Westfield Energy Recovery Limited

Directors' Report and financial statements

Registered number SC579887

Year ended 31 March 2022

Contents

Directors' Report

The directors present their Directors' Report and the audited financial statements for the year ended 31 March 2022.

The Directors' Report has been prepared in accordance with the provisions applicable to companies entitled to take the small companies' exemption under Companies Act 2006.

The directors have taken advantage of the small companies' exemption provided by section 414A of the Companies Act 2006 not to present a strategic report.

Principal activities and business review

The principal activity of Westfield Energy Recovery Limited (the "Company") is the development of the Westfield Energy Recovery Project (the "Project") in Fife, Scotland. The Energy from Waste ("EfW") facility, once constructed, will have a nominal capacity of 240,000 tonnes per annum and will export up to approximately 23 MW of electricity into the local grid.

The key milestones the Company was initially working towards during the year were the conclusion of all main construction and operating contracts and the achievement of Financial Close, being the point at which all the necessary contracts and financing arrangements are successfully concluded to allow the construction activities to commence on site. The Financial Close was achieved on 16 December 2021.

Following the Financial Close, the main focus of the Company has been on supervising and supporting contractors and sub-contractors to ensure that construction works are carried out on site to the highest standard of health and safety and environmental compliance and in a manner that fully complies with planning and environmental permit conditions. The initial activities carried out on site since the Financial Close have concentrated mainly on the site establishment and enabling works. Full construction works have commenced from February 2022 and the facility is expected to be completed within the first half of 2025.

At Financial Close of the Project, the Company secured a commitment for £102.8m of funding from its immediate parent company, WERL Holdings Limited, which will be provided through subscriptions for ordinary shares and unsecured subordinated Loan Notes that will be issued by the Company. The funds will be used to finance the construction activities planned between the Financial Close and the end of June 2023. Subsequent construction activities will be funded through the senior debt financing that the Company has also secured at Financial Close. At Financial Close, the Company's parent has made the necessary financing arrangements to be able to discharge its funding commitments and, as at 31 March 2022, has subscribed and paid for 25,294,038 ordinary shares of £1 each issued by the Company. Subsequent to the year-end, the Company received further £17.8m from its parent through further subscriptions for ordinary shares and Loan Notes issued by the Company.

At Financial Close, WERL Holdings Limited entered into a share pledge agreement in favour of National Westminster Bank Plc (the "Security Agent") in relation to the shares owned by it in the Company. All shares issued to WERL Holdings Limited by the Company since the Financial Close were transferred to the Security Agent. Although the shares were legally transferred, the transfer was made in security only, with all rights and powers attached to the shares remaining with WERL Holdings Limited until such point when a continuing event of default has occurred and the security has been enforced by the Security Agent.

During the year, as part of an ongoing strategic review of its operations, Brockwell Energy Limited has initiated a process of divesting of its interest in the parent of WERL Holdings Limited - BEL 2 Limited. On 23 September 2022 100% of the share capital owned by Brockwell Energy Limited in BEL 2 Limited was sold to Equitix Westfield Bidco Limited. Effective from that date, BEL 2 Limited, WERL Holdings Limited and the Company ceased to be part of the of the Group headed by Lantern Holdco Limited, who was considered as the Company's ultimate controlling party at 31 March 2022.

Subsequent to the year-end, the Company has agreed to vary the terms of the Engineering, Construction and Procurement ("EPC") Contract with its main contractor employed on the Project. Under the revised terms of the EPC Contract, an additional amount may become payable from the Company if certain conditions related to an improved performance of the EfW facility are satisfied when the facility becomes operational.

There are no other subsequent events to disclose.

The results of the Company are outlined in more detail on page 10.

Key performance indicators

Given the current nature of the Company's principal activity and the early stage of the Project, the directors consider the most relevant key performance indicators to be those associated with capital expenditure incurred on the Project.

Directors' Report *(continued)*

Key performance indicators *(continued)*

Key non-financial performance indicators will be developed and reported on as the construction activities on site increase.

	As at 31 March 2022	As at 31 March 2021	Change
Financial indicators	**£000**	£000	£000
Capital expenditure incurred on the Project	**24,134**	7,644	16,490

The significant increase in the value of the capital expenditure incurred on the Project during the year is a result of the Project reaching Financial Close and the construction works commencing on site.

Dividends

The directors do not recommend the payment of a dividend (2021: £nil).

Directors

The directors who held office during the year and up to the date of this Report were as follows:

ID Cockburn	(resigned on 23 September 2022)
AS Lambie	(resigned on 23 September 2022)
RHG Shaw	(resigned on 23 September 2022)
N Young	(resigned on 23 September 2022)
P Newman	(resigned on 23 September 2022)
R Collins	(appointed on 23 September 2022)
G Carfrae	(appointed on 23 September 2022, resigned on 26 September 2022)
O Omoniwa	(appointed on 4 October 2022)
MJ McBrearty	(appointed on 4 October 2022)

Disclosure of information to auditor

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

Principal risks and uncertainties

Short- to medium-term risks

The principal risks facing the Company in the short- to medium-term in relation to the Project are associated with the safety of the personnel working on site, potential delays to the construction of the facility and cost overruns. In order to mitigate against these risks, the management of the Company have:

- Put in place a fixed price EPC Contract with Hitachi Zosen Inova AG at Financial Close;
- Implemented robust review and reporting processes to measure the spend and progress of the work against the budgets;
- Appointed an expert technical adviser specialising in the EfW sector as the Project Manager for the duration of the construction phase of the Project;
- Implemented comprehensive protocols for monitoring of safety performance, which include health and safety audits, regular site visits and incident reporting procedures; and
- Ensured that the Project is adequately resourced with experienced personnel.

Directors' Report *(continued)*

Principal risks and uncertainties *(continued)*

Short- to medium-term risks *(continued)*

The longer-term Project-related risks and challenges which may affect the Company are associated with the post-construction operation and maintenance of the facility, ensuring continued off-take for the electricity produced by the facility, maintaining the supply of the fuel necessary for operating the facility and managing the impact of any potential changes in the planning and environmental legislation. In order to mitigate against these risks, the management of the Company have:

- Appointed Hitachi Zosen Inova Westfield Plant Operations Ltd as the long-term operations and maintenance contractor for the facility;
- Put in place plans for the procurement of a Power Purchase Agreement for the offtake of the electricity that will be generated by the facility no later than six months prior to the completion of the facility;
- Put in place a long-term Fuel Supply Agreement with a reputable counterparty; and
- Ensured that the design and the specification of the facility can accommodate potential changes in the planning and environmental legislation if such changes are introduced.

Other risks

Following the United Kingdom's ("UK") departure from the European Union on 31 January 2020 (the "Brexit"), the UK's transition period ended on 31 December 2020. The directors have assessed that Brexit has had, and is expected to continue to have, no impact on the Company and its operations.

On 11 March 2020, the World Health Organisation declared COVID-19 to be a global pandemic. Rapid rollout of the COVID-19 vaccines across the UK since the start of 2021 allowed the governments to ease of the restrictions and stimulated economic rebound. COVID-19 has not had any significant impact on the Company and its operations in the current or the prior financial year. The directors do not expect COVID-19 to have a material impact on the Company going forward.

The Company is monitoring the geopolitical situation in Eastern Europe following Russia's invasion of Ukraine on 24 February 2022.

Auditor

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

RCollins

R Collins
Director

C/O Brockwell Energy Limited
Caledonian Exchange
19a Canning Street
Edinburgh
EH3 8EG

12 December 2022

Statement of Directors' Responsibilities in respect of the Directors' Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 the 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Westfield Energy Recovery Limited

We have audited the financial statements of Westfield Energy Recovery Limited ("the company") for the year ended 31 March 2022 which comprise the Profit and Loss Account and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and management as to the company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading board meeting minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls.

Independent Auditor's Report to the Members of Westfield Energy Recovery Limited *(continued)*

Fraud and breaches of laws and regulations – ability to detect *(continued)*

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, employment law, and certain aspects of company legislation recognising the nature of the company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Directors' report

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

Our responsibility is to read 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 directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

Independent Auditor's Report to the Members of Westfield Energy Recovery Limited *(continued)*

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; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, 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.

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.

Johnathan Pass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

13 December 2022

Profit and Loss Account and Other Comprehensive Income
for the year ended 31 March 2022

	Note	**Year ended 31 March 2022 £000**	Year ended 31 March 2021 £000
Administrative expenses		-	-
Operating loss	*2-3*	-	-
Interest receivable and similar income	*4*	**1,136**	-
Profit/(loss) before taxation		**1,136**	-
Tax	*5*	**(284)**	-
Profit/(loss) for the financial year		**852**	-
Other comprehensive income			
Effective portion of changes in fir value of cash flow hedges	*11*	**8,830**	
Income tax on other comprehensive income	*5*	**(2,207)**	
Other comprehensive income for the year, net of income tax		**6,623**	-
Total comprehensive income for the year		**7,475**	-

The notes on pages 13 to 25 form an integral part of these financial statements.

Balance Sheet
at 31 March 2022

	Note	2022 £000	£000	2021 £000	£000
Non-current assets					
Tangible fixed assets	*6*	24,134		7,644	
Derivative financial instruments	*11*	11,137		-	
Debtors: amounts falling due after more than one year	*7*	241		48	
			35,512		7,692
Current assets					
Debtors: amounts falling due within one year	*7*	409		219	
Cash at bank and in hand		3,830		38	
		4,239		257	
Creditors: amounts falling due within one year	*8*	(3,753)		(7,949)	
Net current assets/(liabilities)			486		(7,692)
Total assets less current liabilities			35,998		-
Creditors: amounts falling due after more than one year	*9*		(3,229)		-
Net assets			32,769		-
Capital and reserves					
Called up share capital	*10*		25,294		-
Cash flow hedge reserve	*10*		6,623		
Retained earnings			852		-
Total equity			32,769		-

The notes on pages 13 to 25 form an integral part of these financial statements.

These financial statements were approved by the board of directors on 12 December 2022 and were signed on its behalf by:

RCollins

R Collins
Director

Registered number: SC579887

Statement of Changes in Equity
for the year ended 31 March 2022

	Called up share capital £000	Cash flow hedge reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 2020	-	-	-	-
Total comprehensive income for the year				
Result for the year	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Balance at 31 March 2021	-	-	-	-
Balance at 1 April 2021	-	-	-	-
Total comprehensive income for the year				
Profit for the year	-	-	852	852
Other comprehensive income	-	6,623	-	6,623
Total comprehensive income for the year	-	6,623	852	7,475
Transactions with owners, recorded directly in equity				
Issue of shares	25,294	-	-	25,294
Balance at 31 March 2022	25,294	6,623	852	32,769

The notes on pages 13 to 25 form an integral part of these financial statements.

Notes to the financial statements

1 Accounting policies

Reporting entity

Westfield Energy Recovery Limited is a private company limited by shares and incorporated, domiciled and registered in Scotland in the UK. The address of its registered office is C/O Brockwell Energy Limited, Caledonian Exchange, 19a Canning Street, Edinburgh, United Kingdom, EH3 8EG. The nature of the Company's operations and its principal activities are set out in the Directors' Report on pages 3 to 5.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 102 The *Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102"). The presentation currency of these financial statements is Sterling. All amounts in the financial statements have been rounded to the nearest thousand.

The Company's ultimate parent undertaking at 31 March 2022, Lantern Holdco Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Lantern Holdco Limited are prepared in accordance with FRS 102 and are available to the public and may be obtained from Companies House.

In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the year;
- Cash Flow Statement and related notes; and
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of Lantern Holdco Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Measurement convention

The financial statements are prepared on the historical cost basis.

Going concern

The financial statements of the Company have been prepared on a going concern basis which the directors consider to be appropriate as at the date of their approval for the reasons outlined below.

The Company has net assets of £32,769,000 (2021: £1) at 31 March 2022. The Company is expected to meet its funding and day to day working capital requirements using the funds committed to it by its immediate parent company, WERL Holdings Limited, and the senior lenders.

After making enquiries, at the time of approving these financial statements, the directors have a reasonable expectation that the Company has adequate resources to continue to operate for the foreseeable future and have committed the resources and credit lines required to complete the construction phase of the Project. Financing arrangements in place at 31 March 2022 will provide further £77.5m of equity funding and £182m from the senior lenders. The funding is expected to be sufficient to cover the remaining construction costs with reasonable allowance for contingencies. Modelling of financial projections for the operational life of the facility which was completed at Financial Close indicates that the Project will generate sufficient revenues from the operation of the facility to allow the Company to service the debt and meet other liabilities as they fall due.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

***Going concern** (continued)*

After making enquiries, 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 they therefore continue to prepare the financial statements on a going concern basis.

Foreign currencies

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss.

Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Other financial instruments

Financial instruments not considered to be Basic Financial Instruments (Other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment; and
- hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in profit or loss. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves).

If hedge accounting is discontinued and the hedged financial asset or liability has not been derecognised, any adjustments to the carrying amount of the hedged item are amortised into profit or loss using the effective interest method over the remaining life of the hedged item.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in Other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

When the forecast transaction subsequently results in the recognition of a non-financial item (including a non-financial item that becomes a firm commitment for which fair value hedge accounting is applied – see above), the associated cumulative gain or loss is removed from the cash flow hedging reserve and is included in the initial carrying amount of the non-financial asset or liability.

For all other hedged items, the associated cumulative gain or loss is reclassified from the cash flow hedge reserve to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Impairment excluding deferred tax assets

Financial assets (including other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit and loss account.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets. The Company assesses at each reporting date whether the tangible fixed assets are impaired.

Capitalised costs include all costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by the management. Borrowing costs that are directly attributable to the construction of a qualifying asset (which is an asset necessarily taking a substantial period of time to be prepared for its intended use) are capitalised as part of the cost of the asset. Capitalisation ceases when substantially all activities that are necessary to prepare the asset for its intended use are complete.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. Assets in the course of construction are not depreciated until they are available for use.

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

***Tangible fixed assets** (continued)*

payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described below.

Expenses

Operating leases

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless; (i) the payments to the lessor are structured to increase in line with expected general inflation, in which case the payments related to the structured increases are recognised as incurred; (ii) the Company has received temporary rent concessions as a direct consequence of the COVID-19 pandemic or (iii) costs are directly attributable to the construction of a qualifying asset. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Finance leases

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Interest receivable and Interest payable

Interest payable and similar expenses include interest payable, finance expense on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Other interest receivable and similar income include_interest receivable on funds invested and net foreign exchange gains. Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

Taxation

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

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

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Notes to the financial statements *(continued)*

2 Expenses and auditor's remuneration

	2022 £000	2021 £000
Fees payable to the Company's auditor for the audit of the financial statements	**35**	5

3 Directors' remuneration, staff numbers and costs

None of the directors received any remuneration or benefits from the Company in respect of the services they have provided during the current or the prior year, nor are they employees of the Company. The Company had no employees during the current or the prior year.

4 Interest receivable and similar income

	2022 £000	2021 £000
Ineffective portion of gains on derivatives treated as cash flow hedges (see note 11)	**1,136**	-
	1,136	-

5 Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity:

	2022 £000	2021 £000
Current tax:		
Current tax on profit for the year	-	-
Total current tax	-	-
Deferred tax:		
Current year	**2,491**	-
Total deferred tax	**2,491**	-
Total tax expense	**2,491**	-

Notes to the financial statements *(continued)*

5 Taxation *(continued)*

	2022			2021		
	Current tax £000	**Deferred tax £000**	**Total tax £000**	Current tax £000	Deferred tax £000	Total tax £000
Recognised in Profit and loss account	-	284	284	-	-	-
Recognised in other comprehensive income	-	2,20)	2,207	-	-	-
Total tax expense	-	2,491	2,491	-	-	-

Reconciliation of effective tax rate

	2022 £000	2021 £000
Profit for the year	852	-
Total tax expense	(284)	-
Profit excluding taxation	1,136	-
Tax using the UK corporation tax rate of 19% (2021:19%)	216	-
Effects of:		
Tax rate changes	68	-
Total tax expense included in profit or loss	284	-

Factors that may affect future tax expenses

In March 2021 Budget it has been announced that legislation will be introduced in Finance Bill 2021 to set the main rate of UK corporation tax at 19% for the financial year beginning 1 April 2022 and at 25% for the financial year beginning 1 April 2023. Deferred tax balance has been measured at 25%.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2022			2021		
	Assets £000	**Liabilities £000**	**Net £000**	Assets £000	Liabilities £000	Net £000
Derivative financial instruments	157	(2,364)	(2,207)	-	-	-
Profits	-	(284)	(284)	-	-	-
Net tax assets/(liabilities)	157	(2,648)	(2,491)	-	-	-

Notes to the financial statements *(continued)*

6 Tangible fixed assets

	Assets in the course of construction £000
Cost	
Balance at 1 April 2021	7,644
Additions	16,490
Balance at 31 March 2022	**24,134**
Depreciation and impairment	
Balance at 1 April 2021	-
Depreciation charge for the year	-
Impairment losses	-
Balance at 31 March 2022	-
Net book value	
At 31 March 2022	**24,134**
At 31 March 2021	7,644

Assets in the course of construction comprise development, planning and engineering costs directly attributable to the development of the Project.

Notes to the financial statements *(continued)*

7 Debtors

	2022	2021
	£000	£000
Other taxes	409	29
Other debtors	241	238
	650	267
Due within one year	409	219
Due after more than one year	241	48
	650	267

Other debtors include £37,000 (2021: £48,000) in relation to a cash deposit held on behalf of the Company by National Grid Electricity Transmission plc ("National Grid") as a security in respect of the cancellation charges under the Company's grid connection offer. The planned connection date that will trigger the repayment of the security is October 2024 therefore the amount has been classified as falling due after more than one year.

Other debtors also include a deposit of £204,000 (2021: £190,000) which was placed by the Company as part of the Capacity Market auction process entered into in connection with the Project. The amount outstanding at 31 March 2022 is due after more than one year. The amount outstanding at the end of the previous financial year was repaid to the Company in April 2021 and was classified as due within one year at 31 March 2021.

8 Creditors: amounts falling due within one year

	2022	2021
	£000	£000
Amounts owed to Group undertakings	130	5,336
Trade payables	34	127
Other payables	-	2,000
Accruals	3,165	486
Derivative financial instruments (see note 11)	424	-
	3,753	7,949

Amount owed to Group undertakings outstanding in the prior year comprised of a loan from Brockwell Energy Limited. The loan was unsecured, was repayable on demand and did not accrue any interest in the year ended 31 March 2022 (2021: £nil). The loan was repaid by the Company at Financial Close. Balance outstanding in the current year relates to amounts payable in relation to services received from a Group undertaking (2021: £nil).

Other payables outstanding in the prior year comprised of certain amounts which became payable on successful achievement of the Financial Close on the Project.

Notes to the financial statements *(continued)*

9 Creditors: amounts falling due after more than one year

	2022 £000	2021 £000
Debt issue costs on senior debt	-	-
Derivative financial instruments (see note 11)	738	-
Deferred tax liability (see note 5)	2,491	-
	3,229	-

Debt issue costs on senior debt are represented by the financing fees paid to the senior lenders in connection with the Term Loan Facility committed by the lenders at Financial Close. As at 31 March 2022, there were no amounts borrowed and outstanding under the debt facility, but related fees have already been paid in accordance with the agreed terms and have been allocated against the expected loan liability.

10 Capital and reserves

Share capital

	2022 £	2021 £
Allotted, called up and fully paid		
25,294,039 ordinary shares (2021: 1) of £1 each	25,294,039	1

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

Cash flow hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

11 Financial instruments

Interest rate benchmark reform

The Company was not affected by the interest rate benchmark reform.

Carrying amount of financial instruments measured at fair value

The carrying amount of the financial assets and liabilities measured at fair value include:

	2022 £000	2021 £000
Financial assets		-
Derivative financial instruments	11,137	-
Financial liabilities		-
Derivative financial instruments	(1,162)	
	9,975	-

Notes to the financial statements *(continued)*

11 Financial instruments *(continued)*

Financial instruments measured at fair value

Derivative financial instruments

The fair values of derivative contracts are recorded in the Company's statement of financial position and are determined by discounting the future cash flows estimated to be paid or received under those contracts using a valuation technique based on EUR/GBP and CHF/GBP spots and GBP forward points and rates derived from short term rates, futures, and swap rates.

Hedge accounting

The following are the contractual cash flows associated with the cash flow hedging instruments:

At 31 March 2022		Expected cash flows					
	Carrying amount £000	**Total £000**	**1 year or less £000**	**1 to 2 years £000**	**2 to 5 years £000**	**5 to 10 years £000**	**More than 10 years £000**
Interest rate swaps used for hedging	10,536	10,673	-	421	4,056	3,572	2,624
Forward exchange contracts used for hedging	(561)	(83,808)	(15,791)	(43,918)	(24,099)	-	-
	9,975	(73,135)	(15,791)	(43,497)	(20,043)	3,572	2,624

There were no derivative financial instruments in place in the prior year so no comparatives are presented.

Hedge of variable interest rate risk

The Company uses derivatives to hedge its variable interest rate risks. To hedge the potential volatility in future interest cash flows arising from movements in SONIA, at Financial Close the Company entered into floating to fixed interest rate swaps with a nominal value equal to that of the committed amount under the Term Loan Facility from the senior lenders. The fair value of the derivative asset related to the interest rate swaps at the balance sheet date was £10,536,000 (2021: £nil).

In the year ended 31 March 2022:

- Changes in the fair value of the derivative recognised in other comprehensive income that were determined to be an effective hedge amounted to a gain of £9,459,000 (2021: £nil); and
- Ineffective portion of gains on the derivative recognised in the profit or loss account was £1,078,000 (2021: £nil).

Hedge of foreign exchange risk

The Company uses derivatives to hedge its foreign exchange risk. To hedge the potential exposure related to the underlying costs under the EPC Contract denominated in foreign currencies, at Financial Close the Company entered into forward exchange contracts which protect the variability in Sterling payments arising from the contracted costs denominated in Euros and Swiss Francs.

The fair value of the derivative asset related to the forward exchange contracts at the balance sheet date was £600,000 (2021: £nil). The fair value of the derivative liability related to the forward exchange contracts at the balance sheet date was £1,162,000 (2021: £nil).

In the year ended 31 March 2022:

- Changes in the fair value of the derivative recognised in other comprehensive income that were determined to be an effective hedge amounted to an expense of £630,000 (2021: £nil);
- Ineffective portion of gains on the derivatives recognised in the profit or loss account was £58,000 of (2021: £nil); and

Notes to the financial statements *(continued)*

11 Financial instruments *(continued)*

Hedge accounting (continued)

Hedge of foreign exchange risk (continued)

- Amount reclassified from other comprehensive income to the carrying amount of Assets under construction was £1,000 (2021: £nil).

Fair values

The amounts for all financial assets and financial liabilities at fair value are as follows:

	As at 31 March 2022		As at 31 March 2021	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	£000	**£000**	£000	£000
Financial assets				
Debtors	**650**	**650**	91	91
Cash and cash equivalents	**3,830**	**3,830**	38	38
Derivative financial assets	**11,137**	**11,137**	-	-
	15,617	**15,617**	129	129
Financial liabilities				
Trade and other payables	**(3,329)**	**(3,329)**	(7,949)	(7,949)
Derivative financial liabilities	**(1,162)**	**(1,162)**	-	-
	(4,491)	**(4,491)**	(7,949)	(7,949)

12 Operating leases

Leases as lessee

At Financial Close, the Company entered into a lease agreement in connection with the construction of the EfW. Non-cancellable operating lease rentals are payable as follows:

	2022	2021
	£000	£000
Less than one year	**105**	-
Between one and five years	**1,616**	-
More than five years	**11,988**	
	13,709	-

During the year, £48,000 (2021: £nil) of costs related to the operating lease was capitalised as part of Assets under construction balance as a directly attributable cost.

13 Commitments

	2022	2021
	£000	£000
Construction related costs - contracted but not provided for	**236,514**	-

Notes to the financial statements *(continued)*

14 Contingencies

According to the requirements in the Connection and Use of System Code ("CUSC"), the Company will be liable for all related investments carried out by the transmission owner to the onshore grid infrastructure in order to accommodate the connection of the Energy from Waste plant to the grid. Upon cancellation or reduction of the Project's capacity within a certain timeframe, the Company will be liable for all local works that have been carried out up to that point and for a percentage share of all related wider works whether or not these works have commenced.

As at the balance sheet date, National Grid had requested and held cash security of £36,712 in respect of the cancellation charges for the period from 1 April 2022 to 30 September 2022 stemming from the wider cancellation liabilities of £118,124 and attributable VAT. This security was provided by the Company in the form of a refundable cash deposit. Cancellation charges and security requirements for the subsequent period from 1 October 2022 to 31 March 2023 remained unchanged.

The directors do not expect to cancel the grid offer and therefore do not expect the contingent amounts to become payable.

15 Related party disclosures

The Company is a subsidiary undertaking of WERL Holdings Limited. The ultimate controlling party of the Company at 31 March 2022 was Lantern Holdco Limited. In the financial year ended 31 March 2022, the Company has taken the advantage of the exemption not to disclose transactions with its parent undertaking and wholly owned members of the Group.

16 Ultimate parent company and parent undertaking of larger group

The Company's immediate parent undertaking is WERL Holdings Limited. In the financial year ended 31 March 2022, WERL Holdings Limited was a wholly owned subsidiary of BEL 2 Limited – a company owned by Brockwell Energy Limited. The ultimate controlling party of Brockwell Energy Limited, and therefore of the Company, in the financial year ended 31 March 2022 was Lantern Holdco Limited.

In the financial year ended 31 March 2022, the only group in which the results of the Company were consolidated was that headed by Lantern Holdco Limited. The consolidated financial statements of this company are available to the public and may be obtained from their registered address 35 Great St. Helen's, London, EC3A 6AP.

On 23 September 2022, 100% of the share capital owned by Brockwell Energy Limited in BEL 2 Limited was sold to Equitix Westfield Bidco Limited. Effective from that date, BEL 2 Limited, WERL Holdings Limited and the Company ceased to be part of the of the Group headed by Lantern Holdco Limited.