooner than if we had not restated the accounts – allowing us to make payments to the community that much sooner. It may, however, make it more likely that some of the £134,275 will treated by HMRC as not being available to be written off immediately for tax purposes but as being only allowable for Capital Allowances. Since HMRC should look at the Tax Accounts rather than the Statutory Accounts, however, this should not happen. Even if it does, this should only represent a timing difference rather than an overall increase in the amount of tax payable. The actual position regarding tax payments will only begin to become clear once we have seen the Cavetta report. Once this has been agreed with HMRC we will then need to take this into account in determining the level of payments that we can make to the community – all of which will be fully allowable for tax.

Andrew Swann 10th April 2019

Note to Board Meeting on 16th April 2019

The board needs to take a decision on whether or not recommend payment of interest on the share capital at the AGM. In arriving at this decision, the board needs to consider:

a) The undertaking made to shareholders at the time of the second share issue that interest would be recommended if financial circumstances permitted this;
b) The level of profitability in 2017/18; and
c) Forecast profitability for 2018/19 and for future years;

1. Year Ended 30th November 2018

Despite having 10 months of generation almost in line with budget, the year ended with a loss of some £7,000 before provision of a further £11,885 for shareholder interest – i.e. a total loss for the year of some £19,000. Many costs, particularly interest, were only recognised for the 10 months from the date that generation commenced but a series of one-off or, hopefully, non-repeatable costs were also incurred as follows:

a. ANM service costs were £4,725 higher than the £17,700 per annum forecast for the future;
b. CARES interest at 10% was accrued for 10 months on debt which going forward will be either 4% (on the £100k refinanced by shares) or 7% on the £200k refinanced by SIS – in total some £10k p.a. more than forecast for the near future – i.e. some £8k more for the 10 month period;
c. £1.5 of costs relating to the share raising.

Adjusting for these "exceptional costs" we could have been showing a profit of some £7,000 for the 10 month period of operation – not sufficient to cover the proposed payment to shareholders but not bad for a year in which exceptional cold and icy followed by hot and dry weather meant that we lost 68 days generation (22% of the total).

2. Budgeted Income

The budget process has had to be put on ice whilst we established the starting point – i.e. the accounts to the end of November 2018. These have been only finalised today but we do have an earlier budget prepared for SIS a few weeks back. This included assumptions based, *inter alia*, on the previously assumed level of fixed assets. The revised accounts have increased the level of these and, accordingly, the level of the annual depreciation charge. In addition, we need to make a provision for the annual amortisation of the £53,000 of prepayments which now appear in our accounts (having previously been treated as having been written off

in in the 2016/17 year. The budget sent to SIS shows zero for the amortisation of prepayments but assumes a depreciation charge for the year of some £55k. Forecast depreciation is now some £60k per annum and we need to allow a further £4k to £5k for amortisation of prepayments. The implied combined depreciation/amortisation charge for a full 12 month period is, therefore, some £65k. The SIS budget also assumed interest of 10% on the CARES loan which, of course, has now been refinanced at a lower level of 7%.
If these figures are correct, then at low flow projections we would be forecasting income throughout the ANM period insufficient to cover the interest payment on the shares leading to continuing annual losses. The extremely high level of generation in the first 4 months of this year, however, means that we are currently forecasting a substantial profit for 2018/19 even if generation in the last 8 months of the year is no more than our Low Flow projections.
This is shown in the following table:

	Budget (£000s)	**Adjusted Budget (£000s) (i)**	**Adjusted Budget plus additional Depreciation (£000s) (ii)**	**Forecast plus Additional Depreciation (£000s) (iii)**
Income	**237.5**	**237.5**	**237.5**	**297.9**
Interest	98.2	91.8	91.8	91.8
ANM Depreciation	19.1	19.1	19.1	19.1
ANM Service Charge	18.6	17.7	17.7	17.7
Other Depreciation etc.	30.9	30.9	45.9	45.9
Share Interest	12.0	12.0	12.0	12.0
Other Costs	58.0	58.0	58.0	65.2
Total	**236.8**	**229.5**	**244.5**	**251.7**
Profit	**0.7**	**8.0**	**(7.0)**	**46.2**

Notes

(i) The Adjusted Budget column reflects the lower interest costs resulting from the refinance of the CARES loan plus a slightly lower level of ANM service charge.

(ii) This column reflects the increased level of depreciation as a result the capitalisation of £135k of Fixed Assets and Prepayments in 2016/17.

(iii) Forecast for 2018/19 based on actual figures to end March and forecast low flow projection thereafter.

What this table demonstrates is the massive impact of ANM on profitability but the equally massive impact of generation running at above forecast levels.

Andrew Swann
Treasurer