EQUITIX EEEF BIOMASS 2 LIMITED

DIRECTORS' REPORT
AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

Registered Number: 09839393

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

CONTENTS

CONTENTS	Page
Directors and advisers	1
Strategic Report	2
Directors' Report	3
Statement of Directors' responsibilities	4
Independent auditor's report to the members of Equitix EEEF Biomass 2 Limited	5-6
Statement of Comprehensive Income	7
Statement of Financial Position	8
Statement of Changes in Equity	9
Statement of Cash Flows	10
Notes to the Financial Statements	11-19

DIRECTORS AND ADVISERS

Directors
B M Cashin
E D Archer

Registered office
10-11 Charterhouse Square
London
EC1M 6EH

Auditor
KPMG LLP
15 Canada Square
London
E14 5GL

STRATEGIC REPORT

BUSINESS MODEL

The principal activities of Equitix EEEF Biomass 2 Limited (the "Company") are to invest in and hold Project Shares in accordance with the Shareholder's investment policy and the "Green Criteria" applicable to Equitix Energy Efficiency Fund LP, provide debt to the Project Company and to manage the Company's investment in the Project Company.

REVIEW OF THE YEAR

The Company's direct subsidiary is held at fair value on the Statement of Financial Position with movements recorded through the Statement of Comprehensive Income as explained in note 2. In order to determine the fair value of this investment, the Company takes into consideration the fair value of all the underlying portfolio companies and intermediate holding company.

KEY PERFORMANCE INDICATORS

The key performance indicators for the Company are primarily operationally and financially focused; including those listed below:

- the progress of the Project Company;
- the comparison of actual cash flows costs to those that have been forecast;
- the value of investments held in the company portfolio in association with the expected future cash flows; and
- that the operational project is performing within the restrictions of all project documentation.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company's previous main concerns were attributable to the sound operation of the underlying non domestic energy efficiency infrastructure asset, ensuring that the modelled cash flows, made up of dividends and other fees are received. This will remain as the main risk if the operational contract is maintained. However, considering the possible outcomes from the dispute which has commenced with the client, the asset may not remain operational and therefore the principal risk and uncertainty would be the recoverability of monies due from the client in respect of that dispute, if successful.

In addition, the Company has commenced litigation against the sellers in relation to the acquisition of its investment in its direct subsidiary. At this time, the litigation is in the early stages and no accurate forecast can be made in respect of the outcome of these matters.

The possible outcomes of the client dispute and seller litigation have been taken into consideration whilst determining the fair value of the investment.

FUTURE DEVELOPMENTS

The Directors of the Company are not aware of any circumstances by which the principal activity of the Company would alter or cease apart from those discussed in principal risks and uncertainties; the Company will continue to invest in and hold Project Shares and to manage the Company's investment in the Project Company.

By order of the Board

E D Archer
Director
13 September 2019

DIRECTORS' REPORT

The Directors submit the annual report and the audited financial statements for the year to 31 December 2018. The Directors' report has been prepared in accordance with the special provisions relating to small companies under s415a of the Companies Act 2006.

DIRECTORS

The Directors who served throughout the year, are shown on page 1.

PRINCIPAL ACTIVITY

Equitix EEEF Biomass 2 Limited is the funding company for the Project Company (refer to note 19) which also holds all shares. The company subscribes for loan stock issued by the the Project Company. Equitix EEEF Biomass 2 Limited is a finance company owned by Equitix Energy Efficiency Fund Holdco Limited.

RESULTS AND DIVIDENDS

The Company's performance reflects the position under the various inter-company and inter-group agreements that have been updated during the year. The results for the year ended 31 December 2018 are shown on page 7 in the Statement of Comprehensive Income, which shows a loss of £8,532k (2017: £5,751k). The Directors do not recommend payment of a dividend (2017: none). The Directors of the Company are not aware of any circumstances by which the principal activity of the Company would alter or cease in the foreseeable future, apart from the risks discussed in the Strategic Report.

REVIEW FOR THE YEAR

The Directors have considered a number of potential outcomes arising from the UK's exit from the European Union in 2019 and believe that the Company has sufficient reserves and business controls to address any financial impact of these outcomes for the foreseeable future and have decided not to make a specific provision in the accounts.

GOING CONCERN

The Company's forecasts and projections, taking account of reasonable possible changes in trading performance show that the Company should be able to operate within the level of its current resources. The Directors of the Company have had regard in this assessment to the support available from other Group companies and their ability to provide this support. As a consequence, the Directors believe the Company is well placed to manage its risks successfully despite the current economic uncertainties and the economic outlook. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, a period of at least 12 months from the date of financial statements, taking into account both the loss incurred in the period and the net liabilities position at the period end. Accordingly, the going concern basis continues to be adopted in preparing the annual report and accounts. See Note 2b) for further information.

FINANCIAL RISK MANAGEMENT

The Directors' report has been prepared in accordance with the special provisions relating to small companies under s417 Companies Act 2006. As such the Company is exempt from including financial risk management disclosures in the Directors' Report.

AUDITOR

The persons who are a Director at the date of approval of this report confirm that:

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

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

By order of the Board

E D Archer
Director
13 September 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EQUITIX EEEF BIOMASS 2 LIMITED

Opinion

We have audited the financial statements of Equitix EEEF Biomass 2 Limited ("the Company") for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the Directors, such as valuation of investments, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Company and this is particularly the case in relation to Brexit.

Material uncertainty related to going concern

We draw attention to note 2b to the financial statements which indicates that the Company is involved in ongoing litigation, and incurred a net loss of £8,532k for the year (2017: £5,751k) and had net current liabilities of £5,455k (2017: nil) and the Company's ability to continue as a going concern is dependent on continued financial support from the ultimate parent. These events and conditions, along with the other matters explained in note 2b constitute a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in this matter.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports has been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EQUITIX EEEF BIOMASS 2 LIMITED

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Henry Todd (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL

13 September 2019

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Year ended 31 December 2018 £'000	Period ended 31 December 2017 £'000
Interest income	7	2,262	1,698
Impairment loss on trade and other receivables	10	(5,455)	-
Fair value loss on investments	15, 16	(3,077)	(5,751)
Loss from operations		(6,270)	(4,053)
Finance cost	8	(2,262)	(1,698)
Loss from operating activities before tax		(8,532)	(5,751)
Tax	9	-	-
Loss from operating activities after tax		(8,532)	(5,751)

All the above items relate to continuing operations.

The notes on pages 11 to 19 form part of these financial statements.

The Company has no recognised gains or losses other than reported above, and therefore no separate statement of total recognised gains and losses has been presented.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Notes	31 December 2018 £'000	31 December 2017 £'000
Non-current assets			
Investments held at fair value	16	15,617	18,589
		15,617	18,589
Current assets			
Interest receivable from related parties	10	-	3,193
Receivables from related parties		325	-
		325	3,193
Total assets		15,942	21,782
Current liabilities			
Payables	11	(5,780)	(3,193)
		(5,780)	(3,193)
Net current liabilities		(5,455)	-
Non-current liabilities			
Borrowings	12	(18,179)	(18,074)
		(18,179)	(18,074)
Total liabilities		(23,959)	(21,267)
Net liabilities		(8,017)	515
Equity			
Share capital	13	-	-
Shareholders' deficit		(8,017)	515
		(8,017)	515
Total equity		(8,017)	515

The notes on pages 11 to 19 form part of these financial statements.

The financial statements of Equitix EEEF Biomass 2 Limited, registered number 09839393, were approved by the Board and authorised for issue on 27 September 2019 and were signed on its behalf by:

E D Archer
Director

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Share capital £'000	Retained earnings £'000	Total £'000
Balance as at 1 April 2017		-	6,266	6,266
Loss for the period		-	(5,751)	(5,751)
Balance as at 31 December 2017		-	515	515
Balance as at 1 January 2018		-	515	515
Loss for the year		-	(8,532)	(8,532)
Balance as 31 December 2018		-	(8,017)	(8,017)

The notes on pages 11 to 19 form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Year ended 31 December 2018 £'000	Period ended 31 December 2017 £'000
Cash flows from operating activities		
Loss for the year/period	(8,532)	(5,751)
Fair value loss on investments	3,077	5,751
Interest income	(2,262)	(1,698)
Finance cost	2,262	1,698
Movement in provision	5,455	-
Cash flows from operations	-	-
Net cash flows generated from operating activities	-	-
Investing activities		
Investment acquitions	(105)	(75)
Net cash used in investing activities	(105)	(75)
Financing activities		
Issue of Ordinary Share Capital	-	-
Loan principal	105	75
Net cash from financing activities	105	75
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at start of year/period	-	-
Cash and cash equivalents at end of year/period	-	-

The notes on pages 11 to 19 form part of these financial statements.

Notes to the financial statements for the year ended 31 December 2018

1 GENERAL INFORMATION

Equitix EEEF Biomass 2 Limited is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out in the Strategic Report on page 2 and Directors' Report on page 3. These financial statements are presented in pounds sterling, being the currency of the primary economic environment in which the company operates. All figures in the financial statements have been stated to the closest thousand (£000s), unless stated otherwise.

2 ACCOUNTING POLICIES

a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs"). A summary of the principal accounting policies, all of which have been applied consistently throughout the current year and prior period are set out below. As a consequence of the Company's parent meeting the criteria to be defined as an Investment Entity under International Financial Reporting Standard (IFRS) 10, the Company's results are not consolidated into a parent entity. The Company has considered the need to prepare consolidated financial statements and the Company has also adopted Investment Entities (Amendments to IFRS 10, IFRS 12, and IAS 27) and meets the definition of an Investment Entity under IFRS 10. As such it required to account for its investments at fair value through profit and loss and hence has not prepared consolidated financial statements. The investments are held at fair value with changes in fair value recognised in profit or loss (see note 15). The Investment Entities standard introduced an exception to the principle that all subsidiaries should be consolidated. The amendments define an Investment Entity and require a parent entity that is an Investment Entity to measure its subsidiaries at fair value through profit or loss, in accordance with IFRS 9 *Financial Instruments* and IFRS 13 *Fair Value Measurement* instead of consolidating those subsidiaries. The Company meets the definition of an Investment Entity on the basis of the following criteria:

(i) the Company obtains funds from multiple investors for the purpose of providing those investors with investment management services;

(ii) the Company commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

(iii) the Company measures and evaluates the performance of substantially all of its investments on a fair value basis.

To determine if the Company meets the definition of an Investment Entity, further consideration is given to the following characteristics of an investment entity that are demonstrated by the Company.

(i) it has more than one ultimate investment;
(ii) it has more than one ultimate investor;
(iii) it has ultimate investors that are not related parties;
(iv) it has ownership interests in the form of equity or similar interest; and
(v) it holds investments for a limited period only i.e. it has an exit strategy for its investments.

Investments

IFRS 10 requires the Company to measure its interests in subsidiary investments at fair value in accordance with IFRS 13. The investments are valued at fair value with gains or losses on measurement of investments accounted for through profit or loss (see note 16).

The Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB. This includes the adoption of IFRS 15 'Revenue from Contracts with Customers' ("IFRS 15") and IFRS 9 'Financial Instruments' ("IFRS 9"). Given the nature of the business activities in which the Company operates, IFRS 15 does not have a material impact on the Company. The requirements of IFRS 9 represent a significant change from IAS 39. The key changes to the Partnership's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVTPL"). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The financial assets and liabilities of the Company are now classified as amortised cost or fair value through profit or loss. Classification is based on the characteristics of the financial asset. All disclosures have been updated where applicable to reflect the requirements of IFRS 9.

Notes to the financial statements for the year ended 31 December 2018

2 ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with an expected credit loss ("ECL") model. The new impairment model also applies to certain loan commitments and financial guarantee contracts, but not to equity investments. The new impairment model applies to debt instruments and financial guarantee contracts issued that are not measured at FVTPL. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

b) Going concern

There is a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern and therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The Company's previous main concerns were attributable to the sound operation of the underlying non domestic energy efficieny infrastructure asset, ensuring that the modelled cash flows, made up of dividends and other fees are received. This will remain as the main risk if the operational contract is maintained. However, considering the possible outcomes from the dispute which has commenced with the client, the asset may not remain operational and therefore there is uncertainty over the recoverability of monies due from the client in respect of that dispute, if successful. In addition, the Company has commenced litigation against the sellers in relation to the acquisition of its investment in its direct subsidiary. At this time, the litigation is in the early stages and no accurate forecast can be made in respect of the outcome of these matters. The possible outcomes of the client dispute and seller litigation are considered to constitute a material uncertainty. Notwithstanding net current liabilities of £5,455k and net liabilities of £8,017k as at 31 December 2018, the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons. The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds, through its borrowings from its parents, to meet its existing liabilities as they fall due for that period. Those forecasts are dependent on the parent entity not seeking repayment of the amounts currently due to the group, which at 31 December 2018 amounted to £23,959k, and providing financial support during that period. The parent entity indicated the intention to continue to make available such funds as are needed by the Company in the ordinary course of business, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any Company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so. Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

c) Financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

d) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. It is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably.

e) Borrowing costs

All borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

f) Accruals and provisions

Accruals and provisions are recognised in the statement of comprehensive income in the period in which they are incurred.

g) Taxation

The tax expense represents the sum of tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Statement of Financial Position date.

Notes to the financial statements for the year ended 31 December 2018

2 ACCOUNTING POLICIES (CONTINUED)

Deferred tax

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

Deferred tax assets and liabilities are recognised for temporary differences arising on investments in subsidiaries, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future amount of an asset or liability in the Statement of Financial Position differs from its tax base, except for differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transactions affects neither accounting nor taxable profit. The carrying amount of deferred tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and the rates that have been enacted at the Statement of Financial Position date. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when the Company 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 the same taxable company, and the Company intends to settle its current tax assets and liabilities on a net basis.

h) Financial Instruments

Financial assets and financial liabilities are recognised on the Company's Statement of Financial Position when the Company becomes a party to the contractual provisions of an instrument. Financial assets are derecognised when the contractual rights to the cash flows from the instrument expire or the asset is transferred and the transfer qualifies for derecognition in accordance with IFRS 9 'Financial Instruments'.

i) Financial assets

Financial assets, including loans to project companies are classified as 'amortised cost'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

j) Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

k) Loans and receivables

Trade receivables, loans and other receivables that are non-derivative financial assets and that have fixed or determinable payments that are not quoted in an active market are classified as 'amortised cost'. Loans and other receivables are measured at amortised cost using the effective interest method, less any impairment. They are included in current assets, except where maturities are in greater than 12 months after the Statement of Financial Position date which are classified as non current assets. The Company's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the Statement of Financial Position.

l) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each Statement of Financial Position date. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative impact on the asset. Significant financial assets are tested for impairment on an individual basis. All impairment losses are recognised in the Statement of Comprehensive Income. An impairment loss can be reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

m) Financial liabilities and equity

Debt instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Notes to the financial statements for the year ended 31 December 2018

ACCOUNTING POLICIES (CONTINUED)

n) Financial risk management
The Company has loans from Equitix Energy Efficiency Fund LP, the Company's owner, with fixed interest rates. The amount of the loan shown on the Statement of Financial Position represents the fair value of the loan on that date.

The Company does not have any other borrowings, loans or overdrafts that expose the Company to financial risks.

o) Assessable risks
Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations in a financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties in order to mitigate the risk of financial loss from defaults.

Liquidity risk
The Company adopts a prudent approach to liquidity management and maintains sufficient cash reserves at group level to meet its obligations.

Foreign exchange risk
The Company does not currently have any exposure to foreign currency exchange risk, nor does it have any immediate plans to geographically deviate its focus.

p) Share capital
Ordinary shares are classified as equity.

q) Expenses
All expenses are accounted for on an accruals basis. The Company's fees, finance costs and all other expenses are charged through the statement of comprehensive Income.

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions in certain circumstances that affect reported amounts. The judgements, 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 outlined below.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

i) Investments
The underlying investments are held at fair value through profit and loss.

The discount rate is determined in relation to the particular risks for the investment. All relevant risks such as interest rate risk, credit risk and liquidity risk are incorporated in the fair value of the investment by adjusting the expected cash flows or discount rate used for the valuation of investments. The weighted average discount rate used for the 2018 valuation was 11.76% (2017: 9.38%). If the discount rates used in the valuation were increased or decreased by 100 bps, the impact on the value of the financial assets would be a loss of £191k (2017: £724k) or a gain of £179k (2017: £764k) respectively. The assumed long term tax rate is 17%.

If the expected future net cash flows were decreased or increased by 10%, with all other variables held constant, the impact on the value of financial assets would be £1,562k (2017: £1,859k) loss / gain respectively.

4 INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") - ADOPTION OF NEW AND REVISED STANDARDS

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 16 Leases (January 2019)
- Annual Improvements to IFRS Standards 2014-2016 Cycle

5 LOSS FROM OPERATING ACTIVITIES BEFORE TAX

The loss from operating activities before tax of the Company is attributable to the principal activity of the Company, all of which was carried out in the United Kingdom.

The audit fee for Equitix EEEF Biomass 2 Limited of £2,700 (2017: £2,600) has been borne by Equitix Energy Efficiency Fund LP, the Company's ultimate parent, who will not seek compensation from the Company. There were no non-audit fees (2017: none).

Notes to the financial statements for the year ended 31 December 2018

6 DIRECTORS' REMUNERATION

The directors received no remuneration for services to the Company during the year (2017: none). The Company is managed by secondees from other Equitix companies. No recharge for services rendered has been made during the year (2017: none). Throughout the year the Company did not have any employees (2017: none).

7 INTEREST INCOME

	Year ended 31 December 2018	Period ended 31 December 2017
Interest income on loans to Project companies	2,262	1,698
Total interest income	2,262	1,698

8 FINANCE COSTS

	Year ended 31 December 2018	Period ended 31 December 2017
Interest expense on loans from related party	(2,262)	(1,698)
Total finance cost	(2,262)	(1,698)

9 TAX ON LOSS FROM ORDINARY ACTIVITIES

Taxation is based on the loss for the year and comprises:

	Year ended 31 December 2018	Period ended 31 December 2017
UK corporation tax at a rate of 19% (2017: 19%)		
Current year/period	-	-
Tax credit	-	-

The differences between the total current tax shown above and the amount calculated by applying the average rate of UK corporation tax to the loss before tax are as follows:

	Year ended 31 December 2018	Period ended 31 December 2017
Loss on ordinary activities before tax	(8,532)	(5,751)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2017: 19%)	(1,621)	(1,093)
Effect of items not subject to taxation	1,621	1,093
Total current tax expense for the year/period	-	-

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

10 RECEIVABLES

	Year ended 31 December 2018	Period ended 31 December 2017
Interest receivable from Project Companies	-	3,193
Other receivables	325	-
Total receivables	325	3,193
Included on the Statement of Financial Position as follows:		
Current	325	3,193
Non-current	-	-
	325	3,193

Interest receivable represents accrued interest on subordinated debt loans to the Project Companies listed in note 19.

The £325k balance is short-term, unsecured and interest free and is owed from the Company's subsidiary, Gaia Heat Limited. The balance is repayable on demand. The interest due from the underlying investment is as follows: £5,455k which is 12.5% interest on a year end loan balance of £18,179k from Gaia Heat Ltd.

The intercompany loan has a repayment date in 31 October 2035.

Notes to the financial statements for the year ended 31 December 2018

10 RECEIVABLES (CONTINUED)

Expected credit loss analysis was performed as per IFRS 9 and due to uncertainty over realisation of cash flow optimisations, the following provision has been made:

	Year ended 31 December 2018	Period ended 31 December 2017
Opening balance	-	-
Additions	(5,455)	-
Closing balance	(5,455)	-

11 PAYABLES

	31 December 2018	31 December 2017
	£'000	£'000
Interest payable to related party	(5,455)	(3,193)
Other payable to related party	(325)	-
	(5,780)	(3,193)
Included on the Statement of Financial Position as follows:		
Current	(5,780)	(3,193)
	(5,780)	(3,193)

Interest payable to the related party in the current period represents accrued interest on loan note borrowings from EEEF Holdco Limited (note 17). The £325k balance is short-term, unsecured and interest free and is owed to the Company's parent, Equitix Energy Efficiency Fund LP. The balance is repayable on demand.

12 BORROWINGS

	31 December 2018	31 December 2017
	£'000	£'000
Loans from related party	(18,179)	(18,074)
	(18,179)	(18,074)
Included on the Statement of Financial Position as follows:		
Current	-	-
Non-current	(18,179)	(18,074)
	(18,179)	(18,074)

The loans from the related party is composed of £18,179k from EEEF Holdco Limited of unsecured interest bearing Eurobond loan notes, entered into for the purpose of acquiring the investment portfolio detailed in note 19. The loan note agreements fix the loan interest coupon of 12.5% and are listed on the International Stock Exchange.

The intercompany loan has a repayment date of 30 April 2023.

13 SHARE CAPITAL

	31 December 2018	31 December 2017
	£	£
Allotted, called up and unpaid:		
1 Ordinary share of £1 each	1	1

14 FINANCIAL INSTRUMENTS

Capital risk management
The Company manages its capital to ensure that it is able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt. The capital structure of the Company borrowings are as disclosed in note 12, equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 13. The Company is not subject to any externally imposed capital requirements.

Significant accounting policies
Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2.

Notes to the financial statements for the year ended 31 December 2018

14 FINANCIAL INSTRUMENTS (CONTINUED)

a) Categories of financial instruments

Financial assets		31 December 2018 £	31 December 2017 £
Fair value through profit and loss	- Investments	15,617	18,589
Loans and receivables at amortised cost	- Interest receivable from Project company	-	3,193
	- Other receivables	325	-
		15,942	21,782
Financial liabilities at amortised cost			
	Borrowings	(18,179)	(18,074)
	Interest payable to related party	(5,780)	(3,193)
		(23,959)	(21,267)

The carrying amount of the loans approximates their fair value.

b) Financial risk management objectives

Risk management objectives
The Directors provide advice to the Company on all risks faced and manage the financial risks relating to the operations of the Company through internal risk reports which analyse the exposures faced by degree and magnitude of risk consequences. These risks include market risk, credit risk and liquidity risk.

The Company does not enter into financial derivative contracts.

Market risk
The Company's activities expose it primarily to the financial risks of interest rates.

Interest rate risk management
The Company has limited exposure to interest rate risk as loans held with EEEF Holdco have fixed interest rates of 12.5%. The fixed rate borrowings are carried at amortised cost and hence not exposed to fair value movements due to changes in interest rates.

Performance risk management
Performance risk management refers to the risk that the underlying project companies will not perform in line with expectations, and as such the Company will not receive forecast cashflows as expected. To mitigate this risk, the projects are closely managed by the asset management team.

Credit risk management
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate as a means of mitigating the risk of financial loss from defaults. For cash and cash equivalents the Company only transacts with entities that are rated the equivalent to investment grade and above. Other financial assets consist of amounts receivable from related parties. Credit risk is generated through the overall performance risk of the projects, deterioration of which might impact their ability to service equity payments.

Liquidity risk management
Ultimate responsibility for liquidity risk management rests with the board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short-, medium- and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate cash reserves by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

15 FAIR VALUE MOVEMENTS ON INVESTMENTS

The loss on investments of £3,077k (2017: £5,751k) has been included in the Statement of Comprehensive Income.
The Directors have satisfied themselves as to the methodology used, the discount rates applied and the valuation.

16 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2018 £'000	31 December 2017 £'000
Opening net book value as at start of the year/period	18,589	24,265
Acquisitions	105	75
Fair value loss	(3,077)	(5,751)
Closing net book value as at 31 December	15,617	18,589

Notes to the financial statements for the year ended 31 December 2018

17 TRANSACTIONS WITH RELATED PARTIES

		31 December 2018		31 December 2017	
		Amounts owed by related parties	Amounts owed to related parties	Amounts owed by related parties	Amounts owed to related parties
Related party	**Description**	**£'000**	**£'000**	**£'000**	**£'000**
Profit and loss account transactions					
Gaia Heat Limited	Interest Receivable	2,262	-	1,698	-
EEEF Holdco Limited	Interest Payable	-	(2,262)	-	(1,698)
		2,262	**(2,262)**	**1,698**	**(1,698)**
Statement of Financial Position items					
Gaia Heat Limited	Interest debtor	-	-	3,193	-
EEEF Holdco Limited	Interest creditor	-	(5,455)	-	(3,193)
Gaia Heat Limited	Loan note debtor	18,179		18,074	
EEEF Holdco Limited	Loan note creditor	-	(18,179)	-	(18,074)
Gaia Heat Limited	Current debtor	325	-	-	-
Equitix Energy Efficiency Fund LP	Current creditor	-	(325)	-	-
		18,504	**(23,959)**	**21,267**	**(21,267)**

18 ULTIMATE PARENT

The Company's immediate parent is Equitix Energy Efficiency Fund Holdco Limited. The Company's ultimate parent is Equitix Energy Efficiency Fund LP, a limited partnership registered in England and Wales. Copies of Equitix Energy Efficiency Fund Holdco Limited accounts can be obtained from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ. The Company's results are not consolidated as the Company and its ultimate parent entities meet the criteria of Investment Entities under IFRS 10.

19 SUBSIDIARIES AS AT 31 DECEMBER 2018

Company name	Percentage of shares held	Number and class of shares held	Principal activity	Registered address	Country of incorporation
Gaia Heat Ltd	100%	12,100 Ordinary £1 shares	Provision of Biomass technology	10-11 Charterhouse Square, London, EC1M 6EH	United Kingdom
Gaia Heat Projects Ltd*	100%	1 Ordinary £1 share	The company did not trade during the year	Suite 6c, 3rd Floor Sevendale House, 5-7 Dale Street, Manchester, England, M1 1JA	United Kingdom
Gaia Heat Biomass Ltd*	100%	1 Ordinary £1 share	The company did not trade during the year	Suite 6c, 3rd Floor Sevendale House, 5-7 Dale Street, Manchester, England, M1 1JA	United Kingdom

Notes to the financial statements for the year ended 31 December 2018

19 SUBSIDIARIES AS AT 31 DECEMBER 2018 (CONTINUED)

Company name	Percentage of shares held	Number and class of shares held	Principal activity	Registered address	Country of incorporation
Gaia Heat (Coeus) Ltd*	100%	1 Ordinary £1 share	The company did not trade during the year	Suite 6c, 3rd Floor Sevendale House, 5-7 Dale Street, Manchester, England, M1 1JA	United Kingdom
Gaia Heat (Crius) Ltd*	100%	1 Ordinary £1 share	The company did not trade during the year	Suite 6c, 3rd Floor Sevendale House, 5-7 Dale Street, Manchester, England, M1 1JA	United Kingdom
Gaia Heat (Cronus) Ltd*	100%	1 Ordinary £1 share	The company did not trade during the year	Suite 6c, 3rd Floor Sevendale House, 5-7 Dale Street, Manchester, England, M1 1JA	United Kingdom

*Indirect subsidiaries