RURELEC

2021

ANNUAL REPORT
AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2021

Stock code: RUR

RURELEC

CONTENTS

Rurelec PLC ("Rurelec") is an owner, developer and operator of power generation capacity internationally.

Rurelec's main business consists of the ownership, operation and development of power generation facilities on national and regional grids, selling wholesale electricity as a generator on commercial terms, through capacity payments and/or power purchase agreements ("PPAs").

Rurelec's current business is centred on Rurelec's share of an operational plant in Argentina whilst also seeking to complete the development of its project in Chile or sell its interests in that project.

NON-EXECUTIVE DIRECTOR'S STATEMENT

Dear Shareholder

The overall strategy for Rurelec remains the continued stabilisation of the financial position of the Group, with the intention of enabling value to be realised from the asset portfolio and ultimately returned to shareholders.

The full effect of COVID 19 on the already weak economy and chaotic power sector in Argentina, may well have overwhelmed the Company, in the year ended 31 December 2021 had the Board who have preceded me in recent years not managed to eliminate the Company's debt. As it was, through limited income from Argentina, the disposal of the GE 6B Turbine and a parsimonious approach to expenditure, we were able to achieve a satisfactory outcome in the circumstances.

The year in review

In light of the severe exchange control restrictions imposed by the Argentine government, and the need to maintain liquidity within EdS for operational reasons, the Directors consider that the receipt by Rurelec of £0.4 million through our joint venture partner in Patagonia Energy Limited ("PEL") during the year is indicative of the improved working relationship with our joint venture partners. This cooperation is crucial as PEL's Argentinian asset, Energia del Sur SA ("EdS") continues to face headwinds comprising weak tariffs, costly scheduled maintenance outages and adverse political and economic conditions in Argentina. A more detailed discussion on tariffs, and implications of the scheduled maintenance program at EdS is set out below and in the Executive Director's report.

In line with our strategy to make asset disposals, on 9 September 2021 the Group announced the sale of its Frame 6B gas turbine generating set and certain associated ancillary equipment for US$1.0 million/£0.7 million. After settlement of local Chilean costs and other expenses connected with the sale, the Group received US$ 0.94million/£0.7 million net from this transaction. Following the disposal of the turbine, we have begun a process of closing dormant companies in Chile, which simplifies our Group structure and thereby reduces costs in relation to audits and other associated fees.

The Company's cost base fell during the year, despite unavoidable increases such as in insurance. Simon Morris left the Company during the period, having been instrumental in eliminating the debt, and he has not been replaced at the current time. With relatively few suppliers, every invoice is scrutinised by the board, and we now believe that no further material savings can be made while running a publicly quoted company responsibly. Currently expenditure is now less than £1 million per annum. In the current year some further travel and associated expenditure will, however, be necessary as we manage the EdS situation carefully, and as the disposal program of our other assets is actively pursued.

The 6B gas turbine disposal represents an improvement in our liquidity at a time when we cannot rely on EdS to generate surplus cash at least in the short term; cash at 31 December 2021 stood at £745k (31 December 2020 £668k).

Argentina

EdS has continued to perform well from an operational standpoint, and we now enjoy a constructive and co-operative working relationship with our joint venture partner in PEL, which is crucial as all future cash remittances from EdS need to flow up through PEL given all direct debts owed from EdS to the Group were repaid in 2020.

However, the generation of surplus cash by EdS and rate of cash remittances from EdS to PEL was weak due to the deteriorating economic situation in Argentina. This has been exacerbated by the impact of the COVID-19 pandemic which spanned the entire period under review and included a nationwide lockdown between 22 and 31 May 2021.

Argentinian cost inflation continued to soar, with an annual rate of 50.9 per cent. in 2021 with the interannual rate at the end of April 2022 of 58 per cent.[1], which affected our staff costs in particular. The value of the Argentinian peso against the US Dollar fell by nearly 14.7 per cent. in 2021, The Argentinian Central Bank ("BCRA") exchange controls have a direct effect on the cash remittances by EdS to PEL (PEL is not resident in Argentina). The cost of transferring money out of Argentina continues to be punitive with the loss suffered on transferring Argentine Pesos to US dollars has amounted to approximately 48 per cent. of the underlying face value; in addition, at the operating level energy spot prices are no longer linked to US Dollars but to Argentinian Pesos which increases the foreign exchange risk for the Group.

As we have previously announced the year began with great uncertainty following the expiration of the Resolution SE 220/2007tariff with remuneration levels falling significantly to spot-market rates governed by the existing Resolution SE 31/2020 tariff ("Resolution 31").

Despite negotiations at the highest possible level with the Argentinian Government, its Secretariat of Energy and also with CAMMESA, output from the Steam Turbine was remunerated at Resolution 31 spot rates between September 2020 and February 2021.

On 12 February 2021 CAMMESA agreed to a 12 month suspension of interest and repayments for two maintenance loans to EdS and a constant Utilization Factor, which is used to calculate capacity equal to 70 per cent. of nominal output from 1st February 2021.

On 19 May 2021, Resolution SE 440/2021 ("Resolution 440") was announced introducing the following changes to the existing Resolution 31 tariff:

- Spot generation tariffs increased by additional payments of 29 per cent. on average.
- This increase is to be retroactively applied from February 2021 (though payment of these sums is delayed – see below).
- There was a cancellation of the Update Clause (Art 2. SE Resolution 31/2020) for the increase in rates based on the Consumer Price index "CPI" and the Internal Wholesale Price Index "IPIM"

[1] INDEC (Instituto Nacional de Estadística y Censos de la Argentina) (Argentinas' National Statistics and Census Office) Technical report, Índice de Precios al Consumidor (IPC). Cobertura nacional. Abril de 2022 (indec.gob.ar)

NON-EXECUTIVE DIRECTOR'S STATEMENT

Under this change, steam and gas turbine capacity and offtake revenue are all remunerated under the same Resolution 440 tariff. Previously just gas turbine offtake was remunerated under the Resolution 31 spot tariff. Despite the increases in Resolution 440, the income generated under this new tariff is significantly lower than under Resolution 220.

On the 18 April 2022, Resolution 238/2022 ("Resolution 238") was announced introducing the following changes to existing Resolution 440:

- Spot generation tariffs increased by additional payments of 30 per cent. for the February-May 2022 period and by an added 10 per cent. as from June 2022.
- It makes the clause on reduction of income from availability void, based on the use factor. The validity of this clause was suspended for EDS from February 2021, which represented an increase in our income of AR$86M during 2021.

These changes are to be retroactively applied from February 2022. This tariff increase has been awarded by the Secretariat of Energy in recognition of the inflationary environment in Argentina.

Outlook

We have now focussed on the disposal of the two 701 DU 125MW turbines and generators which have been in storage in Italy since 2008, before they were acquired in June 2013. This equipment, while of a dated design, is high quality and has been carefully stored. We consider that in the environment of global demand for electricity currently exceeding the rate at which renewable sources can be developed, there is a window of opportunity in which we must explore opportunities to dispose of these assets which have been owned by the Company for nine years. We expect that they are likely to be deployed in developing countries and we are following up a number of leads in different geographies. The complex and often slow nature of financing power projects of the scale for which these turbines will be used makes it difficult for us, both to determine the credibility of a purchaser, and to predict the timing of any sale, ahead of receipt of a contractual commitment validated by a deposit. We are continuing to explore all leads, including the esoteric and improbable, because a successful outcome will allow us to deliver our strategy of returning value to shareholders.

The Group's Central Illapa project ("Mejillones") remains consented, and licence fees have been paid to maintain that consent. There has been no progress with the disposal of this asset since our last report in September 2021. While we consider that it has value, there is a limited universe of potential purchasers for this asset. Given the growing need for electricity and security of supply, a project such as this may have increased appeal and we will pursue this over the next year.

Group current liabilities at 31 December 2021 stood at £0.5 million, which compares with the position at 31 December 2020 of £0.4 million.

Paul Shackleton
Non-executive Director
6 June 2022

STRATEGIC REPORT

Strategy

The overall strategy for the Group remains the continued stabilisation of the financial position of the Group, with the intention of enabling value to be realised from the asset portfolio and ultimately returned to shareholders. In order to make this possible the Directors succeeded in carrying out a capital reconstruction of the Company at the 2020 AGM.

Liquidity

This strategy has been determined by the on-going financial position of the Group. The main borrowing of the Group was the 2016 secured BPAC loan, which was repaid in 2019 enabling the associated debenture to be released. The Group thus became debt-free and it remained debt-free throughout 2021. Current liabilities have reduced from £2.0 million at 31 December 2018 to £0.5 million at 31 December 2021 with all significant arrears to creditors being satisfied. Group liquidity is now dominated by the timing and quantum of inflows from two main sources – surplus cash generated by the Argentinian operations, and ad-hoc asset disposals.

During 2021, continued normal operations and cash generation at EdS enabled the Argentinian operations to remit unsecured debt repayments of £0.5 million/$0.6 million (2020: £2.3 million/$3.0 million) to Patagonia Energy Limited ("PEL"). Of this amount, Rurelec received £0.3 million (2020: £1.8 million) of debt repayments from PEL under the terms of the November 2019 Umbrella Agreement regulating the division of debt repayments to be made by PEL to its two joint venture ("JV") partners.

At 31 December 2021, EdS had £2.8 million of cash reserves (2020 £2.8 million).

Post year end to date the Group has received £0.6 million of debt repayments (2020: £0.3 million) from PEL.

Group liquidity – cash outflows

There are now no group debt outflows, and outflows on Group administrative expenses have halved in recent years from £2.1 million per annum in 2017 to £1.0 million in 2021.

Group liquidity – the effect of tariff changes on cash inflows from Argentinian operations

When it was operating at full capability, EdS traditionally generated cash surpluses. The tariffs which are used to remunerate EdS are obviously of fundamental importance in determining EdS's cash inflow. In 2021 EdS experienced a sharp decline in revenues following the expiry of the Resolution SE 220/2007 tariff in September 2020 which had remunerated the output of the steam turbine at a premium rate and which had been in place for 10 years.

Following this expiry, the offtake from both steam and gas turbines were remunerated at the much lower spot tariff under Resolution SE 31/220, albeit these spot rates were increased by 29.5 per cent. with effect from February 2021 under Resolution SE 440/2021. These spot tariffs are problematic for the power generation industry in Argentina and may not be sufficient to remunerate companies sufficiently to fund essential maintenance programmes needed in 2023 and beyond. Gripped by domestic economic crisis, high inflation, high interest rates and bearing the economic strain of the COVID-19 pandemic, further tariff increases were not granted by the Argentinian government after February 2021 and cash generation of EdS suffered as a result, thereby significantly restricting the funds EdS was able to pay up to PEL in 2021.

It is the view of the directors of both EdS and Rurelec that the current spot tariff rates in Argentina are unsustainable in the long term and unless tariffs are increased, power generators may have to shut down/mothball their plants. EdS management expect that tariffs will increase and/or there will be funding from CAMMESA for maintenance programmes in 2023 and beyond, but this is not a certainty. EdS' management remains hopeful that an additional tariff increase will be awarded to EdS owing to the cost of producing electricity in the Comodoro Rivadavia area and because EdS is strategically important to the supply of electricity to its surrounding area but as this is currently uncertain, there are significant liquidity risks as a result.

Group liquidity – the effect of operating cash receipts on cash inflows from Argentinian operations

In 2021, the EdS power plant in Patagonia operated normally without any major outages. The demand for power from the grid has been scaled back since 2019 owing to the commissioning of wind farms in the region. In 2021 EDS operated at an output of 59.9 MW compared to a nominal plant capacity of 136 MW using one of its two gas turbines at any one time, and powering its steam turbine at reduced output. This reduced load and alternation between the two gas turbines has helped liquidity by prolonging the period between costly maintenance programmes so in 2021 no major maintenance was necessary.

Group liquidity – The Importance of maintenance on the ability of EdS to generate surplus cash inflows

Although major maintenances have been validly delayed due to running at reduced output, they cannot be postponed indefinitely, and this is going to have a significant impact on liquidity going forwards. The last major maintenance programme between October 2018 and January 2019 cost $6 million (albeit that also involved the replacement of certain turbine blades following the blade failure event in September 2017) and was primarily funded by loans from CAMMESA. During that maintenance programme, the steam turbine and generator were completely overhauled, the rotor and missing turbine blades were replaced, and one of the gas turbines also underwent a rotor replacement and overhaul. A minor maintenance will occur on one gas turbine in 2022 but more significant maintenance programmes are due in 2023 and 2024. In the absence of further loan/grant support from CAMMESA and/or improved tariffs, EdS may not generate sufficient cash to fund these programmes. Getting that support may depend on having a new political regime in the Argentinian Government/Secretariat of Energy. This introduces considerable uncertainty and delay into the ability of EdS to generate surplus cash to contribute towards group liquidity.

STRATEGIC REPORT

Group liquidity – The effect of currency conversion costs on group inflows

Since EdS has repaid all the debt owed directly to Rurelec group companies, Rurelec's liquidity is driven by the flow of receipts from PEL. PEL's liquidity is, in turn, determined by the ability of EdS to purchase US Dollars to repay the debts it owes to PEL or to pay dividends to PEL. Since September 2019, the Argentinian government has imposed severe exchange rate controls as a result of which the timing and quantum of payments from EdS to PEL is heavily affected by those controls which firstly restrict the ability of EdS to transmit funds to PEL and secondly increase the money conversion cost of achieving those transfers. Both these factors combine to generate adverse and uncertain conditions surrounding the Group's liquidity.

Effective in the prior year, liquidity continues to be affected by the increased foreign exchange risk for the Group resulting from the policy change announcement by the Argentinian Government in response to the economic crisis that revenue deriving from the electricity generated by EdS from its steam turbine and sold on the energy spot market will no longer be linked to the US Dollar but to the Argentinian Peso, as are the output and capacity payments for the gas turbines.

Group liquidity – asset sales

The other main source of group receipts was derived from an asset sale. In 2021, the group successfully sold its Frame 6B turbine located near Arica, Chile. This asset which was owned by a Chilean subsidiary was sold for $1.0 million of which net cash proceeds received into Rurelec entity were £721k after local transaction costs.

The Board remain hopeful for the prospects of realising other group assets notably the two 701 DU 125MW turbines and generators in storage in Italy. A sale of these assets would have a material effect on group liquidity if and when it occurs, but the sale of these units is dependent on a customer undertaking a suitable project as this size of older turbine are very rarely bought "for stock"- they would only be bought by a buyer with a specific project in mind in an appropriate territory where such turbines are permitted to operate. Hence the exact timing of a future sale remains uncertain and this introduces a natural unpredictability to the timing of receipts from such sales

Group liquidity – the impact of COVID-19

The Directors have performed a review of Rurelec's cashflow, as described below in the Going Concern section of this report, following which it has been concluded that any lasting impact of the COVID-19 pandemic to date has had little adverse effect on the Directors' view on going concern of the Group for the next 12 months after the signing of this report.

Financial Results and Going Concern

The operating loss for the year of £2.1 million for 2021 represents a decrease in losses compared to the £2.9 million operating loss for 2020. This is explained in more detail in Notes 8 and 9 to the accounts. Included in the loss is an impairment in the carrying value of Group assets of £1.5 million (2020: £1.8 million) coupled with administration expenses which fell at a Group level from £1.1 million in 2020 to £1.0 million in 2021. These losses were offset by a gain of £330k (2020: £nil) on the disposal of the Arica turbine, recorded in Other Income.

The impairment is dominated by a reduction in the forecast net present value of the future cash generation of EdS which is used to support the value of the loan repayments receivable from PEL. This reduction in forecast cash generation is the result of revised assessments of the unfavourable cash generation resulting from tariffs imposed in replacement of the Resolution 220 tariff combined with uncertainties surrounding how future maintenance programmes will be funded. They reflect the Board's view of the carrying value for the Group's assets in current market conditions.

The overall loss before tax for the year was £3.6 million (2020: £5.3 million). This was after a net finance expense of £1.3 million (2020: £2.0 million), due to slower projected PEL loan note repayments increasing the expected credit losses. There was a £0.3 million reduction in foreign exchange losses from £0.5 million in 2020 to £0.2 million in 2021.

Unless there is a significant disposal of assets, in the long term, the Group is dependent upon debt repayments from Argentina via PEL. There is considerable uncertainty as to the timing and the quantum of those receipts given exchange rate controls and other austerity measures imposed by the Argentinian Secretariat of Energy and CAMMESA in response to the Argentinian economic crisis.

At the date of the signing of the Financial Statements, having considered Rurelec's current cash balances and the cash forecasts and current cash balances of the Argentinian operation together with potential asset disposals, the Directors believe, bearing in mind the reduced outgoings of the Group, there is currently sufficient headroom in existing working capital facilities to avoid the need to seek further sources of working capital. However, these receipts are not guaranteed and if neither source of funds generates sufficient cash there exists a material uncertainty over the ability of the Company to finance its ongoing activities,

Key performance indicators

The Directors use a range of performance indicators to monitor progress in the delivery of the Group's strategic objectives, to assess actual performance against targets and to aid management of the businesses.

Rurelec's key performance indicators ("KPIs") include both financial and non-financial targets which are set annually.

Financial KPIs

Financial KPIs address cashflow, operating profitability, net asset value and earnings per share.

i) Cash Flows

The Group is heavily focused on optimising cashflow generation. It regularly monitors actual and forecast Net Cashflows used in Operating Activities, Net Cashflows Generated by Investing Activities (predominantly the repayment of loans from PEL) and Net Cash Used in Financing Activities (although those will in the foreseeable future be minimal as the Group has become debt-free). The Net increase in Cash and Cash Equivalents in the year was £77k (2020: increase £531k), cash balances at the year-end were £745k (2020: £668k).

ii) Operating profitability

Operating loss excludes all non-operating costs, such as financing and tax expenses as well as one-off items and non-trading items, such as negative goodwill. The exclusion of these non-operating items provides an indication of the performance of the underlying businesses. The Group made an operating loss of £2.1 million in the year (2020 £2.9 million loss).

iii) Net asset value

Net asset value is calculated by dividing funds attributable to Rurelec's shareholders by the number of shares in issue. The net assets of the Group reduced in the year to 2.1 pence per share (2020: 2.7 pence per share).

iv) Earnings per share

Earnings per share provide a measure of the overall profitability of the Group. It is defined as the profit or loss attributable to each Ordinary Share based on the consolidated profit or loss for the year after deducting tax. Growth in earnings per share is indicative of the Group's ability to identify and add value. The Group made a loss of 0.65 pence per share in the year (2020: loss of 0.95 pence per share).

Non-Financial KPIs

Non-financial KPIs address other important technical aspects of the business, such as gross capacity, operating efficiency and availability.

i) Gross capacity

Gross capacity is the total generation capacity owned by Group companies and is affected by acquisitions, expansion programmes and disposals. EdS in which the Group has a 50% interest has an installed nominal capacity output of 138 MW. No additional capacity was added in the period. The group continues to own two turbines (2020: three) ready for deployment in projects or onward sales. These have a nominal capacity of 125 MW.

ii) Operating efficiency

Operating efficiency is the average operating efficiency of the generating plant owned by Group companies. It can be improved through the installation of more thermally efficient turbines, refurbishment activities or through conversion to combined cycle operation. The annual heat rate was 8.63 MMBTU/KWh (2020: 8.46 MMBTU/KWh).

iii) Technical availability

Technical availability measures when a plant is available for dispatch. The measurement method excludes time allowed for planned maintenance activities which occur at regular intervals during the life of the unit plus an allowance for unplanned outages. Unplanned and forced outages in excess of the annual allowance will cause a reduction in the technical availability factor. Average availability through the year for our plant in Argentina was 95.2 per cent. (2020: 91.7 per cent.).

REVIEW OF FINANCIAL PERFORMANCE

Group Results

The Group loss after tax for the financial year under review is £3.6 million (2020: £5.3 million loss). This included net impairments of £1.5 million (2020: £1.8 million), net expected credit losses of £1.3 million (2020: £2.0 million), an impairment provision of £0.1 million (2020: £nil) relating to closure costs of 100% owned subsidiary SEA Energy S.A. and foreign exchange losses of £0.2 million (2020: £0.5 million losses). The impairments//Net Expected Credit Losses are detailed below:

	Year ended 31.12.2021 £'000	Year ended 31.12.2020 £'000
Impairments//Net Expected Credit Losses		
Investment in JV Companies	1,336	1,826
Net Expected Credit Losses	1,345	1,964
Provision re closure costs of SEA Energy	133	–
Total	**2,814**	**3,790**

Group revenue was £nil (2020: £nil), Operating and Administrative expenses amounted to £1.0 million (2020: £1.1 million). Operating loss was £2.1 million (2020: £2,9 million loss). The loss before tax is £3.6 million (2020: £5.3 million loss). The basic loss per share is 0.65p (2020: 0.95p loss). Total assets are £12.2 million (2020: £15.4 million). Total equity stands at £11.7 million (2020: £15.1 million), or a Net Asset Value of 2.1 pence per share (2020: 2.7 pence per share).

The results for the operations in Argentina, and Chile are shown below.

Energia del Sur S.A. Results

After the application of Argentine GAAP accounting treatments to recognise the effects of hyperinflation, based on 100% of EdS's activities, the net operating profit for the year was £2.8 million/AR$314.0 million (2020: £7.8 million/AR$722.9 million) on revenues of £6.6 million/AR$ 914.2 million (2020: £16.7 million/AR$1,540.2 million), the net pre-tax profit for the year at EdS was £0.9 million/AR$122.1 million (2020: profit £1.9 million/AR$174.8 million) which included foreign exchange gains of £0.3 million/AR$ 239.1 million (2020: losses £2.6 million/AR$239.1 million).

As set out in note 21 the Directors have determined that the relationship with EdS is a joint venture and is therefore equity accounted.

Rurelec Chile

The development of our 100% owned investments in Chile has expensed limited direct costs in the year of £83k (2020: £164k). Capitalised development costs are £nil (2020: £0.1 million) on the Central Illapa project. As previously announced the Arica turbine was disposed of in the year, the sales proceeds were US$1.0 million, the net profit of £330k is shown in other income note 8b. All sale proceeds were received during the year. The development costs associated with the Central Illapa project were impaired to £nil in 2021 (2020: £0.1m), the remaining transformer has a carrying value of £35k (2020: £nil).

REVIEW OF OPERATIONS

Argentina

In 2021, the EdS power plant in Patagonia operated normally without any major outages. The demand for power from the grid had been scaled back in 2019 owing to the commissioning of wind farms in the region and this reduced demand continued in 2021. In 2021 EDS operated at an output of 59.9 MW compared to a nominal plant capacity of 136 MW using one of its two gas turbines at any one time and powering its steam turbine at reduced output. This reduced load and alternation between the two gas turbines has prolonged the period between maintenance programmes so in 2021 no major maintenance was undertaken.

Gross energy generated for the year 2021 of 454 GWh compares to 522 GWh for 2020. The average heat rate of the plant in 2021 was 8.63 MMBTU/KWh compared to 8.46 MMBTU/KWh for 2020. The average heat rate for the plant includes fuel consumption on both the gas turbines and auxiliary firing of the steam turbine.

In response to the anticipated decline in revenue, EdS management embarked on a cost cutting programme which included a restructuring of the Long-Term Service Agreements which has previously funded maintenance at the plant and the full year effect of this cost reduction programme was seen in 2021. Additional cost savings were achieved through personnel changes, including the retirement of the EdS Managing Director and the second-in command office at the power plant at Comodoro Rivadavia and a move to part time working by the Finance Director and other certain senior management at the La Plata office near Buenos Aires.

The following table sets out the Group's 50 per cent. share of its interest in Patagonia Energy Limited ("PEL") the BVI registered joint venture holding company of EdS, its 100 per cent. owned Argentinian operating subsidiary. The table shows the financial impact on revenue of the expiry of the Resolution 220 PPA and its replacement with spot tariffs as referred to in the above sections in this report. It is to the credit of local management that despite a 60 per cent. fall in revenue, operating costs were also trimmed, and the company generated an overall profit in the year:

Group share of Joint Venture results and net assets	**Year ended 31.12.2021 £'000**	**Year ended 31.12.2020 £'000**
Results		
Revenue	3,300	8,357
Operating Expenses - excluding foreign exchange losses	(2,175)	(4,464)
Foreign exchange losses	130	(1,288)
EBITDA	**1,255**	**2,605**
Depreciation	(1,047)	(1,043)
EBIT	**208**	**1,562**
Intragroup interest - credit re write back of prior year charge	2,478	2,578
Third party interest payable	(398)	(634)
Profit before tax	**2,288**	**3,506**
Tax	151	(829)
Profit after tax	**2,439**	**2,677**

Group share of Joint Venture results and net assets	**Year ended 31.12.2021 £'000**	**Year ended 31.12.2020 £'000**
Summary of Statement of Financial Position		
Non-current assets	10,871	10,407
Cash	1,419	1,418
Current trade and other receivables	918	1,196
Non-current liabilities	(17,100)	(18,681)
Current liabilities	(907)	(2,060)
Net assets/(liabilities)	**(4,798)**	**(7,720)**

Chile

Arica

Following the reassessment of the project, the Board sought to redeploy the Frame 6B turbine acquired for the project. As separately announced on 9 September 2021 a sale of the turbine was concluded at US$1.0 million (approximately £0.72 million), the gain of £330k being shown in Other Income. All proceeds were received in the year, see note 8b for further details. The associated transformer is held at £35k (2020: £nil).

Central Illapa

The necessary environmental consents granted for the project were maintained and an application which had been made in 2019 for the extension of the construction period from Ministerio de Bienes Nacionales, the Chilean Ministry of National Assets was duly approved in January 2020.

The Group's carrying value for projects is assessed for possible impairments. In light of current local market conditions, in order for the project to be attractive to joint venture partners, the capital value of the 701 Siemens turbines going into the project has been assessed at US $9.4 million (2020:US $9.4 million). The Directors also obtained an independent valuation produced by a competent person. Based on valuation advice the Directors have decided not to further impair the carrying value of these turbines (2020: £nil). After exchange rate movements these assets are duly recorded at a value of £7.0 million (2020: £6.9 million).

Future developments have been considered in the non-executive Director's statement.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are possible changes in demand and pricing for electricity in the markets in South America in which the Group operates, political risk, uncertainties in the financial markets, and unexpected operational events.

a) Political risk – there are significant political risks in the areas where the Group operates. These include potential for unfriendly actions towards foreign investments (including the imposition of exchange controls that can significantly reduce the return on investment due to the difficulty and cost of repatriating funds) and towards the domestic utilities sector generally, the imposition of new tariffs and/or taxes and/or

REVIEW OF OPERATIONS

government cash shortages resulting in slow payment for electricity generated. That political risk also extends to labour laws which can result in significant employment-related cost inflation and punitive employment compensation legislation which can make it difficult and uneconomic to carry out staff restructuring programmes. There is also the possibility that domestic economic instability could lead to political unrest or vice versa. These are significant risks to Rurelec which are inherent in operating in such territories

b) Financial markets – Should, after careful assessment, the Group wish to develop its assets, project finance may be unavailable in the markets in which the Group operates; the Group's plans remain dependent on raising project finance from a combination of local partners and lending institutions.

c) Exposure to foreign currency – The Group's activities are in South America and therefore results will be affected by exchange rate movements and local inflation rates. Furthermore, at times of economic crisis (such as in Argentina since late 2019), exchange control restrictions have been imposed and may be further tightened. These may have a significant impact on the Group's ability to repatriate funds to the parent company and introduce an additional cost of achieving that repatriation. The Group seeks to limit these risks by raising funds in the currency of the operating units.

d) Efficient operation – The Group has an effective maintenance programme and is committed to maintaining the equipment in a manner appropriate to the foreseeable demands on that plant to reduce the breakdown risk as appropriate.

e) Liquidity – The Group needs to be in a position to meet its short-term cash requirements. Please see Going Concern in the Directors Report and note 1b for further details.

f) Economic, market and business operations risk resulting from pandemics, particularly the COVID-19 pandemic. In March 2020, the World Health Organisation declared the spread of COVID-19 to be a pandemic. The rapid spread of the virus and consequent global emergency containment measures resulted in business closures, travel shutdowns and restrictions that severely curtailed economic activity and political and economic decision making. The prolonged nature of the COVID-19 pandemic had a severe negative impact on the UK, Argentinian and Chilean economies where the Group operates. The demand for electricity experienced some decline from the reduced industrial and commercial activity, but background demand was maintained. The greater risk has been the effect of the pandemic on already fragile economies such as that of Argentina and measures such as emergency labour laws and restrictions on profit returns from utility companies generally have been implemented to prevent social hardship with the expectation that business meets the burden of that implementation.

   To date, the pandemic had not had a significant impact on operations. London head office operations of Rurelec were able to continue remotely without disruption. All current Head Office records were digitised before the UK lockdown to allow for remote access and work has continued from employees' homes. In Argentina, the spread of the virus did affect the EdS workforce but measures taken by EdS's management minimised disruption (such as operating with reduced on-site manpower for non-essential personnel) and this mitigated any major adverse effect on EdS's operations to date. The EdS plant has not experienced COVID-19 related shutdowns

   The adverse economic and social effects of the COVID-19 pandemic started to recede in late 2021. Although many global supply chains continued to be disrupted and distorted as Economies recovered, this has had little discernible effect on EdS or Rurelec to date. However, despite widespread global stimulus packages and efforts to control and eradicate the virus, it is not currently known what the lasting effects of COVID-19 and its variants will be on the growth rates of global economies, and what the effect will be on the ongoing demand for electricity, the ability to operate and the ability to obtain spare parts and engineering expertise in the event of maintenance or equipment breakdowns. There are no guarantees there will not be yet further disruption and this could extend to an inability to transfer funds out of the country for debt repayments owed to the Group. Group cash flows have been prepared under the scenario that cash will continue to be received under current conditions and local management's expectations.

g) War in Ukraine – its current effects on the Group are not considered to be an adjusting post balance sheet event. See the Directors Report and note 5 – exchange rate sensitivity for further details.

DIRECTORS' SECTION 172 STATEMENT

STATEMENT BY THE DIRECTORS IN PERFORMANCE OF THEIR STATUTORY DUTIES IN ACCORDANCE WITH S172(1) COMPANIES ACT 2006.

The Board of Directors of Rurelec Plc acknowledge that they have a statutory duty under s172 (1) (a-f) of the Act to promote the success of the Company for the benefit of the members as a whole considering broader stakeholder interests, and notably having regard to:

a) the likely consequence of any decision in the long term;
b) the interests of employees;
c) the need to foster business relationships with suppliers, customers and others;
d) the impact of operations on the community and the environment;
e) the desirability of the company maintaining a reputation for high standards of business conduct; and
f) the need to act fairly as between members of the Company

We report below on how in the year ended 31 December 2021 the Board's strategies, actions and key decision making took place observing these duties with the objective of delivering positive outcomes for the Company, its shareholders and its wider stakeholders the most relevant of which have been identified as including creditors, employees of the Company and of interests in foreign JV operations and those impacted by its operations in the wider community.

a) Regarding the likely consequences of long-term decision making, those decisions were made with clear strategic focus on the need to return value to shareholders and the need to continue to build financial strength, thereby avoiding the near-insolvency event experience by the Company in the past. That strategy drove cash conservation and cost cutting decisions so that the business could withstand financial stress. The Company was able to withstand those stresses in 2021.

   The Group culminated realisation of an asset with the successful sale in September 2020 of its Frame 6B turbine located near Arica, Chile for $1.0 million, net cash proceeds were received by the Company.

b) Our employees are fundamental to the delivery of our strategy. The Board has prioritised fair remuneration and pension arrangements for those employees and undertakes regular communication updates in an open environment. Decisions taken to maximise the resilience of the business, preserving cash and minimising risk, are taken after prioritising the continued employment of those employee roles that have been instrumental to the turnaround of the business. Rurelec's Directors have been instrumental in using impending retirements and encouraging part-time working to lower the future costs of its Argentinian operations.

c) Regarding the need to foster business relationships with suppliers, customers and others, Rurelec has for some time been keen to repay arrears to trade creditors who have supported the business over a significant timescale and to repay in full all secured creditors. The Company has been freed from the interest burden that was being paid on past loans, thereby benefitting other stakeholders. Rurelec is now essentially debt- free and, as operating circumstances allow, the Board's stated objective of returning value to shareholders can be realised.

d) Regarding the impact of operations on the community and the environment, Rurelec takes a close interest in the operations in Argentina. At the operations level, EdS has assumed sustainable development of its activity and in the region. Its Environmental Policy is adapted to the nature, environment, scale and environmental impact of the activities and services of the plant. It has implemented an Environmental Management System that has been certified by Bureau Veritas. This system has procedures, instructions, and records in accordance with the requirements of ISO 14.001: 2004, whose compliance is verified through periodic, external and internal audits that contribute to the continuous improvement of EdS.

e) Regarding the desirability of Rurelec maintaining a reputation for high standards of business conduct, the Board of Directors' intention is to ensure that the business operates and behaves in a responsible manner with high standards of business conduct and governance. Regular communication amongst the Board and employees and effective, formally recorded Board Meetings ensure such standards are maintained. Where appropriate, independent legal advice is obtained to support the decision process.

f) Regarding the need to act fairly, as between members of the Company, all shareholders are welcome to express their views at the Annual General Meeting. In December 2019, the Company took the decision to apply to shareholders and the law courts for a capital reconstruction in 2020. This reconstruction was duly approved in 2020 to facilitate the distribution of future returns to shareholders should cash reserves grow to the extent of permitting this.

The Strategic Report was approved by the Board of Directors on 06 June 2022 and was signed on its behalf by:

Andrew Coveney
(Executive Director)

BOARD OF DIRECTORS

BRIAN ROWBOTHAM

Non-Executive Director

Brian was the Senior Independent Non-Executive Director and Chairman of the Audit Committee. He worked as a Chartered Accountant with Deloitte and Touche. He has extensive experience working in the City of London, joined Teather and Greenwood in 1997 and was involved as partner and then Finance Director in the company's flotation on AIM and subsequent move to the Official List. He ran his own consultancy specialising in turnarounds and start-ups until joining Hitchens, Harrison & Co plc in January 2005. He left Hitchens, Harrison & Co plc after its acquisition by Religare in 2008. Brian is a Fellow of the Institute of Chartered Accountants in England and Wales. During the period he held a number of other board positions.

Brian resigned on 13 April 2021.

SIMON MORRIS

Executive Director

Fellow of the Institute of Chartered Accountants in England and Wales qualified as a Chartered Accountant in 1980. After obtaining a degree in Business Studies, spent his career with Grant Thornton and became a partner in 1988. He specialised in corporate finance and corporate recovery, principally restructuring work. He was appointed Chief Operating Officer of Grant Thornton UK in 2008, retiring in late 2011. Since then, he has acted as a business consultant. He is also an accredited mediator.

Simon resigned on 17 August 2021.

ANDY COVENEY

Finance Director

Member of the Institute of Chartered Accountants, qualified as Chartered Accountant in 1990. After obtaining a degree in Geology from the University of Durham he joined Deloitte Haskins & Sells, in 1991 then specialising in Corporate Finance advisory work. In 1993, Andy embarked on a 15-year spell as FD/MD of several financial and operational turnarounds in the manufacturing and distribution sectors, starting with the acquisition and subsequent turnaround of CP Pharmaceuticals Limited, a loss-making division of Fisons plc before it was sold to Wockhardt Group a decade later. Founded Coveney Associates Consulting in 2010 providing FD advice, turnaround services and cashflow management advice to a portfolio of businesses.

PAUL SHACKLETON

Non-Executive Director

Paul is the Senior Independent Non-Executive Director and Chairman of the Audit Committee. He is a corporate finance adviser at Arden Partners PLC. After university, he spent six years as an officer in the British Army. In 1996 he joined UBS limited where he worked with small caps covering Mergers and Acquisitions and Equity capital markets for listed and AIM traded companies. He subsequently joined Singer & Friedlander Limited where he was a founder member of the team which undertook a MBO to form Bridgewell Limited. Since then, he has continued to specialise in small companies; his experience also includes being an adviser to Rurelec between 2006 and 2017.

Paul was appointed on 26 July 2021.

DIRECTORS' REPORT

THE DIRECTORS SUBMIT THEIR ANNUAL REPORT TOGETHER WITH THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021.

Principal activities

The Company and the Group's principal activity is the acquisition, development and operation of power generation assets in markets in Latin America.

Since the Company's admission to AIM in August 2004, the Company acquired assets in Argentina and Bolivia and commenced development of new power generation projects in Peru and Chile. The power generation projects in Peru were sold on 30 January 2018.

Results and dividends

The Group results for the year ended 31 December 2021 are set out in the Consolidated Statement of Total Comprehensive Income.

No dividend was paid during the year to 31 December 2021 (2020: nil).

Share capital

Details of the issued share capital are set out in Note16.

Going concern

The directors have prepared budgets and forecasts, and performed stress tests thereon, for a period of at least 12 months from the date of signing of the financial statements to assess the Group and Company's ability to continue as a going concern.

On the basis that the Group receives the joint venture remittances referred to below, the Directors have assessed that at the date of signing of the financial statements, the Group and Company would have sufficient working capital for a period of at least 12 months from the signing of the financial statements, without the need to seek further sources of working capital and have therefore prepared the financial statements on a going concern basis.

In November 2019, the signing of the Umbrella Agreement and Revised Shareholder Agreement with the JV partner has significantly improved the clarity of how the cash proceeds of the JV will be split between the parties. To date debt repayments of £3.3 million has been received from the JV in part payment of the Amended and Restated Loan Notes. Loan repayments already received, at the date of this report, along with projected rest of year repayments from the joint venture are expected to be sufficient to meet the working capital requirements for the Group.

However, the quantum and timing of further receipts may be subject to variation (particularly as a result of Argentine exchange rate controls) and are not guaranteed or secured. Without the remittances from its joint venture there is uncertainty on the availability of funds to cover the Group's forecast expenditure during the going concern period.

Additionally, there exists uncertainty as to the timing of potential asset sales. Unless there is a significant disposal of assets, the Group remains reliant on the repayments of loans from its joint venture Argentine operations.

Whilst it is the expectation of the Directors that forecast remittances from the joint venture will be received, the matters set out above indicate that a material uncertainty exists that may cast significant doubt on the Group and Company's ability to continue as a going concern and therefore its ability to realise its assets and settle its liabilities in the normal course of business. These consolidated financial statements do not reflect the adjustments or reclassification of assets and liabilities, which would be necessary if the Group and Company were unable to continue its operations.

Directors

The following Directors served during the year and up to the date of signature of the financial statements as follows:

Brian Rowbotham – Non-Executive Director. Resigned on 13 April 2021.
Simon C. Morris – Executive Director. Resigned on 17 August 2021.
Andy H. Coveney – Executive Director

Paul Shackleton was appointed as Non-Executive Director on 26 July 2021 and elected at the 2021 Annual General Meeting.

Directors' interests

The Directors' beneficial interests in the number of shares in the Company were on the reference dates as stated below:

	01.06.2022	31.12.2021	31.12.2020
Brian Rowbotham – resigned 26 July 2021	–	n/a	450,000
Simon C. Morris – resigned 17 August 2021	–	n/a	–
Andrew H. Coveney	–	–	–
Paul Shackleton	–	–	–

Directors' Indemnity

The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for Directors and officers of the Company in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers, including any liabilities relating to the defence of any proceedings brought against them which relate to anything done or omitted, or alleged to have been done or omitted, by them as officers or employees of the Company. Appropriate directors' and officers' liability insurance cover is in place in respect of all the Directors.

Significant shareholdings in the Company

In addition to the shareholdings shown above, the Company is aware of the following interests of 3 per cent. or more in the issued ordinary share capital of the Company notifiable at 01 June 2022, being the last practicable date for reporting this information.

	Number of shares	% holding
Sterling Trust Ltd	303,092,303	53.989
YF Finance Ltd	96,565,166	17.201
Mr & Mrs Scott	17,808,000	3.172

The percentages shown are based on 561,387,586 shares in issue.

Risk management and objectives

The financial risk management policies and objectives are set out in Note 22.

Impact Assessments

United Kingdom's Exit from the European Union (Brexit)

The UK left the European Union ("EU") at 11.00 pm on 31 January 2020. The Transition period that was put in place – during which the UK was still subject to EU rules – ended on 31 December 2020. The rules governing the new relationship between the EU and UK took effect on 1 January 2021. The new Trade and Cooperation Agreement and other agreements were reached between the UK and the EU on 24 December 2020 and were signed during the Transition period. They are in the process of being ratified.

The Group has very limited transactions with EU members and those are limited to the provision of services. Rurelec entity and the Group has only one supplier of services based in the EU. Therefore, Brexit has not had a material impact on the Company.

Coronavirus Pandemic (COVID-19)

The COVID-19 pandemic spread globally in the first Quarter of 2020. Widespread measures have been implemented globally by governments to control the virus and to support economies in the markets where the Group operates. However, it is uncertain whether those measures will be successful in the long-term eradication of the virus or in achieving recovery in those economies and over what timescale. The magnitude and duration of the disruption and decline in business in the markets in which the Group operates is currently uncertain.

During the year under review, the COVID-19 pandemic continued and the Argentinian Government implemented a nationwide lockdown between 22 and 31 May 2021, which did not affect to the operations of the power plant or the head office at La Plata as EdS continued to apply the preventative measures set up in 2020 to protect and safeguard staff. To date the COVID-19 pandemic has had relatively little impact on the ability of EdS to continue in operation.

Notwithstanding the above, it is not considered possible to estimate the long-term financial impact of COVID-19 on the Argentinian economy at the present time, nor to anticipate the economic and fiscal measures that the Argentinian Government will impose. The Group's Head Office in London and the EdS head office in Buenos Aires have operated on a remote basis and the EdS plant in Argentina has implemented procedures and protocols to allow safe working practices as near to normal since the commencement of the pandemic. Notwithstanding the above, it is not considered possible to estimate the long-term financial impact of COVID-19 on the Argentinian economy.

War in Ukraine

The Group has no activities in, or relating to, Ukraine. Whilst the war's future impacts are by nature uncertain, at the time of signing this report, no direct impact on the Group is anticipated over the following 12 months.

As widely reported, global gas prices have risen exponentially in the last 12 months. With recent highs being attributed to supply issues caused by the war. It should be noted that the Group's main CGU, its JV operations in Argentina, under the terms of their supply contract to CAMMESA, the expense of the gas used in generation is borne by CAMMESA rather than EdS.

It is not known to what extent CAMMESA purchase imported gas versus domestically produced gas, but with end users paying currently fixed prices without increases relating to world markets, the situation is likely to constrain CAMMESA's current and future cashflows. This in turn could lead to delays in payments to generators.

Another indirect effect of the war has been shown in the strengthening exchange rates of the US$ to GBP, this is common in times of increased global insecurity. The principal assets of the Group, being the 2 x 701 turbines and JV debt, are US$ denominated. Consequently, wide US$ to GBP exchange rate fluctuations have significant effects on the Income Statement and the Statement of Financial Position. Please refer to note 5 for exchange rate sensitivity analysis.

Statement of directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 for reporting year ended 31 December 2021. 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 and profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

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

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

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

Statement as to disclosure of information to auditor

As far as the Directors are aware, they have each taken all necessary steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

As far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware.

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

Auditor

Pursuant to Section 489 of the Companies Act 2006, BDO LLP has expressed its willingness to continue in office as auditor and a resolution to reappoint it will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Maria J. Bravo Quiterio
Company Secretary
06 June 2022

CORPORATE GOVERNANCE REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

Introduction

Rurelec PLC applies the QCA Corporate Governance Code (the "QCA Code") published in April 2018 and this Corporate Governance report for the year ended 31 December 2021 is based upon the Code.

The principal means of communicating our application of the QCA Code are this Annual Report (pages 14-17) and our Corporate Governance section on our website (www.rurelec.com).

This report sets out the Group's application of the Code, including where appropriate, cross reference to other sections of the Annual Report.

Where our practices depart from the expectations of the Code, an explanation is given as to why, at this time, it is appropriate for the Group to depart from the Code.

The QCA Code is constructed around ten broad principles and a set of disclosures which notes appropriate arrangements for growing companies and requires companies who have adopted the QCA Code to provide an explanation about how they are meeting those principles through the prescribed disclosures. In the paragraphs below, Rurelec PLC explains how it has applied them.

Principle 1. Establish a strategy and business model which promotes long-term value for shareholders.

The Board is committed to strengthening the Group's underlying financial position. The Board sets out to deliver long-term value to shareholders in the following ways:

- Stabilising the Group's position by reducing cash outflows;
- Reducing the Company's vulnerability to fluctuations in the timing of debt repayments receivable from subsidiaries and JVs;
- Working with joint venture partners to ensure that debts from those entities are repaid to the fullest extent possible;
- Using that financial stability to permit an orderly realisation of assets and investments in a timescale that allows maximisation of the proceeds of such sales;
- Where asset realisations are not possible in the short term due to market conditions, preserving the value of those assets and/or maximising the cashflow generated by those assets;

The execution of this strategy presents key challenges in the maximisation of returns on assets given market conditions. Those challenges are addressed by ensuring that the Company is stable enough to be able to avoid having to offload such assets when to do so would minimise value, instead choosing to seek opportunities to maximise the long term returns that will optimise value for shareholders.

The business model as to how the Company plans to make money for its investors revolves around maximising the long term collection of debts owed in connection with the JV formed to develop the EdS business in Argentina, whilst repaying Rurelec's own creditors and continually assessing the value and saleability of its assets with a view to developing and/or realising those assets in such a way as to maximise the returns to all shareholders.

Principle 2. Seek to understand and meet shareholder needs and expectations.

The Board attaches great importance to providing shareholders with clear and transparent information on the Group's activities, strategy and financial position. Details of all shareholder communications are provided on the Group's website.

The Board regards the annual general meeting as a good opportunity to communicate directly with shareholders via an open question and answer session. Covid-19 restrictions related to social distancing requirements restricted the ability of shareholders to communicate with the Board members in person at shareholder meetings during 2021. The Board looks forward to resuming in person meetings with shareholders in the post pandemic environment and will also be exploring other methods of shareholder engagement

The Company lists contact details on its website and on all announcements released via RNS, should shareholders wish to communicate with the Board.

The resolutions put to a vote at past AGMs can be found in www.rurelec.com/investors/circulars

The Board seeks to engage with all shareholders as and when relevant information needs to be disclosed. The Board recognises that shareholders may have different time horizons for their shareholdings and is mindful of the need to consider the interests of shareholders as a whole in this regard.

Shareholders can communicate with the Company through the email address in its website. The Board is responsible for reviewing all communications received from members and determining the most appropriate response.

Principle 3. Take into account wider stakeholder and social responsibilities and their implications for long-term success.

The contraction of the Group and the focus on stabilisation of the financial position of the business has led to frequent communication at Board level and regular communication with suppliers/funders to maintain their confidence in the business model and strategy being pursued by the Board. The long-term success of the Group relies on maintaining open communication and good relationships with its stakeholders.

Communication also extends to the Board receiving regular updates and feedback within the small London-based workforce in the Company and there are also regular communications with the directors of the Group's joint venture partner in the British Virgin Islands. The Group's main trading asset is the joint venture operation in Argentina. This operation is run by a full-time local management team that maintains good relations with all key stakeholders to the business in Argentina.

When permitted, the Executive Directors travel regularly to Argentina and they meet key stakeholders in person. This year due to COVID-19 restrictions such visits to Argentina have not taken place.

Principle 4. Embed effective risk management, considering both opportunities and threats, throughout the organisation

Given past changes in the Company's financial position, the Board considers risk management to be of paramount importance and this has driven its strategy of pursuing financial stability rather than expansion in order that shareholder value can be maximised through an orderly realisation of the Group's assets. The risk position of the Group is considered on a regular basis by the Board given the cash constraints that the Group has had to work within. The feedback on its strategy of pursuing a low-risk approach is received clearly in terms of reductions in cash outflow as measured by weekly reviews of cash forecasting models, and in terms of reduced exposure to fluctuations in cash inflow.

Although the Company does not undertake specific risk assessments, the Board as a whole undertakes regular views of the principal risks and uncertainties facing the Group as reported in page 7 of the Strategic Report. The Company is in the process of implementing a risk register which should be under the Audit Committee reporting to be compliant with the QCA Code.

Principle 5. Maintain the Board as a well-functioning, balanced team led by the chair.

The board acknowledges that the Company is not compliant with the QCA Code as the Company currently does not have a Chairman and does not have two independent Non-Executive Directors.

The Board takes collective responsibility for the quality of, and approach to corporate governance by the Company, governance and the systems and procedures by which the Company is directed and controlled. A prescribed set of rules does not itself determine good governance or stewardship of a company and, in fulfilling their responsibilities, the Directors believe that they govern the Company in the best interests of the shareholders, whilst having due regard to the interests of other 'stakeholders' in the Group including, in particular, customers, employees and creditors.

The Board is responsible for running the Company, including all major business and financial risks and taking strategic decisions.

The Directors communicate at least weekly on significant matters, in particular on matters affecting cashflow and on matters concerning the joint venture in Argentina.

Brian Rowbotham was considered to be independent since his appointment in October 2013 until his resignation in April 2021. The board evaluated the independence requirements of the QCA Code and considered that Brian Rowbotham was independent during the period. Paul Shackleton was appointed in July 2021. The board evaluated the independence requirements of the QCA Code and considered that Paul Shackleton was independent during the period.

The number of times the Board met during the year to 31 December 2021 was 18. All serving directors were present at all the Board meetings.

The three principal standing committees of the Board are the Audit, Nominations and Remuneration Committees.

Audit, Remuneration and Nominations Committees

The Board acknowledges that the Company is not compliant with the QCA Code terms of reference for these committees as these committees should be made up only of Independent Non-Executive Directors. As Paul Shackleton is the Company's only Independent Non-Executive Director, matters normally reserved for these committees are currently considered by the whole board. The business of the board committees will resume when further appropriate appointments are made to the board.

The executive directors are part time directors of the Company although all directors are expected to commit sufficient time to the Company in addition to attending the Board meetings.

The Board minutes and papers are circulated to directors in good time and ahead of the relevant Board meeting.

The Board has established audit, remuneration and nominations committees which meet regularly. Details of the Audit, Remuneration and Nominations Committees for the period:

Director	Date of Appointment	Date of Resignation	Role at 31 December 2021	Date of (re-) appointment	Board Committee		
Brian Rowbotham	16.10.2013	13.04.2021	–	27.06.2018	N	R	A
Simon C. Morris	19.07.2015	17.08.2021	–	30.06.2020	–	–	A
Andrew H. Coveney	16.11.2016	–	Executive Director	27.06.2019	–	–	–
Paul R.A. Shackleton	26.07.2021	–	Senior Independent Non–Executive	14.10.2022	N	R	A

N = Nomination Committee
R = Remuneration Committee
A = Audit Committee

CORPORATE GOVERNANCE REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

The Audit Committee met 3 times during the year to 31 December 2021. All the committee members were present at the meetings.

Due to the size of the Company, the Board does not comply with the principle that the Board should at least have two independent directors and therefore its committees' membership is also not compliant with their terms of reference. Given the current level of transactions within the Company, the Board considers that adequate resources are available at Board level, although a further executive director is currently being sought.

Principle 6. Ensure that between them, the directors have the necessary up to date experience, skills and capability

The Company has two directors, Paul Shackleton, Senior Independent Non-Executive Director and Andrew Coveney, Executive Director. Biographical details of the Directors can be obtained in https://www.rurelec.com/about-us/biographies

As the financial position of the Group evolved, so have the skills required of its directors. The current directors have been chosen for their skills in maintaining, preserving and realising shareholder value by pursuing financial stability rather than by pursuing the aggressive expansion of the past. The Executive Directors serving during the period, have a wealth of experience of dealing with the consequence of deterioration in the financial positions of businesses and in implementing the change necessary to restore such businesses back to stability. Those skills have been honed within financial and restructuring backgrounds. It is important that the directors are seen to be professional, reliable, trustworthy and represent a safe pair of hands.

The directors keep their skills up to date by attending regular professional briefings From the Nominated Adviser and lawyers covering regulations that are relevant to their role as directors of an AIM-quoted Company.

The Board is grateful for the regular, thorough and diligent input of a qualified professional Company Secretary. As such the Company Secretary provides frequent advice to the Board. On legal matters, the Company Secretary is supported by the Company's solicitors. The Independent Non-Executive Director provides guidance and support on relevant matters on a regular basis.

Principle 7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.

The Board evaluates its own performance on a monthly basis and also regularly considers any feedback from external parties as and when that feedback is received.

Board performance is evaluated in the light of its own strategic objectives and tactical plans, in particular in relation to cash management and other financial forecasts. Any Board appointments are considered closely in relation to the ability of the proposed Director to make an active contribution to delivering value to shareholders through the achievement of the strategies and plans balanced against the cost of such an appointment.

The Company has not previously engaged any external evaluation for the performance of the Board members or external advisors for succession planning. Candidates to the Board have been proposed by the Board members based on their skills and experience and the requirements of the Company at the time of the appointment.

There are currently no formal evaluations of the Board.

Principle 8. Promote a corporate culture that is based on ethical values and behaviours.

The Group's corporate culture is based on creating an atmosphere of trust, openness, communication and professionalism. Due to the size of the Company, the Board is in very close contact with all employees and is able to engender an ethical, professional and effective environment in its day to day and strategic activities.

The Company has currently 4 employees (including the directors). The Board seeks to ensure that all of its employees are aware of its ethical values communicating on a personal basis with its employees and encourages the adoption of these values through the appraisal and recruitment process.

Principle 9. Maintain governance structures and processes that are fit for purpose and support good decision making by the Board.

In addition to the high level of explanation of the application of the QCA Code set out in the corporate governance statement:

- The Board of Directors is responsible for approving Company policy and strategy. The Board meets regularly throughout the year. To enable the Board to perform its duties, each director has access to advice from the Company Secretary and independent professionals at the Company's expense.
- The Board currently comprises an Executive Director and a Non-Executive Director. Under the QCA Code a further Non-Executive Director is required to be compliant with the said code. A further Non-Executive Director is being sought.
- Biographical details of the Board of Directors can be obtained in www.rurelec.com/about-us/board-of-directors-and-senior-management.
- All matters are reserved for the Board although the Board has chosen to delegate some of them to the Audit, Remuneration and Nominations Committees which will issue advice to the Board on those matters. Some of the matters reserved for the Board include:
    - o Reviewing, approving and guiding group strategy, annual budgets and business plans; setting performance objectives; monitoring and implementing corporate performance; and overseeing major capital expenditures and disposals;
    - o Monitoring the effectiveness of the Company's governance arrangements and practices, making changes as needed to ensure the Company's governance framework complies with current best practices in accordance with the size of the Company;

- Monitoring and managing potential conflicts of interest that may arise with Board members, shareholders and external advisers;
- Overseeing the process of external disclosure and communications.

- The Board is also responsible for all other matters which are considered to be of importance to the Group as a whole because of strategic, financial or reputational implications or consequences.
- The Board has established audit, remuneration and nominations committees however owing to the size of the board at the current time, all matters are dealt with by the board. Details of these committees are set out in Principle 5 above.
- The Board has not used external consultants in the appointment of Directors.
- All Directors are subject to re-election by shareholders in accordance with the Company's Articles of Association.
- There are no plans to change the current governance framework.
- The role of the Chair, which is currently undertaken by the Independent Non-Executive Director includes:
  - to take the chair at general meetings and Board meetings;
  - providing leadership to the Board;
  - ensuring proper information for the Board;
  - planning and conducting Board meetings effectively;
  - getting all directors involved in the Board's work;
  - ensuring the Board focuses on its key tasks
  - determination of the order of the agenda;
  - ensuring that the Board receives accurate, timely and clear information;
  - keeping track of the contribution of individual directors and ensuring that they are all involved in discussions and decision-making;
  - to ensure effective communication with shareholders and, where appropriate, the stakeholders.

Principle 10. Communicate how the Company is governed and is performing by maintaining a dialogue

Disclosure of the outcomes of all votes are in www.rurelec.com/investors/proxy-results

Historical annual reports and other governance-related material, including notices of all general meetings over the last five years can be obtained in www.rurelec.com/investors/circulars

Further disclosure required under QCA Principle 10 can be found in Principles 5 and 9 above.

Maria J. Bravo Quiterio
Company Secretary
06 June 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RURELEC PLC

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Rurelec Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the company statement of financial position, the consolidated statement of cash flows, the company statement of cash flows, the consolidated statement of changes in equity, the company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and, as regards the Parent Company financial statements, as applied in accordance with the provisions 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to Note 1 to the financial statements which indicates that the Group's and Parent Company's ability to continue as a going concern is reliant on further remittances from its joint venture in relation to loan repayments. The quantum and timing of such remittances may be subject to variation (particularly as a result of Argentine exchange rate controls) and are not guaranteed or secured. As stated in Note 1, these events or conditions, along with the other matters as set forth in Note 1, indicates that a material uncertainty exists which may cast significant doubt over the Group's and Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

For the reasons set out above and the resulting impact on our risk assessment, we determined going concern to be a key audit matter Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting and in response to the key audit matter included:

- Reviewing the Directors' budget and cash flow forecasts prepared for a period of at least 12 months from the date of approval of the financial statements;
- Checking the mathematical accuracy of the budgets and forecasts;
- Obtaining support for the Directors' assumptions used in the forecast which included assumptions related to cash receipts relating to loan repayments from Energía del Sur S.A;
- Reviewing the Directors' stress tests performed on the forecasts based on receiving no further loan repayments from Energía del Sur S.A and considering the impact on the Group's going concern;
- Confirming the actual cash repayments of the loan from the joint venture for the months post year end by agreeing it to the bank statement;
- Reviewing board minutes during the year and post year end to identify any other issues that may indicate inability of the Group to continue as a going concern; and
- Reviewing the Equipment Sale Agreement of the Frame 6B Turbine, announced on 9 September 2021 to confirm the sale value, validity, and any conditions precedent.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage	100% (2020: 100%) of Group loss before tax 100% (2020: 100%) of Group total assets
Key audit matters	

	2021	2020
Valuation of turbine assets	a	a
Going Concern	a	a
Valuation of investments and recoverability of intercompany loans, including loans to joint venture	a	a

Materiality	Group financial statements as a whole £351,000 (2020: £451,000) based on 3% (2020: 3%) of Net Assets

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

The Group operates through the parent company, a subsidiary undertaking registered in the UK and a joint venture undertaking registered in the British Virgin Islands which were considered to be significant components for the purposes of the audit as well as a number of non-trading subsidiary undertakings. In establishing our overall approach to the Group audit, we determined the type of work that needed to be performed in respect of each component. This consisted of us carrying out a full scope audit of the UK significant components of the Group and utilising local non-BDO component auditors for the full scope audit of the joint venture and to perform specific procedures on the remaining non-significant components.

We directed our work toward areas of the financial statements which we assessed as having the highest risk of containing material misstatements, and tested and examined information using both analytical procedures and tests of detail, to the extent necessary to provide us with a reasonable basis to draw conclusions. These procedures, together with our detailed review of procedures performed by component auditors, gave us the evidence that we need for our opinion on the financial statements as a whole.

Our involvement with component auditors

The Group audit team was actively involved in the direction of the full scope audit and specific audit procedures performed by the component auditors along with the consideration of findings and determination of conclusions drawn. As part of our audit strategy, we issued detailed group audit engagement instructions, which included component materiality and discussed the instructions with component auditors. We performed a remote review of the component auditors working papers and held planning and closing meetings with component auditors to discuss the results of work performed. We also attended the closing meeting with the component auditors and management.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters below to be the key audit matters to be communicated in our report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RURELEC PLC

Key audit matter	How the scope of our audit addressed the key audit matter
Valuation of turbine assets (Note 12) ***Accounting policy 2.8*** The Group holds two Siemens turbines. At the year end the Directors obtained independent valuations from a third party to assess the carrying value of these assets. Given the complexity of the valuation involved, the carrying value of the turbine assets was considered to be a key area of focus for our audit.	In this area our procedures included: • Verifying the existence of the assets, their storage and condition. • Reviewing the valuation report prepared by the Directors independent expert, assessing the conclusions reached and the underlying assumptions used. • We confirmed the expert's independence, competence and objectivity by reviewing their qualifications, work experience and terms of engagement. • Reviewing the independent valuations to check that the value of the assets is recoverable through sale. • Reviewing insurance documentation and storage/ maintenance documentation to identify any indicators of impairment **Key Observations** Based on procedures performed we did not identify any matters to suggest that the financial statement valuations of the turbine assets were not appropriate
Valuation of investments and recoverability of intercompany loans, including loans to joint venture (Note 13 & 20) ***Accounting policy 2.11*** The repayment of these loans and the recoverability of the investment is dependent on the economic feasibility of the underlying operations within the Group. The recoverability of these loans and investments is judgemental and hence there is a risk that the loans are overstated. The investment value of the joint venture, the loans to the joint venture and the intercompany loans due to the Parent Company were reviewed by the Directors and it was deemed that an impairment was required to the joint venture investment balance and an expected credit loss was applied to the loan receivable from the joint venture based on the cash flow models in respect of the joint venture. Management's assessment of the valuation of investments and inter-company loans contain a number of key assumptions such as revenue that require significant estimation and judgement. Given the subjectivity involved, the carrying value of investments and recoverability of loans is considered to represent a key audit matter.	In this area our procedures included: • Obtaining loan confirmations of balances and any interest accrued; • Confirming the actual cash repayments of the loan from the joint venture for the months post year end by agreeing it to the bank statement • Assessing recoverability of the loans and investment through review of the inputs, assumptions and outputs of the financial projections model mainly revenue, which was assessed against communication from the local Argentinian authority, fixed operating expenses and maintenance costs, which was assessed against historic levels taking into consideration the effects of inflation and the net asset positions of the subsidiaries and the joint venture. **Key Observations** Our work did not indicate that management's assessment of the valuation of investments and the recoverability of intercompany loans was not appropriate.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent company financial statements	
	2021 £	2020 £	2021 £	2020 £
Materiality	351,000	451,000	346,000	442,000
Basis for determining materiality	3% of Net assets		3% of Net assets	
Rationale for the benchmark applied	The Group's activities of investing in power assets are focussed on the realisation of asset sales, therefore net assets was considered to be the most appropriate benchmark.		We considered net assets to be the most appropriate benchmark as the primary focus of the users of the financial statements are on capital growth.	
Performance materiality	211,000	270,000	208,000	265,000
Basis for determining performance materiality	60% of materiality based on consideration of factors including the level of historical misstatements (based on past experience) and the nature of the Group and Parent Company's activities.			

Component materiality

Component materiality ranged from £3,400 to £346,000. In the audit of each component, we further applied performance materiality levels of 60% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £8,000 (2020: £9,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: • the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RURELEC PLC

Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: • adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Parent Company 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.

Responsibilities of Directors

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent 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 the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We gained an understanding of the legal and regulatory framework applicable to the Group and industry in which it operates, through discussion with management and the Audit Committee and our knowledge of the industry. We focused on significant laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to UK Employment Legislation, Companies Act 2006, Health and Safety Law, Corporate Tax and VAT Legislation, Employment Taxes, and Argentinian legal compliance which included compliance with the Corporate Tax and Health and Safety laws and regulations.
- We considered compliance with these laws and regulations through discussions with management, the company secretary and component auditors. Our procedures also included reviewing minutes from board meetings and inspecting invoices for legal fees incurred in the period.
- We involved our tax specialists in assessing the Groups compliance with the relevant tax legislations.
- We performed a review of the working papers prepared by our component auditors in relation to compliance with laws and regulations and the risk of management override of controls;
- We assessed the susceptibility of the Group's financial statements to material misstatements, including how fraud might occur. We considered the fraud risk area to be management override of controls.
- We obtained an understanding of management's controls designed to prevent and detect irregularities, including fraud.
- We performed a review of the Group's year end adjusting entries and journals throughout the year and investigated any that appeared unusual as to nature or amount by agreeing to supporting documentation.

- We identified areas at risk of management bias, particularly cashflow models to support loan and investment valuations, and reviewed key estimates and judgements applied by Management in the financial statements to assess their appropriateness (as mentioned in the Key Audit Matters Section above).
- We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and component auditors and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Laura Pingree
(Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London, UK

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

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTES	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
Revenue	4	–	–
Gross Profit		–	–
Administrative Expenses	6	(967)	(1,110)
Other Income	8b	352	22
Impairment Charges	8b	(1,469)	(1,826)
Operating Loss		**(2,084)**	**(2,914)**
Share of Joint Venture Profit/(Loss)	21, 22	–	–
Foreign Exchange Losses	8a	(214)	(456)
Finance Income	9	491	819
Finance Expense	9	(1,827)	(2,783)
Loss before Tax		**(3,634)**	**(5,334)**
Tax Expense	10	–	–
Loss for the year attributable to owners of the Company		**(3,634)**	**(5,334)**
Earnings per Share – in pence	11		
Basic Loss per Share		**(0.65)**	**(0.95)**
Diluted Loss per Share		**(0.65)**	**(0.95)**

The Notes on pages 32 to 53 form an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
Loss for the year	**(3,634)**	**(5,334)**
Other Comprehensive (Loss)/Income for the year:		
Items that will be subsequently Reclassified to Profit & Loss:		
Exchange Differences on Translation of Foreign Operations	285	(130)
Total Other Comprehensive Income	**285**	**(130)**
Loss for the year attributable to owners of the Company	**(3,349)**	**(5,464)**

The Notes on pages 32 to 53 form an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2021

	NOTES	31.12.2021 £'000	31.12.2020 £'000
Assets			
Non-current Assets			
Property, Plant and Equipment	12	7,003	7,371
Investment in Joint Venture	20, 21	312	1,648
Trade and Other Receivables	13a	3,103	4,586
		10.418	**13,605**
Current Assets			
Trade and Other Receivables	13b	997	1,142
Cash and Cash Equivalents	15	745	668
		1,742	**1,810**
Total Assets		**12,160**	**15,415**
Equity and Liabilities			
Shareholders' Equity			
Share Capital	16	5,614	5,614
Foreign Currency Reserve		1,078	793
Retained Earnings/Losses		5,014	8,648
Total Equity attributable to owners of the Company		**11,706**	**15,055**
Current Liabilities			
Trade and Other Payables	18a	448	353
Current Tax Liabilities	19	6	7
Total Liabilities		**454**	**360**
Total Equity and Liabilities		**12,160**	**15,415**

The financial statements were approved by the Board of Directors on 06 June 2022 and were signed on its behalf by Andrew Coveney and Paul Shackleton.

Andrew Coveney **Paul Shackleton**

The notes on pages 32 to 53 form an integral part of these Consolidated Financial Statements.

COMPANY STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2021

COMPANY NUMBER: 4812855

	NOTES	31.12.2021 £'000	31.12.2020 £'000
Assets			
Non-current Assets			
Investment in Joint Venture	20, 21	312	1,648
Trade and Other Receivables	13	3,104	4,586
		3,416	6,234
Current Assets			
Inventories	14	6,968	6,923
Trade and Other Receivables	13a	825	1,397
Cash and Cash Equivalents	15	743	667
		8,536	**8,987**
Total Assets		**11,952**	**15,221**
Equity and Liabilities			
Shareholders' Equity			
Share Capital	16	5,614	5,614
Retained Earnings/Losses		5,922	9,153
Total Equity		**11,536**	**14,767**
Current Liabilities			
Trade and Other Payables	18b	410	447
Current Tax Liabilities	19	6	7
		416	**454**
Total Equity and Liabilities		**11,952**	**15,221**

As permitted by s408 Companies Act 2006, the Company has not presented its own profit and loss account and related notes. The Company's loss for the year was £3.2 million (2020: loss £5.5 million).

The financial statements were approved by the Board of Directors on 06 June 2022 and were signed on its behalf by Andrew Coveney and Paul Shackleton.

Andrew Coveney **Paul Shackleton**

The notes on pages 32 to 53 form an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTES	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
Cash Flows from Operating Activities			
Cash used in Operations	22	(991)	(1,273)
Net Cash used in Operating Activities		**(991)**	**(1,273)**
Cash Flows from Investing Activities			
Net? proceeds from Sale of Turbine		721	–
Loan Repayments from Joint Venture Company		347	1,804
Net Cash generated from Investing Activities		1,068	1,804
Net Cash Inflow before Financing Activities		**77**	**531**
Increase/(Decrease) in Cash and Cash Equivalents		**77**	**531**
Cash and Cash Equivalents at the Start of the year		668	137
Cash and Cash Equivalents at the End of the year		**745**	**668**

The notes on pages 32 to 53 form an integral part of these Consolidated Financial Statements.

COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTES	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
Cash Flows from Operating Activities			
Cash used in Operations	22	(909)	(1,110)
Net Cash used in Operating Activities		**(909)**	**(1,110)**
Cash Flows from Investing Activities			
Investment in and Loans to Subsidiaries		(83)	(164)
Loan repayments from Subsidiaries		721	–
Loan Repayments from Joint Venture Company		347	1,804
Net Cash generated from Investing Activities		**985**	**1,640**
Net Cash Inflow before Financing Activities		**76**	**530**
Increase/(Decrease) in Cash and Cash Equivalents		**76**	**530**
Cash and Cash Equivalents at the Start of the year		667	137
Cash and Cash Equivalents at the End of the year		**743**	**667**

The notes on pages 32 to 53 form an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

	SHARE CAPITAL £'000	SHARE PREMIUM £'000	FOREIGN CURRENCY RESERVE £'000	RETAINED LOSSES/ EARNINGS £'000	SPECIAL NON-DISTRIBUTABLE RESERVE £'000	**TOTAL £'000**
Balance at 01.01.2020	**11,228**	**22,754**	**923**	**(59,386)**	**45,000**	**20,519**
Transactions with owners						
Transfer of Special non-distributable reserve	–	–	–	45,000	(45,000)	–
Capital reduction – Share Premium	–	(22,754)	–	22,754	–	–
Capital reduction – Share Capital	(5,614)	–	–	5,614	–	–
Total transactions with owners	**(5,614)**	**(22,754)**	**–**	**73,368**	**(45,000)**	**–**
Loss for the year attributable to owners of the parent	–	–	–	(5,334)	–	(5,334)
Exchange Differences	–	–	(130)	–	–	(130)
Total Comprehensive Loss	**–**	**–**	**(130)**	**(5,334)**	**–**	**(5,464)**
Balance at 31.12.2020	**5,614**	**–**	**793**	**8,648**	**–**	**15,055**
Loss for the year attributable to owners of the parent	–	–	–	(3,634)	–	**(3,634)**
Exchange Differences	–	–	285	–	–	285
Total Comprehensive Loss	**–**	**–**	**285**	**(3,634)**	**–**	**(3,349)**
Balance at 31.12.2021	**5,614**	**–**	**1,078**	**5,014**	**–**	**11,706**
Notes:	16	17			17	

The notes on pages 32 to 53 form an integral part of these Consolidated Financial Statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

	SHARE CAPITAL £'000	SHARE PREMIUM £'000	ACCUMULATED LOSSES £'000	SPECIAL NON-DISTRIBUTABLE RESERVE £'000	TOTAL £'000
Balance at 01.01.2019	**11,228**	**22,754**	**(54,239)**	**45,000**	**24,743**
Loss for the year	–	–	(4,508)	–	(4,508)
Total Comprehensive Loss	**–**	**–**	**(4,508)**	**–**	**(4,508)**
Balance at 01.01.2020	**11,228**	**22,754**	**(58,747)**	**45,000**	**20,235**
Transactions with owners					
Transfer of Special non-distributable reserve	–	–	45,000	(45,000)	–
Capital reduction – Share Premium	–	(22,754)	22,754	–	–
Capital reduction – Share Capital	(5,614)	–	5,614	–	–
Total transactions with owners	**(5,614)**	**(22,754)**	**73,368**	**(45,000)**	**–**
Loss for the year	–	–	(5,468)	–	(5,468)
Total Comprehensive Loss	**–**	**–**	**(5,468)**	**–**	**(5,468)**
Balance at 31.12.2020	**5,614**	**–**	**9,153**	**–**	**14,767**
Loss for the year	–	–	(3,231)	–	(3,231)
Total Comprehensive Loss	**–**	**–**	**(3,231)**	**–**	**(3,231)**
Balance at 31.12.2021	**5,614**	**–**	**5,922**	**–**	**11,536**
Notes:	**16**	**17**		**17**	

The notes on pages 32 to 53 form an integral part of these Consolidated Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

1. GENERAL INFORMATION, BASIS OF PREPARATION AND NEW ACCOUNTING STANDARDS

1a General information

Rurelec PLC is the Group's ultimate parent company. It is incorporated and domiciled in England and Wales. The address of Rurelec's registered office is given on the information page. Rurelec's shares are traded on the AIM market of the London Stock Exchange PLC.

The nature of the Group's operations and its principal activities are the generation of electricity in South America.

1b Basis of preparation

The Company and the consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRSs") as adopted in the UK and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 for reporting year ended 31 December 2021.

Basis of measurement

The presentational currency of the Group is Pounds Sterling. The functional currencies of Group entities are Pounds Sterling, Argentinian Pesos, Chilean Pesos and United States Dollars.

Going Concern

The directors have prepared budgets and forecasts, and performed stress tests thereon, for a period of at least 12 months from the date of signing of the financial statements to assess the Group and Company's ability to continue as a going concern.

On the basis that the Group receives the joint venture remittances referred to below, the Directors have assessed that at the date of signing of the financial statements, the Group and Company would have sufficient working capital for a period of at least 12 months from the signing of the financial statements, without the need to seek further sources of working capital and have therefore prepared the financial statements on a going concern basis.

In November 2019, the signing of the Umbrella Agreement and Revised Shareholder Agreement with the JV partner has significantly improved the clarity of how the cash proceeds of the JV will be split between the parties. To date debt repayments of £3.3 million has been received from the JV in part payment of the Amended and Restated Loan Notes. Loan repayments already received, at the date of this report, along with projected rest of year repayments from the joint venture are expected to be sufficient to meet the working capital requirements for the Group.

However, the quantum and timing of further receipts may be subject to variation (particularly as a result of Argentine exchange rate controls) and are not guaranteed or secured. Without the remittances from its joint venture there is uncertainty on the availability of funds to cover the Group's forecast expenditure during the going concern period.

Additionally, there exists uncertainty as to the timing of potential asset sales. Unless there is a significant disposal of assets, the Group remains reliant on the repayments of loans from its joint venture Argentine operations.

Whilst it is the expectation of the Directors that forecast remittances from the joint venture will be received, the matters set out above indicate that a material uncertainty exists that may cast significant doubt on the Group and Company's ability to continue as a going concern and therefore its ability to realise its assets and settle its liabilities in the normal course of business. These consolidated financial statements do not reflect the adjustments or reclassification of assets and liabilities, which would be necessary if the Group and Company were unable to continue its operations.

1c New accounting standards

The Directors consider that no revisions to IFRS standards implemented in the year have had any significant effect on these statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2021. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A joint venture is a joint arrangement whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the arrangement (IFRS11). Under the equity method, investments in joint ventures are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the joint venture, less any impairment in the value of individual investments. Losses of a joint venture in excess of the Group's investment in that joint venture are not recognised, unless the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the joint venture recognised at the date of acquisition is recognised as goodwill.

The goodwill, if any is included within the carrying amount of the investment and is assessed annually for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable `assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately as a profit or loss.

Unrealised gains on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Unrealised gains on transactions between the Group and subsidiary entities are eliminated. Amounts reported in the financial statements of subsidiary and joint venture entities have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with by the acquisition method. This method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the acquired company, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the entity prior to acquisition. On initial recognition, the assets and liabilities of the acquired entity are included in the consolidated statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. Investments in subsidiaries are stated at cost less impairment in the statement of financial position of the Company.

2.2 Equity Accounted Joint Ventures

The Group reports its interests in joint ventures using the equity method of accounting, except when the investment is classified as held for sale. Whilst the Group does not directly have revenues, its JV operating plant at EdS does. Revenues are derived from electricity exported to the Argentinian grid. CAMMESA records the level of exports, raising the required documentation, on a monthly basis. This is agreed with EdS, the receivables then become due for payment after 60 days.

2.3 Goodwill

Goodwill representing the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is capitalised and reviewed annually for impairment. Goodwill is stated after separating out identifiable assets and liabilities. Goodwill is carried at cost less accumulated impairment losses.

Any excess of interest in acquired assets, liabilities and contingent liabilities over fair value is recognised immediately after acquisition through the income statement.

2.4 Foreign Currency Translation

The financial information is presented in pounds sterling, which is also the functional currency of the parent company.

In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions ("spot exchange rate"). Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of remaining balances at year-end exchange rates are recognised in the income statement within 'Foreign Exchange (Losses)/Gains'.

In the consolidated financial statements, all separate financial statements of subsidiaries and joint ventures, originally presented in a currency different from the Group's presentation currency, have been converted into sterling. Assets and liabilities have been translated into sterling at the closing rate at the reporting date. Income and expenses have been converted into sterling at the average rates over the reporting period. 2021 marks the fifth year of inflation accounting adjustments in Argentina. It is the Directors' judgement that the Argentine GAAP hyperinflation adjustments to the accounts of the Group's Joint Venture operations in Argentina give an approximate fair value of these operations. There are no material differences arising from Argentine GAAP inflationary accounting and IAS 29.

Non-monetary assets are valued at historic rates.

2.5 Expense recognition

Operating expenses are recognised in the income statement upon utilisation of the service or at the date of their origin. All other income and expenses are reported on an accrual basis.

2.6 Dividends

Dividends, other than those from investments in associates and joint ventures, are recognised at the time the right to receive payment is established. No dividends were paid or received during the year (2020: nil).

2.7 Borrowing Costs

All borrowing costs are expensed as incurred except where the costs are directly attributable to specific construction projects, in which case the interest cost is capitalised as part of those assets.

2.8 Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment. No depreciation is charged during the period of construction.

All operational buildings and plant and equipment in the course of construction are recorded as plant under construction until such time as they are brought into use by the Group. Plant under construction includes all direct expenditure and may include capitalised interest in accordance with the accounting policy on that subject. On completion, such assets are transferred to the appropriate asset category.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations and overhauls is included in the carrying amount of the assets where it is probable that the economic life of the asset is significantly enhanced as a consequence of the work. Major renovations and overhauls are depreciated over the expected remaining useful life of the work.

Depreciation is calculated to write down the cost less estimated residual value of all property, plant and equipment other than freehold land which is not depreciated by equal annual instalments over their estimated useful economic lives. The periods generally applicable are:

Plant and equipment	3 to 15 years

Material residual values are updated as required, but at least annually. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

2.9 Impairment of Tangible and Intangible Assets

At each reporting date, the Group reviews the carrying amount of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than it's carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement. The Group recognises a cash-generating unit by its ability to independently earn income. The Group carries each cash-generating unit in an individual special purpose company, so they are easily recognised.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

2.10 Taxation

Current income tax assets and liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the period. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement or through the statement of changes in equity.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the consolidated financial statements with their respective tax bases. However, in accordance with the rules set out in IAS 12, no deferred taxes are recognised in respect of non-tax-deductible goodwill. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided for in full with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided that they are enacted or substantially enacted at the reporting date.

Deferred tax is provided on differences between the fair value of assets and liabilities acquired in an acquisition and the carrying value of the assets and liabilities of the acquired entity and on the differences relating to investments in subsidiary and joint venture companies if the difference is a temporary difference and is expected to reverse in the foreseeable future.

Changes in deferred tax assets and liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are accounted for through other comprehensive income or charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity, or other comprehensive income.

2.11 Financial Assets

The Group's financial assets include cash and cash equivalents, loans and receivables, held at amortised cost.

Cash and cash equivalents include cash at bank and in hand as well as short term highly liquid investments such as bank deposits.

Loans and receivables are non-derivative financial assets with fixed or determinable payment dates that are not quoted in an active market. These are assets held on a 'hold to collect' basis. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Receivables are measured initially at fair value and subsequently remeasured to test for impairment, the carrying value is less provision for impairment. Any impairment is recognised in the income statement.

The portion of loans due from the Joint Venture which are expected to be received in 2022 are shown as current assets. The remainder are expected in 2023 to 2034 these are shown as non-current assets.

2.12 Financial Liabilities

Financial liabilities are obligations to pay cash or other financial instruments and are recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial liability is derecognised only when the obligation is extinguished, that is when the obligation is discharged, cancelled or expires.

Bank and other loans are raised for support of short-term funding of the Group's operations. They are recognised initially at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method. Finance charges, including premiums payable on settlement or redemption, and direct issue costs are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

2.13 Short term leases

IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with the option to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. The Group does not have significant leasing activities acting as a lessor, also, there are no impacts as a lessee.

2.14 Inventories

Inventories in the Company comprise turbines and associated spare parts and similar items for use in the Group's plant and equipment. Inventories are carried at the lower of cost and net realisable value.

2.15 Shareholders' Equity

Equity attributable to the shareholders of the parent company comprises the following:

"Share capital" represents the nominal value of equity shares.

"Share premium account" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.

"Foreign currency reserve" represents the differences arising from translation of investments in overseas subsidiaries.

"Retained Losses/Earnings" represents losses/earnings to date.

"Special Non-distributable reserves" comprises the reduction of the share premium account.

2.16 Pensions

Under the Pensions Act 2008, every employer in the UK must put certain staff into a workplace pension scheme and contribute towards it. This is called 'automatic enrolment'. Rurelec's staging date was 1 October 2017. Rurelec chose to set up its auto enrolment contribution plan pension scheme with NEST which ensures access to suitable, low-charge pension provision to meet the new duty to enrol all eligible workers into a workplace pension automatically.

Rurelec also offers a Salary Sacrifice Scheme within NEST by which employees sacrifice part of their salary in exchange for the company to make an employer contribution on their behalf to the pension scheme and also to contribute their national insurance savings on the amount sacrificed by the employee.

During the year under review, the Company continued its contributions to the contribution plan NEST Pension scheme.

2.17 Segment Reporting

In identifying its operating segments, management follows the Group's geographic locations and are reported in a manner consistent with the Chief Operating Decision Maker. The activities undertaken by segments are the development of generation assets and generation of electricity in their country of incorporation within South America.

Each of the operating segments is managed separately as the rules and regulations vary from country to country.

The measurement policies used by the Group for segment reporting under IFRS 8 are the same as those used in the financial statements.

3. KEY ASSUMPTIONS AND ESTIMATES

When preparing the financial statements, management makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income from loan repayment receipts and asset sales and expenses. The actual results may differ from the judgements, estimates and assumptions made and will seldom equal the estimated results. The areas which management consider are likely to be most affected by the significant judgements, estimates and assumptions on recognition and measurement of assets, liabilities, income and expenses are:

Impairment – management review tangible and intangible assets, including intra group and Joint Venture loans, at each balance sheet date to determine whether there is, in their judgement, any indication that those assets have suffered an impairment loss. This review process includes making assumptions about future events, circumstances and operating results. The actual results may vary from those expected and could therefore cause significant adjustments to the carrying value of the Group's assets. Details of the assumptions underlying management's forecasts for the Group's main Cash Generating Unit ("CGU") are set out in Note 8b.

Income – the Group is reliant on receipts from its JV or asset sales, a material uncertainty exists as to whether projected receipts will occur.

Expected Credit Losses – judgements used to assess the ECL's for the current year included the macroeconomic factors which includes inflation forecasts and foreign exchange controls.

4. SEGMENT ANALYSIS

Management currently identifies the Group's four geographic operating segments; Argentina, Chile, Peru and the head office in the UK, as operating segments as further described in the accounting policy note. These operating segments are monitored, and strategic decisions are made on the basis of segment operating results. The Group's joint venture operations in Argentina have been excluded, see note 22 for more detail.

The following tables provide an analysis of the operating results, total assets and liabilities, in 2021 and 2020 for each geographic segment.

a) 12 months to 31.12.2021	CHILE £'000	UK £'000	CONSOLIDATION ADJUSTMENTS £'000	TOTAL £'000
Administrative Expenses	(123)	(844)	–	**(967)**
Loss from Operations	**(123)**	**(844)**	**–**	**(967)**
Other Income	365	(13)	–	**352**
Other Expense	–	(1,469)	–	**(1,469)**
Foreign Exchange (Losses)/Gains	(324)	110	–	**(214)**
Finance Income	–	1,173	(682)	**491**
Finance Expense	(682)	(1,827)	682	**(1,827)**
Loss before Tax from Operations	**(764)**	**(2,870)**	**–**	**(3,634)**
Tax Expense	–	–	–	**–**
Total Loss	**(764)**	**(2,870)**	**–**	**(3,634)**
Total Assets	452	17,090	(5,382)	**12,160**
Total Liabilities	12,966	462	(12,974)	**454**

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FOR THE YEAR ENDED 31 DECEMBER 2021

b) 12 months to 31.12.2020	CHILE £'000	UK £'000	CONSOLIDATION ADJUSTMENTS £'000	TOTAL £'000
Administrative Expenses	(97)	(1,013)	–	**(1,110)**
Loss from Operations	**(97)**	**(1,013)**	**–**	**(1,110)**
Other Income	–	22	–	**22**
Other Expense	–	(1,826)	–	**(1,826)**
Foreign Exchange (Losses)/Gains	8	(464)	–	**(456)**
Finance Income	–	1,472	(653)	**819**
Finance Expense	(653)	(2,783)	653	**(2,783)**
Loss before Tax from Operations	**(742)**	**(4,592)**	**–**	**(5,334)**
Tax Expense	–	–	–	**–**
Total (Loss)/Profit	**(742)**	**(4,592)**	**–**	**(5,334)**
Total Assets	1,282	15,221	(1,088)	**15,415**
Total Liabilities	13,296	569	(13,505)	**360**

5. EXCHANGE RATE SENSITIVITY ANALYSIS

The key exchange rates applicable to the results were as follows:

	YEAR ENDED 31.12.2021	YEAR ENDED 31.12.2020
i) Closing rate		
US $ to £	1.34894	1.3578
CLP (Chilean Peso) to £	1,139.4	965.3
ii) Average rate		
US $ to £	1.35751	1.2872
CLP (Chilean Peso) to £	1,050.8	1,018.5

If the exchange rate of sterling at 31 December 2021 had been stronger or weaker by 10 per cent. from the above, with all other variables held constant, shareholder equity at 31 December 2021 would have been £1.2 million (2020: £1.4 million) lower or higher than reported.

If the average exchange rate of sterling during 2021 had been stronger or weaker by 10 per cent. with all other variables held constant, the effect on the loss for the year would have been £1.2 million (2019: £1.4 million) higher or lower than reported.

If the average exchange rate of sterling during 2021 had been stronger or weaker by 10% per cent. with all other variables held constant, the effect on the total other comprehensive loss for the year would have been £1.1 million (2020: £1.5 million) higher or lower than reported.

6. ADMINISTRATIVE EXPENSES

	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
Expenditure incurred in administrative expenses is as follows:		
Payroll and Social Security	397	522
Services, Legal and Professional	213	258
Office Costs and General Overheads	269	236
Audit Costs[1]	88	94
Total	**967**	**1,110**

[1] Audit services include £88k (2020: £94k) paid to the auditors for the audit of the Company, Group's UK subsidiaries and Group's financial statements. £10k (2020: £10k) for the audit of the Group's UK subsidiaries. Fees paid to other auditors, in respect of the audit of joint venture companies, amounted to £14.0k (2020: £13.2k). The group auditors also provided taxation services for the Group in the year, the costs were £15.0k (2020 £17.1k).

7. EMPLOYEE COSTS

a) Group	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
Aggregate remuneration of all employees and Directors	372	490
Social Security Costs	17	20
Pension Costs	8	12
Total	**397**	**522**

The average number of employees in the Group, including Directors, during the year was as follows:

	YEAR ENDED 31.12.2021	YEAR ENDED 31.12.2020
Management	3	3
Administration and development	3	4
Total	**6**	**7**

b) Company	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
Aggregate remuneration of all employees and Directors	357	474
Social Security Costs	15	18
Pension Costs	8	13
Total	**380**	**505**

The average number of employees in the Company, including Directors, during the year was as follows:

	YEAR ENDED 31.12.2021	YEAR ENDED 31.12.2020
Management	3	3
Administration and development	2	3
Total	**5**	**6**

c) Directors' remuneration

The total remuneration paid to the Directors was £240k (2020: £280k). The total remuneration of the highest paid Director was £145k (2020: £168k). There were no health insurance costs, bonuses, pension costs or share based payments paid during the year (2020: Nil).

	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
	Base Salary/Fee	Total	Total
B Rowbotham	9	9	30
S Morris	79	79	82
A Coveney	145	145	168
P Shackleton	13	13	–
Total	**246**	**246**	**280**

B Rowbotham has been on payroll in 2020 and 2021 until his resignation on 13 April 2021.

S Morris provided services under a service agreement contract with SC Morris Ltd and received £26.4k via payroll (2020: £22.5k). Simon resigned on 17 August 2021.

A Coveney provided services under a service agreement contract with Coveney Associates Consulting Ltd and received £30k via payroll (2020: £22.5k).

8. (a) FOREIGN EXCHANGE

	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
Foreign Exchange losses	214	456
Total	**214**	**456**

Foreign currency-based assets are translated at the relevant year end rates. The majority of foreign exchanges losses were incurred on loans and development costs in Chile £324k (2020: gain £8k). The 701 turbines, 2021 carrying value US$9.4 million (2020: US$9.4 million) resulted in £45k gain in 2021 (2020: loss £0.2 million) and net JV receivables in 2021 had a carrying value US$5.6 million (2020: US$9.5 million) which resulted in gain of £36k (2020: losses of £0.1 million).

(b) OTHER INCOME/IMPAIRMENT CHARGES/(REVERSALS)

	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
Other Income		
Net profit on disposal of Chile turbine	330	–
Director's fees due from EdS	22	22
Total	**352**	**22**

Impairment Charges		
Impairment on investment in Joint Venture	1,336	1,826
Provision for closure costs relating to investment in SEA Energy S.A.	133	–
Total	**1,469**	**1,826**

During the year the directors tested all major assets for indication of impairment the results of these were:

LOANS TO JOINT VENTURE COMPANIES:

Carrying Value 1.1.21	£5.4m
Exchange adjustment	£0.0m
Repayments	£(0.3m)
Reversal of 2020 Expected Credit Losses	£0.5m
2021 Expected Credit Losses	£(1.8)m
Carrying Value 31.12.21	**£3.8m**

The carrying value of the loans is based on the replacement Amended Loan Notes, gross value at 31 December 2021 of £10.5 million (2020: £10.7 million). These notes bear zero interest and have a long stop maturity of 31 December 2039. Carrying values have been determined by discounting the predicted future repayments at a rate of 9 per cent. pa, it is anticipated that the notes will be fully repaid in 2034 (2020: 2032). Assessment of discount rate sensitivity, were the discount rate to be 10 per cent. higher or lower then the expected credit losses would be +/- £0.2 million (2020: +/-£0.3 million). The notes are held in the Statement of Financial Position at their discounted value.

TURBINES FOR CENTRAL ILLAPA (CHILE):

	£'000
Carrying value of turbine 1.1.21	£6,923
Exchange adjustment	£45
Impairment in year	£nil
Carrying value of turbine 31.12.21	£6,968

The carrying value of the turbines is based on the higher of fair value less costs to sell and value in use. The Directors obtained an independent valuation to determine an achievable market valuation, less costs to sell. As a result, the Directors determined a recoverable amount of £7.0 million (US $9.4 million) (2020: £6.9 million (US $9.4 million)). The realisation of the asset is dependent on a successful future sale or successful development of the Central Illapa Project, both of which are uncertain.

The Illapa turbines are included within Property, Plant and Equipment in the Group and in the Company, they are included in Inventories.

TURBINE – ARICA (CHILE)

	£'000
Carrying value of Arica turbine 1.1.21	£368
Foreign exchange revaluation	£3
Net sale proceeds	£(701)
Profit on sale	£330
Carrying value of Arica turbine 31.12.21	£nil

The sale for US$1 million was announced on 09 September 2021, all proceeds were received by 21 September 2021.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

9. FINANCE INCOME & EXPENSE

Finance Income	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
Reversal of 2020 Expected Credit Losses	491	819
Other Interest Received	–	–
	491	819

Finance Expense		
Charge for 2021 Expected Credit Losses[1]	1,827	2,783
Other interest payable	–	–
	1,827	2,783

[1] Expected credit losses are charged as the Amended Loan Notes repayments are projected to be received over a longer period of time, with final repayment in 2034 (2020: 2032)

Sensitivity analysis arising from changes in borrowing costs is set out in Note 20.

10. TAX EXPENSE

The relationship between the expected tax expense at basic rate of 19 per cent. (2020: 19 per cent.) and the tax expense actually recognised in the income statement can be reconciled as follows:

	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
Result for the year before tax	(3,634)	(5,334)
Standard rate of Corporation Tax in UK	19%	19%
Expected Tax Credit	(690)	(1,013)
Tax effect not deductible in determining taxable profits	94	350
Unrecognised Loss carried forward	675	663
Actual Tax Expense	**–**	**–**
Comprising:		
Current Tax Expense	–	–
Deferred Tax/(Net Credit)	–	–
Total Credit (Expense)	**–**	**–**

A deferred tax asset for the year of £0.9 million (2020: £0.7 million) is not recognised as an asset due to the uncertainty and unknown timing of its realisation against future profits. The estimated accumulated unrecognised deferred tax asset is £4.9 million (2020: £3.1 million), based on cumulative tax losses of £19.8 million (2020: £16.2 million).

11. EARNING PER SHARE

Basic loss per share is calculated by dividing the loss for the period attributable to shareholders by the weighted average number of shares in issue during the period.

	YEAR ENDED 31.12.2021	YEAR ENDED 31.12.2020
Average number of shares in issue	561,387,586	561,387,586
Result for the year		
Total Loss attributable to equity holders of the parent	£3.6m	£5.3m
Basic Loss per share	0.65p	0.95p
Diluted Loss per share	0.65p	0.95p

There is no difference between the Basic and Diluted loss per share.

12. PROPERTY, PLANT AND EQUIPMENT

	PLANT AND EQUIPMENT £'000	PLANT UNDER CONSTRUCTION £'000	TOTAL £'000
a) Group			
Cost at 01.01.2020	**14,889**	**2,141**	**17,030**
Exchange Adjustments	**(774)**	(111)	**(885)**
Cost at 31.12.2020	**14,115**	**2,030**	**16,145**
Exchange Adjustments	91	18	109
Disposal	–	(1,677)	(1,677)
Cost at 31.12.2021	**14,206**	**371**	**14,577**
Accumulated Depreciation and Impairment at 01.01.2020	**7,722**	**1,623**	**9,345**
Exchange Adjustments	(530)	(41)	(571)
Charge for the year	–	–	**–**
Charge for impairment for the year	–	–	–
Accumulated Depreciation and Impairment at 31.12.2020	**7,192**	**1,582**	**8,774**
Exchange Adjustments	46	9	**55**
Charge for the year	–	–	**–**
Charge for impairment for the year	–	–	**–**
Disposal	–	(1,255)	**(1,255)**
Accumulated Depreciation and Impairment at 31.12.2021	**7,238**	**336**	**7,574**
Net Book Value – 31.12.2021	**6,968**	**35**	**7,003**
Net Book Value – 31.12.2020	**6,923**	**448**	**7,371**

The plant and equipment of £7.0 million (2020: £6.9 million) relates to two Siemens turbines, stored in Venice for use in the Central Illapa project purchased for US $25.0 million. The turbines are held as inventory in the Company.

Plant under construction comprises a transformer in Chile. The turbine plant in Chile £0.4 million (2020: £0.4 million) was sold as announced on 09 September2021, all proceeds were received before the year end, the profit on disposal, shown in Other Income, was £0.3 million, and Central Illapa development costs of £nil million (2020: £0.1 million).

b) Company – The Company had no property, plant and equipment.

13. TRADE AND OTHER RECEIVABLES

	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
a) Group – non-current		
Amounts due from Joint Venture Companies[1]	3,103	4,586
b) Group – current		
Amounts due from Joint Venture Companies[1]	714	843
Tax Receivable – VAT	4	4
Other Receivables and Prepayments	279	295
	997	**1,142**

	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
a) Company – non-current		
Amounts due from Joint Venture Companies[1]	3,103	4,586
b) Company – current		
Amounts due from Joint Venture Companies[1]	714	843
Tax Receivable – VAT	4	4
Loans to subsidiaries[2]	–	448
Other Receivables and Prepayments	107	102
	825	**1,397**

The amounts owed by subsidiary companies include:

1 Amounts due from joint venture companies represent the amounts lent by the Company, net of impairments, to PEL. Interest on these amounts has been accrued at rates of nil per cent. (2020: nil per cent.). These loans were replaced in 2019 with Amended Loan Notes, as previously announced on 19 November 2019. These notes bear zero interest. Carrying values have been determined by discounting the predicted future repayments at a rate of 9 per cent. pa, it is anticipated that the notes will be fully repaid in 2034, please see note 8b for details. The first £0.5 million repayment was received in December 2019, in 2020: £1.8 million and in 2021 £347k were received, one repayment of £0.6 million has been received in 2022, the board expects that further repayments will be received in the remainder of the year.

2 Loans to subsidiaries in Cochrane Power Limited £11.4 million, (2020: £11.4 million) repayable on demand. These loans have been impaired to £nil million (2020: £0.4 million) in Cochrane Power Limited, the UK holding company for assets in Chile. The loans to Chile bear nil per cent. interest.

All trade and other receivables are unsecured and are not past their due by dates. The fair values of receivables are not materially different to the carrying values shown above.

14. INVENTORIES

Company - Inventories	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
Inventories	6,968	6,923

Inventories comprises of two Siemens 701DU turbines acquired from IPSA in June 2013. Further details of which are set out in note 12. Storage and insurance costs for the turbines in the year totalled £105k (2020: £112k).

15. CASH AND CASH EQUIVALENTS

	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
a) Group – current		
Cash and short-term bank deposits	745	668
b) Company – current		
Cash and short-term bank deposits	743	667

Cash and short-term bank deposits are held, where the balance is material, in interest bearing bank accounts, accessible at between 1- and 30-days' notice. The effective average interest rate is less than 1 per cent. The Group holds cash balances to meet its day-to-day requirements.

16. SHARE CAPITAL

	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
In issue, authorised, called up and fully paid		
561,387,586 ordinary shares of 1p each	5,614	5,614

Ordinary shares have no redemption rights and are entitled to full rights to dividends and excess capital on winding up. The capital reduction reduced the Nominal Value from two pence to one pence, see below for further details, there was no change to the number of shares in issue. This reduction in nominal value was effective from 26 August 2020.

The Company applied to the High Court to allow for a capital reorganisation in respect of each holding of ordinary shares of £0.02 each in the capital of the Company ("Ordinary Shares") at the close of business on 30 June 2020 each and every Ordinary Share to be subdivided into (A) one ordinary share of £0.01 ("New Ordinary Share"), each such New Ordinary Share having the same rights and being subject to the same restrictions as the Ordinary Shares and (B) one deferred share of £0.01 ("New Deferred Share"), each such New Deferred Share having the rights and being subject to the restrictions set out in the articles of association of the Company to be adopted at the Company's annual general meeting on 30 June 2020. On 14 August 2020, the High Court approved the reorganisation of the issued share capital of the Company which was reduced from £11,227,751.72 to £5,613,875.86 by cancelling and extinguishing 561,387,586 of the issued New Deferred Shares of £0.01 each in the Company, each of which is fully paid up, and the amount by which the share capital is so reduced to be credited to retained earnings.

On 14 August 2020, the High Court approved the reduction in the share premium account of the Company of £22,753,689 to be credited to a reserve in the accounts of the Group and the reduction of the Company's nominal share capital by way of cancellation of 561,387,586 deferred shares of £0.01 each and the cancellation of the share premium account of the Company also to be credited to a reserve in the accounts of the Group (together, the "Reduction of Capital") which became effective on 26 August 2020.

Following the Capital Reduction, the issued share capital of the Company consists of 561,387,586 ordinary shares of £0.01 each and the distributable reserves will amount to £14,620,074.

17. SPECIAL NON-DISTRIBUTABLE RESERVE/SHARE PREMIUM

1st Capital reduction

On 17 December 2014, the High Court approved the reduction in the share premium account of the company of £45,000,000 and the creation of a special reserve in the accounts of the Group. The Group had, at that time, accumulated losses on its profit and loss account of £7,371,683. The existence of these losses prevented the Company from paying dividends to its shareholders out of future profits until these losses have been eliminated. The Board considered that the accumulated losses represented a permanent loss and given the size of the accumulated losses, there was in the opinion of the Board no reasonable prospect of the losses being eliminated in the short term. It was proposed that the permanent loss should be recognised by eliminating the deficit on the profit and loss account. This would be achieved by the reduction in the balance on the Share Premium Account of the Company.

The Company had built up a substantial Share Premium Account through the issue of shares for cash at values in excess of the nominal value of those shares. At the time of the High Court hearing, the balance standing to the credit of the share premium account was £67,835,921. A resolution was proposed and successfully passed at a General Meeting on 25 November 2014 to reduce the amount standing to the credit of the share premium account of the Company by £45,000,000 from £67,835,921 to £22,835,921. This transfer was effective on 26 August 2020.

The resolution was subsequently confirmed by the High Court in the terms proposed at the time by the Board, the effect of the Capital Reduction was to release part of the amount standing to the credit of the Share Premium Account of the Company so that after certain creditors are repaid £45,000,000 (i) may be used by the Company to eliminate the deficit on the profit and loss account and (ii) the balance credited to the distributable reserves of the Company to allow the Company to pay dividends in due course. Until the creditors are repaid the balance is to be held in a Special Non-distributable Reserve. The balance of unpaid creditors was £nil (2019: £nil).

Share Premium account, after the 1st deduction of £45,000,000 was £22,753,689.

Share Premium Account

Share premium is treated as part of the capital of the Company and arises on the issue by the Company of shares at a premium to their nominal value. The premium element is credited to the Share Premium Account. The Company is generally precluded from the payment of any dividends or other distributions or the redemption or buy back of its issued shares in the absence of sufficient distributable reserves, and the Share Premium Account can be applied by the Company only for limited purposes.

2nd Capital reduction

In particular, the Share Premium Account is a non-distributable capital reserve and the Company's ability to use any amount credited to that reserve is limited by the Companies Act. However, with the confirmed approval of our shareholders, effective 26 August 2020, by way of a special resolution and subsequent confirmation by the High Court, the Company has reduced the share premium account of £22,753,689 to £nil and credited it to retained earnings.

To the extent that the release of such a sum from the Share Premium Account creates or increases a credit on the profit and loss account, that sum represents distributable reserves of the Company subject to the restrictions set out below.

Capital Reduction – Procedure

In order to approve the Capital Reduction, the High Court was required to be satisfied that the interests of the Company's creditors will not be prejudiced by the Capital Reduction. The Company was not required to seek written consent to the Capital Reduction from its creditors. However, for the benefit of those of its creditors from whom consent is not required, the Company will not be capable of making a distribution to shareholders until any such outstanding obligations have been discharged, and the Company has given an undertaking to that effect to the High Court.

The Capital Reduction does not affect the number of Shares in issue, or the voting or dividend rights of any Shareholder.

18. TRADE AND OTHER PAYABLES

	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
a) Group – current		
Trade Payables	97	150
Accruals	351	203
	448	**353**
b) Company – current		
Trade Payables	46	104
Group borrowings	229	228
Accruals	135	115
	410	**447**

19. TAX LIABILITIES

	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
Group/Company – Current		
Other tax and social security	6	7
	6	**7**

20. INVESTMENTS

	PEL £'000	TOTAL £'000
Cost at 31.12.2020	**11,652**	**11,652**
Cost at 31.12.2021	**11,652**	**11,652**
Accumulated Impairment at 01.01.2020	(8,178)	(8,178)
Impairment in year	(1,826)	(1,826)
Accumulated Impairment at 31.12.2020	(10,004)	(10,004)
Impairment in year	(1,336)	(1,336)
Accumulated Impairment at 31.12.2021	(11,130)	(11,130)
Carrying Value at 31.12.2021	**312**	**312**
Carrying Value at 31.12.2020	**1,648**	**1,648**

The 2019 amendment of the loan note receivable agreement to the JV (US$ 17.6 million) is on a fixed term but carries no interest. Because of this, under IFRS 9, a market rate of interest (9 per cent.) was used to FV the loan. The difference been the balance outstanding on the £12.9m, and the 2019 initial fair value adjustment amount of £3.5m has been treated as an investment, with the £9.4m remaining in receivables as at 31.12.19. After review at 31 December 2020 an impairment of £1.8 million and at 31 December 2021 £1.3 million were recorded, this represents an increase in expected credit losses, caused by slower repayment of the receivable. Full repayment is now expected in 2034 (2020: 2032).

At the year end the Company held the following investments:

Direct investments:

1. 50 per cent. (2019: 50 per cent.) of the issued share capital of Patagonia Energy Limited ("PEL"), a company registered in the British Virgin Islands under registration number 620522. PEL owns 100 per cent. of the issued share capital of EdS, a company registered in Argentina. EdS is a generator and supplier of electricity to the national grid in Argentina.

2. 100 per cent. (2019: 100 per cent.) of the issued share capital of Cochrane Power Limited, a company registered in England and Wales under registration number 8220905. Cochrane Power Limited owned at the year-end, through intermediate holding companies, 100 per cent. interest in Central Illapa, S.A. and 100 per cent. interest in Termoelectrica del Norte, S.A., both being companies registered in Chile.

3. 100 per cent. (2019: 100 per cent.) of the issued share capital of Rurelec Project Finance Limited a company registered in England and Wales under registration number 7523554. Rurelec Project Finance Limited owned at the year-end 95 per cent. interest in SEA Energy S.A.

5 per cent. (2020: 5 per cent. of SEA Energy S.A. a company registered in Argentina under registration number CUIT 30-71022906-2.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

Indirect investments:

NAME	TRADING ADDRESS/REGISTERED ADDRESS	INTEREST HELD
Energia del Sur, S.A.*	Arroyo 880, Piso 2 C10007AAB Ciudad Autónoma de Buenos Aires Argentina	50%
Electrica del Sur, S.A.*	Arroyo 880, Piso 2 C10007AAB Ciudad Autónoma de Buenos Aires Argentina	50%
SEA Energy, S.A.**	Arroyo 880, Piso 2 C10007AAB Ciudad Autónoma de Buenos Aires Argentina	95%
Rurelec Chile SpA***	c/o Guerrero Olivos Av. Vitacura 2939, Piso 8 Las Condes Santiago Chile	100%
Rurelec Chile Limitada***	c/o Guerrero Olivos Av. Vitacura 2939, Piso 8 Las Condes Santiago Chile	100%
Termoelectrica del Norte, S.A.***	c/o Guerrero Olivos Av. Vitacura 2939, Piso 8 Las Condes Santiago Chile	100%
Central Illapa, S.A.***	c/o Guerrero Olivos Av. Vitacura 2939, Piso 8 Las Condes Santiago Chile	100%

*Held via Patagonia Energy Limited and equity accounted as a joint venture, see Note 21.
**Held via Rurelec Project Finance Limited
***Held via Cochrane Power Limited

The results of all of the above directly and indirectly held subsidiaries have been included in the consolidated group accounts except where joint ventures are equity accounted as indicated.

21. JOINT VENTURE

The Group's only joint arrangement within the scope of IFRS 11 is its 50 per cent. investment in Patagonia Energy Limited ("PEL"), which owns 100 per cent. of EdS, its operating asset in Argentina. Management has reviewed the classification of PEL in accordance with IFRS 11 and has concluded that it is a joint venture and therefore it has been accounted for using the equity accounting method as set out in IAS 28.

Since previous blade failure issues were resolved in January 2019 plant availability continues to be within expectations, 2021 average 95.2 per cent. (2020: 91.7 per cent.).

The Group does not participate in the current year profits of the joint venture, as they are exceeded by previous losses. In prior years the losses had exceeded the investment in the joint venture and therefore the Group has not recognised its share of losses in the joint venture. During 2021 and 2020 the joint venture made a profit. Total loss position at the year-end was £28.0 million (2020: £32.5 million).

The following table sets out the results of the joint venture in Argentina of which the Group has a 50 per cent. share:

Group share of Joint Venture results and net assets	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
Results		
Revenue	3,300	8,357
Operating Expenses – excluding foreign exchange losses	(2,175)	(4,464)
Foreign exchange losses	130	(1,288)
EBITDA	**1,255**	**2,605**
Depreciation	(1,047)	(1,043)
EBIT	**208**	**1,562**
Intragroup interest – credit re write back of prior year charge	2,478	2,578
Third party interest payable	(398)	(634)
Profit before tax	**2,288**	**3,506**
Tax	151	(829)
Profit after tax	**2,439**	**2,677**
Summary of Statement of Financial Position		
Non-current assets	10,871	10,407
Cash	1,419	1,418
Current trade and other receivables	918	1,196
Non-current liabilities	(17,100)	(18,681)
Current liabilities	(907)	(2,060)
Net assets/(liabilities)	**(4,798)**	**(7,720)**

The Group share of joint venture results and net assets are shown in Argentinian GAAP, which is the accounting framework applied to the Joint Venture with material IFRS adjustments. The adjusted differences to IFRS are i) that fixed assets inspection costs capitalised under Argentinian GAAP would be de-recognised under IFRS. The impact, included in the table above, of this adjustment would be to decrease the Group's share of Joint Venture fixed assets by £1.0 million (2020: £0.8 million) and ii) restatement of CAMMESA loans, in 2021 CAMMESA granted a repayment holiday for a period of 2 years, under IFRS 9 an adjustment for an interest credit and liability reduction of £259k is included in the table above.

Revenue is derived from one principal customer, CAMMESA, which is the Government appointed purchaser of wholesale electricity in Argentina.

22. PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS

	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
a) Group		
Loss for the year before tax	**(3,634)**	**(5,334)**
Net Finance Income	(491)	(819)
Net Finance Expense	1,827	2,783
Adjustments for:		
Foreign exchange losses	214	456
Write down of investment	1,366	1,826
Costs re investment in SEA Energy	134	–
Gain on disposal	(330)	–
Movement in Working Capital:		
Change in Trade and Other Receivables	(173)	(73)
Change in Trade and Other Payables	96	(112)
Cash Used in Operations	**(991)**	**(1,273)**

	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
b) Company		
Loss for the year before tax	**(3,230)**	**(5,467)**
Net Finance Income	(1,173)	(1,472)
Net Finance Expense	1,827	2,783
Adjustments for:		
Unrealised exchange (gains)/losses	(108)	456
Write down of loans	492	883
Write down of investment	1,336	1,826
Provision on investments	134	–
Movement in working capital:		
Change in Trade and Other Receivables	(147)	(41)
Change in Trade and Other Payables	(38)	(78)
Cash Used in Operations	**(909)**	**(1,110)**

23. FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's risk management is coordinated to secure the Group's short to medium-term cash flows by minimising its exposure to financial markets. The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant risks to which the Group is exposed are described below:

a) Foreign currency risk

The Group is exposed to translation and transaction foreign exchange risk. The Group's principal trading operations are based in South America and as a result the Group has exposure to currency exchange rate fluctuations in the principal currencies used in South America. As a result of recent inflation, Argentine GAAP measures for hyperinflation have come into force. The EdS financials included in this report have been prepared with these measures. The Directors are of the view that these accounts require no further adjustment.

The Group also had exposure to the US Dollar as a result of borrowings denominated in this currency.

b) Interest rate risk

Group funds are invested in short-term deposit accounts, with a maturity of less than three months, with the objective of maintaining a balance between accessibility of funds and competitive rates of return.

c) Capital management policies and liquidity risk

The Group considers its capital to comprise its ordinary share capital, share premium, accumulated retained earnings and other reserves.

The Group's objective when maintaining capital is to safeguard the entity's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders.

The Company meets its capital needs primarily by equity financing. The Group sets the amount of capital it requires to fund the Group's project evaluation costs and administration expenses. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

The Company and Group do not have any derivative instruments or hedging instruments. It has been determined that a sensitivity analysis will not be representative of the Company's and Group's position in relation to market risk and therefore no such analysis has been undertaken.

The following table sets out when the financial obligations fall due:

	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
a) Group		
Current – due within 1 year:		
Trade Payables	97	150
Accruals	351	203
Tax Liabilities	6	7
Borrowings	–	–
Total due within 1 year:	**454**	**360**

	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
b) Company		
Current – due within 1 year:		
Trade Payables	46	104
Accruals	135	115
Intra Group borrowing	229	228
Tax Liabilities	6	7
Borrowings	–	–
Total due within 1 year:	**416**	**454**

c) Credit risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet (or in the detailed analysis provided in the notes to the financial statements). Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying value. The Group's trade and other receivables are actively monitored.

d) Fair values

In the opinion of the Directors, there is no significant difference between the fair values of the Group's and the Company's assets and liabilities and their carrying values and none of Group's and the Company's trade and other receivables are considered to be impaired.

The financial assets and liabilities of the Group and the Company are classified as follows:

31 DECEMBER 2021	COMPANY FINANCIAL ASSETS AT AMORTISED COST £'000	COMPANY BORROWINGS AND PAYABLES AT AMORTISED COST £'000	GROUP FINANCIAL ASSETS AT AMORTISED COST £'000	GROUP BORROWINGS AND PAYABLES AT AMORTISED COST £'000
Trade and Other Receivables > 1 year	3,103	–	3,103	–
Trade and Other Receivables < 1 year	814	–	986	–
Cash and Cash Equivalents	743	–	745	–
Trade and Other Payables < 1 year	–	(416)	–	(454)
Total	**4,660**	**(416)**	**4,834**	**(454)**

31 DECEMBER 2020	COMPANY FINANCIAL ASSETS AT AMORTISED COST £'000	COMPANY BORROWINGS AND PAYABLES AT AMORTISED COST £'000	GROUP FINANCIAL ASSETS AT AMORTISED COST £'000	GROUP BORROWINGS AND PAYABLES AT AMORTISED COST £'000
Trade and Other Receivables < 1 year	4,586	–	4,586	–
Trade and Other Receivables < 1 year	1,397	–	1,143	–
Cash and Cash Equivalents	667	–	668	–
Trade and Other Payables < 1 year	–	(447)	–	(354)
Total	**6,650**	**(447)**	**6,397**	**(354)**

24. SHORT TERM LEASE COMMITMENTS

Office premises

Low value, less than one year £16k (2020: £16k).

Office premises relates to the Company's offices.

25. RELATED PARTY TRANSACTIONS

During the year the Company and the Group entered into material transactions with related parties as follows:

a) Company

i) Paid salaries to directors, who are considered Key Management Personnel which amounted to £0.2 million (2020: £0.3 million).

	YEAR ENDED 31.12.2021 £'000 BASE SALARY/FEE	YEAR ENDED 31.12.2021 £'000 TOTAL	YEAR ENDED 31.12.2020 £'000 TOTAL
B Rowbotham	9	9	30
S Morris	79	79	82
A Coveney	145	145	168
P Shackleton	13	13	–
Total	**246**	**246**	**280**

B Rowbotham provided services under a service agreement contract with Mountbeach Associates Ltd until June 2017, since then he was on payroll. He resigned on 13 April 2021.

S Morris provided services of £54k under a service agreement contract with SC Morris Ltd. He resigned on 17 August 2021.

A Coveney provided services of £115k under a service agreement contract with Coveney Associates Consulting Ltd.

P Shackleton joined on 27 July 2021, he is on payroll.

ii) Accrued interest on loans from its 100% subsidiary Rurelec Project Finance Ltd ("RPFL") totalling £nil (2020: £nil). The loan balance outstanding at the year-end due to RPFL was £0.2 million (2020: due £0.2 million).

	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
Year-end Debtor	–	–
Year-end Creditor	229	228
Interest credited/(charged)	–	–

iii) Received loan repayments of £347k (2020: £1,804k). The Directors have assessed the recoverability of the loans and consider that it is appropriate to recognise an adjustment for Expected Credit Losses to the carrying value of £1.8 million (2020: £2.8 million) and a reversal of 2021 Expected Credit Losses of £0.5 million (2020: £0.8 million), net charge £1.3 million (2020: £2.0 million) at the of the Amended Loan Notes issued at value at £13.4 million (US$ 17.6 million) as a result of their zero interest rate. After impairment reviews and expected credit losses the loan balances at the year-end totalled £3.8 million (2020: £5.7 million). Interest on these loans has been accrued at an effective rate of nil per cent (2020: nil per cent). The total outstanding before impairment is £19.6 million (2020: £24.9 million).

	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
Y/E Debtor	3,807	5,428
Repayment	367	1,804
Interest charged	–	–

iv) Provided loans and charged interest of 0.5% per month to its 100 per cent. subsidiary Cochrane Power Ltd. Net repayment in the year totalled £0.7 million (2020: loans of £0.2 million). The total outstanding at the year-end was £11.4 million (2020: £11.4 million). These loans have been impaired to £nil (2020: £0.4 million).

	YEAR ENDED 31.12.2021 £'000	YEAR ENDED 31.12.2020 £'000
Y/E Debtor	–	448
(Repayment)/Further loans made	(638)	164
Assignment of loan to Rurelec plc.	(1,266)	–
Interest charged	682	653

26. CONTROL

The Directors consider that the ultimate controlling party is Sterling Trust Limited on the basis of their 53.9% shareholding in the Company.

27. POST BALANCE SHEET DATE EVENTS

As announced on 30 May 2022 the Company received £0.6 million from PEL in partial repayment of the 2019 Amended Loan Notes.

There are no other significant subsequent events.

COMPANY INFORMATION

Directors
A.H. Coveney (Executive)
P.R.A. Shackleton (Non-Executive)

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M J. Bravo Quiterio

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